

# Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’

## Consolidated financial results for the nine months ended 30 September 2014

Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’ and its subsidiaries (together “the Bank”) (LSE: HSBK) releases its interim condensed consolidated financial information for the 9 months ended 30 September 2014.

### KEY FINANCIAL HIGHLIGHTS

#### 9 months 2014

- Net income is up by 63.8% to KZT 92.0bn, YoY;
- Net interest income before impairment charge is up by 26.7%;
- Impairment charge is down by 96.9%;
- Net interest income is up by 52.2%;
- Fees and commissions from transactional banking are up by 11.2%;
- Net interest margin is up to 5.6% p.a. (4.8% p.a. for 9m 2013);
- Cost-to-income ratio is down to 28.0% p.a. (30.1% p.a. for 9m 2013);
- RoAE is up to 30.0% p.a. (22.0% p.a. for 9m 2013);
- RoAA is up to 4.5% p.a. (3.0% p.a. for 9m 2013);
  
- Total assets are up by 13.5%, YTD;
- Net loans to customers are up by 2.3%;
- Amounts due to customers are up by 11.3%;
- Total equity is up by 17.9%;
- NPLs 90-day+ ratio is down to 14.1% (18.0% as at 31 December 2013);
- Cost of risk is down to 0.0% p.a. (1.1% p.a. for 9m 2013).

#### 3 quarter 2014

- Net income is up by 27.1% to KZT 28.0bn, YoY;
- Net interest income before impairment charge is up by 17.6%;
- Provisions released for KZT 0.9bn;
- Net interest income is up by 58.6%;
- Fees and commissions from transactional banking are up by 8.6%;
- Net interest margin is up to 5.6% p.a. (5.2% p.a. for 3Q 2013);
- Cost-to-income ratio is up to 30.4% p.a. (27.2% p.a. for 3Q 2013);
- RoAE is up to 26.1% p.a. (25.3% p.a. for 3Q 2013);
- RoAA is up to 4.0% p.a. (3.5% p.a. for 3Q 2013);
  
- Total assets are up by 1.2%, QoQ;
- Net loans to customers are down by 0.6%;
- Amounts due to customers are down by 3.6%;
- Total equity is up by 5.6%;
- NPLs 90-day+ ratio is down to 14.1% (15.4% as at 30 June 2014);
- Cost of risk is down to minus 0.2% p.a. (1.6% p.a. for 3Q 2013);

## **Statement of profit or loss review**

**Interest income** increased by 16.5% for 9m 2014 vs. 9m 2013 mainly due to increase in average balances of net loans to customers by 12.0% and in average interest rate on net loans to customers to 12.1% p.a. for 9m 2014 from 11.6% p.a. for 9m 2013. **Interest expense** increased by 2.8% for 9m 2014 vs. 9m 2013 mainly due to increase in average balances of FX term deposits. The increase in interest expense was partially offset by decrease in average balances of KZT term deposits, 24.5% decrease in average balances of debt securities issued and their average interest rates to 7.6% p.a. for 9m 2014 from 8.1% p.a. for 9m 2013. As a result, **net interest income before impairment charge** increased by 26.7% to KZT 97.7bn for 9m 2014 vs. 9m 2013.

**Impairment charge** decreased by 96.9% for 9m 2014 vs. 9m 2013, mainly due to repayments of overdue indebtedness of some corporate clients which led to release of provisions. During 3Q 2014 and 2Q 2014 the Bank wrote-off (transferred off balance sheet) fully provisioned non-performing loans for KZT 14.2bn and KZT 57.8bn, respectively, without legally forgiving claims on the borrowers. As a result, allowances for loan impairment decreased by 14.4% vs. 31 December 2013, whereas provisioning level decreased to 15.4% as at 30 September 2014 vs. 17.9% as at 31 December 2013. The Bank will continue collection of these written-off loans in accordance with its normal business procedures.

**Provisions against letters of credit and guarantees** recovered by KZT 4.2bn as at 30 September 2014 mainly due to expiry of several large-ticket LCs and guarantees during 1Q 2014.

**Fee and commission income from transactional banking** (i.e. excluding pension fund and asset management) increased by 11.2% for 9m 2014 vs. 9m 2013 as a result of growing volumes of transactional banking business.

**Net pension fund and asset management fees** increased 3.4-times for 1Q 2014 vs. 1Q 2013 mainly due to revaluation gains on FX-denominated pension assets as a result of one-off devaluation of KZT in February 2014. On 26 of March 2014 JSC “APF of Halyk Bank of Kazakhstan” completed transfer of assets under management to the JSC “Single Accumulative Pension Fund”. Starting from 26 March the Bank does not earn any income from managing pension assets.

**Other non-interest income** (excluding insurance) increased by 42.8% for 9m 2014 vs. 9m 2013 as a result of 2.6-fold increase in net gain from financial assets and liabilities at fair value through profit or loss and 2.7-fold increase in other income. Net gain from financial assets and liabilities at fair value through profit and loss was higher for 9m 2014 vs. 9m 2013 mainly due to unrealized net losses on trading operations incurred during 9m 2013. Growth in other income from KZT 1.1bn in 9m 2013 to KZT 3.1bn in 9m 2014 was due to an increase in other income from non-banking activities mainly as a result of growing volumes of business at one of the Bank’s subsidiaries.

**Insurance underwriting income** (net of reinsurance) decreased by 12.4% for 9m 2014 vs. 9m 2013 due to lower volumes of pension annuities business till the end of 1H 2014 and due to one-off contracts in general insurance made in 3Q 2013 and not extended in 3Q 2014. Lower volumes of pension annuity business in 1H 2014 were due to temporary regulatory restrictions in light of ongoing pension reform from June 2013 to May 2014. **Insurance expense** (the sum of insurance payments, insurance reserves and commissions to agents) decreased by 11.0% for 9m 2014 vs. 9m 2013 mainly as a result of 58.3% decrease in insurance reserves due to temporary regulator restrictions on pension annuity business. As a result, **insurance underwriting income, less insurance expense**, decreased by 17.1% for 9m 2014 vs. 9m 2013.

Insurance underwriting income (net of reinsurance) increased by 88.1% for 3Q 2014 vs. 3Q 2013 mainly as a result of increase in insurance underwriting income in life insurance business due to the

launch of a new life insurance product in 2Q 2014. Insurance expense increased by 115.8% for 3Q 2014 vs. 3Q 2013 mainly as a result of increase in agency fees in life insurance due to growing volumes of business. As a result, insurance underwriting income, less insurance expense, increased by 32.6% for 3Q 2014 vs. 3Q 2013.

**Operating expenses** increased by 7.9% for 9m 2014 vs. 9m 2013 mainly due to increase in salaries of the Bank's employees starting from 1 July 2014. The increase in operating expenses was partially offset by 16.7% decrease in depreciation and amortisation expenses due to increase of amortisation period for some classes of fixed assets.

The Bank's cost-to-income ratio decreased to 28.0% for 9m 2014 vs. 30.1% for 9m 2013 and increased to 30.4% for 3Q 2014 from 27.2% for 3Q 2013.

### **Statement of financial position review**

**Total assets** increased by 13.5% vs. YE 2013 mainly in cash and cash equivalents (53.2%), amounts due from credit institutions (39.3%), available-for-sale investment securities (7.1%) and loans to customers (2.3%).

**Loans to customers** decreased by 0.7% on a gross basis due to non-performing loan write-offs and increased by 2.3% on a net basis vs. YE 2013. Gross loan portfolio decrease was in corporate loans (-4.5%) and loans to SME (-4.6%) due to write-offs of non-performing loans in these business sectors during 3Q 2014 and 2Q 2014, as well as due to loan repayments exceeding new loan issues. The decrease in loans to customers was partially off-set by 12.6% increase in retail loans.

**90-day NPL ratio** decreased to 14.1% as at 30 September 2014 vs. 15.4% as at 30 June 2014. The decrease in 90-day NPL ratio was mainly due to repayment of some delinquencies in July and September 2014, as well as refinancing of several delinquent loans under state subsidy program for agricultural sector and write-offs of non-performing loans in corporate and SME sectors after changes to tax legislation in April 2014. Delinquencies repaid in September 2014 included two large ticket loans to Russian borrowers with whom the Bank came to amicable settlement after several years of court disputes. The Bank's IFRS provisions covered 90-day NPLs by 107.4% as at 30 September 2014.

**Deposits of legal entities and individuals** increased by 9.7% and 13.3%, respectively, vs. YE 2013 mainly as a result of turbulence on financial markets and flight to quality.

**Amounts due to credit institutions** increased by 21.1% mainly due to KZT 51.5bn loan from JSC National management holding "KazAgro" drawn in 3Q 2014 to improve loan quality of the borrowers operating in agricultural sector and KZT 20bn loan from JSC Entrepreneurship Development Fund "Damu" drawn in 2Q 2014 to support small and medium businesses operating in processing industries.

**Debt securities issued** increased by 16.3% vs. YE 2013 mainly due to recalculation of USD-denominated Eurobond issues at new KZT exchange rate after KZT devaluation in February 2014. As at 30 September 2014, the Bank's debt securities issued mainly consist of two outstanding Eurobond issues for USD 700mln and USD 500mln with bullet maturity in May 2017 and January 2021, respectively, each bearing a coupon rate of 7.25%.

On 18 November 2014, the Bank placed with JSC Single Accumulated Pension Fund KZT 100bn 7.5% coupon rate local bonds maturing in November 2024.

**Total equity** increased by 17.9% vs. YE 2013 mainly on the back of net profit earned during 9m 2014, partially offset by payment of dividends in amount of KZT 18,547mln to common

shareholders (or KZT 1.70 per common share) and dividends in amount of KZT 1,757mln to preferred shareholders (or KZT 9.28 per preferred share).

Regulatory Tier 1 **capital adequacy ratios** k1-1 and k1-2 and total capital adequacy ratio k2 were at 11.8%, 15.0% and 20.3%, respectively, as at 30 September 2014 vs. 12.0%, 14.9% and 18.9%, respectively, as at 30 June 2014 and vs. 9.5%, 11.2% and 18.2%, respectively, as at 31 December 2013. Basel Tier 1 capital adequacy ratio and total capital adequacy ratio were at 19.8% and 21.0%, respectively, as at 30 September 2014 vs. 18.4% and 19.8%, respectively, as at 30 June 2014 and 17.2% and 18.5%, respectively, as at 31 December 2013.

The condensed interim consolidated financial information for the nine months ended 30 September 2014, including notes attached thereto, are available on Halyk Bank's website <http://www.halykbank.kz/en/financial-reports> and <http://www.halykbank.kz/en/news> ).

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