

Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’

Consolidated financial results for the nine months ended 30 September 2017

Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’ and its subsidiaries (together “the Bank”) (LSE: HSBK) releases its condensed interim consolidated financial information for the nine months ended 30 September 2017.

Umut Shayakhmetova, the Bank’s CEO commented:

“The third quarter has been marked by the acquisition of Kazkommertsbank. In the past few months, we have been working intensively on integration of our new subsidiary, bringing all policies, risk and cost control to Halyk Bank’s standard and making necessary changes in KKB management team. The strategy for the enlarged Halyk Group is under development and to be announced by the end of the year. However, we believe our first joint consolidated results with KKB look promising.”

Statement of profit or loss review

	<u>9m 2017</u>	<u>9m 2016</u>	<u>Change, abs</u>	<u>Y-o-Y, %</u>	<u>3Q 2017</u>	<u>3Q 2016</u>	<u>Change, abs</u>	<u>Y-o-Y, %</u>
Interest income	339,052	244,046	95,006	38.9%	154,347	86,175	68,172	79.1%
Interest expense	-172,236	-118,844	-53,392	44.9%	-86,314	-40,092	-46,222	2.2x
Net interest income before impairment charge	166,816	125,202	41,614	33.2%	68,033	46,083	21,950	47.6%
Fee and commission income	58,880	42,292	16,588	39.2%	28,893	14,700	14,193	96.6%
Fee and commission expense	-16,029	-8,427	-7,602	90.2%	-9,922	-2,324	-7,598	4.3x
Net fee and commission income	42,851	33,865	8,986	26.5%	18,971	12,376	6,595	53.3%
Insurance income ⁽¹⁾	3,560	1,899	1,661	87.5%	2,358	759	1,599	3.1x
FX operations ⁽²⁾	-48,165	11,731	-59,896	-5.1x	-61,699	6,174	-67,873	-11x
Income from derivative operations and securities ⁽³⁾	60,364	-6,533	66,897	10.2x	67,627	-2,376	70,003	29.5x
Other income	9,439	3,968	5,471	2.4x	7,174	1,219	5,955	5.9x
Impairment charge and reserves ⁽⁴⁾	-24,153	-18,667	-5,486	29.4%	-13,322	-8,116	-5,206	64.1%
Provisions against letters of credit and guarantees issued	462	22	440	21x	151	-1	152	152x
Operating expenses	-66,114	-47,065	-19,049	40.5%	-27,870	-16,046	-11,824	73.7%
Income tax expense	-17,431	-16,457	-974	5.9%	-7,524	-5,395	-2,129	39.5%
Profit from discontinued operations	7,742	6,036	1,706	28.3%	2,590	2,187	403	18.4%
Net income	135,371	94,001	41,370	44.0%	56,489	36,864	19,625	53.2%

Net interest margin, p.a.	4.8%	5.6%	4.8%	5.6%
Return on average equity, p.a.	24.4%	22.0%	28.6%	24.1%
Return on average assets, p.a.	2.9%	2.8%	2.9%	3.1%
Cost-to-income ratio	27.2%	26.8%	26.4%	24.0%
Cost of risk, p.a.	1.2%	1.0%	1.7%	1.4%

- (1) insurance underwriting income (gross insurance premiums written, net change in unearned insurance premiums, ceded reinsurance share) less insurance claims incurred, net of reinsurance (insurance payments, insurance reserves expenses, commissions to agents);
- (2) net gain on foreign exchange operations;
- (3) net gain from financial assets and liabilities at fair value through profit or loss and net realised gain/(loss) from available-for-sale investment securities;
- (4) total impairment charge, including impairment charge on loans to customers, amounts due from credit institutions, available-for-sale investment securities and other assets;

Compared with 9M 2016, **interest income** grew by 38.9% mostly due to 43.0% increase in average balances of interest-earning assets. The increase in average balances of interest-earning assets was mainly on the back of consolidation of Kazkommertsbank assets in 3Q 2017, as well as NBK Notes purchased by the Bank starting from 2Q 2016 and excess liquid funds placed with commercial financial institutions following the change in local regulation starting from 1 May 2016. **Interest expense** grew by 44.9% compared with 9M 2016. This was mostly due to increase in average balances on interesting bearing liabilities by 33.9%, as well as increase in average interest rates on amounts to customers (to 4.0%p.a. from 3.7% p.a.) and debt securities issued (to 8.2% p.a. from 7.7% p.a.) as a result of consolidation of Kazkommertsbank assets in 3Q 2017. As a result, **net interest income before impairment charge** increased by 33.2% to KZT 166.8bn compared to 9M 2016.

Net interest margin decreased to 4.8% p.a. for 9M 2017 compared to 5.6% p.a. for 9M 2016, mainly on the back of lower net interest margin of Kazkommertsbank and reclassification of Altyn Bank's interest earning-assets into assets held for sale.

Impairment charge increased by 29.4% compared to 9M 2016 and by 64.1% compared to 3Q 2016 mainly due to additional provisions created on Kazkommertsbank's impaired loans in 3Q 2017. The **cost of risk** increased to 1.2% p.a. compared to 1.0% p.a. for 9m 2016 and to 1.7% p.a. compared to 1.4% p.a. for 3Q 2016.

Fee and commission income rose by 39.2% compared to 9M 2016, mainly as a result of consolidation of Kazkommertsbank, as well as, growing volumes of transactional banking, mainly in payment card maintenance, cash operations, and bank transfers – settlements.

Other non-interest income increased to KZT 58.1bn for 9M 2017 vs. KZT 29.1bn for 9M 2016. This increase was largely attributable to consolidation with insurance subsidiaries of Kazkommertsbank, as well as, growing volumes of insurance business of the Bank. In addition, other non-interest income grew due to net gain from financial assets and liabilities at fair value through profit or loss mainly on the back of consolidation of Kazkommertsbank and also due to positive revaluation on derivative and trading operations as a result of KZT depreciation in 3Q 2017.

Operating expenses grew by 40.5% compared to 9M 2016 mainly due to consolidation of Kazkommertsbank, as well as increase in the Bank's expenses on salaries and other employee benefits, professional services, taxes and disposal of property by the Bank's leasing subsidiary. Salaries and other employee benefits increased on the back of higher bonus reserves accrued in 9M 2017 compared to 9M 2016 and overall increase in employee salaries from 1 June 2017; the increase was partially offset by the reversal of bonus reserves previously accrued by Kazkommertsbank. The increase in professional services and taxes was due to expenses on external consultants in connection with the purchase of Kazkommertsbank and sale of 60% stake in Altyn Bank.

The Bank's **cost-to-income** ratio increased to 27.2% compared to 26.8% for 9M 2016 on the back of

faster growth in operating expenses versus operating income. **Operating income** increased by 38.6% on the back of higher interest income, net fees and commissions and positive revaluation of derivative instruments in 3Q 2017.

Statement of financial position review

	30-Sep-17	30-Jun-17	31-Dec-16	Change, abs	Change YTD, %	Change, abs	Change Q-o-Q, %
Total assets	8,674,584	5,275,683	5,348,483	3,326,101	62.2%	3,398,901	64.4%
Cash and reserves	1,726,932	1,268,554	1,850,641	- 123,709	-6.7%	458,378	36.1%
Amounts due from credit institutions	77,056	35,154	35,542	41,514	2.2x	41,902	2.2x
T-bills & NBK notes	1,974,180	739,395	586,982	1,387,198	3.4x	1,234,785	2.7x
Other securities & derivatives	799,117	359,937	341,379	457,738	2.3x	439,180	2.2x
<i>Gross loan portfolio</i>	3,413,180*	2,477,717	2,604,335	808,845	31.1%	935,463	37.8%
<i>Stock of provisions</i>	-290,110**	-282,693	-284,752	- 5,358	1.9%	-7,417	2.6%
Net loan portfolio	3,123,070	2,195,024	2,319,583	803,487	34.6%	928,046	42.3%
Assets held for sale	581,208	476,932	10,297	570,911	56.4x	104,276	21.9%
Other assets	393,021	200,687	204,059	188,962	92.6%	192,334	95.8%
Total liabilities	7,847,901	4,520,902	4,682,890	3,165,011	67.6%	3,326,999	73.6%
Total deposits, including:	6,076,281	3,481,523	3,820,662	2,255,619	59.0%	2,594,758	74.5%
<i>retail deposits</i>	3,159,493	1,161,591	1,715,448	1,444,045	84.2%	1,997,902	2.7x
<i>term deposits</i>	2,772,441	928,166	1,470,536	1,301,905	88.5%	1,844,275	3.0x
<i>current accounts</i>	387,052	233,425	244,912	142,140	58.0%	153,627	65.8%
<i>corporate deposits</i>	2,916,788	2,319,932	2,105,214	811,574	38.6%	596,856	25.7%
<i>term deposits</i>	1,578,268	1,425,255	1,267,589	310,679	24.5%	153,013	10.7%
<i>current accounts</i>	1,338,520	894,677	837,625	500,895	59.8%	443,843	49.6%
Debt securities	988,774	383,602	584,933	403,841	69.0%	605,172	2.6x
Amounts due to credit institutions	154,892	132,015	162,134	-7,242	-4.5%	22,877	17.3%
Liabilities directly associated with assets classified as held for sale	372,899	410,091	0	372,899	100.0%	-37,192	-9.1%
Other liabilities	255,055	113,671	115,161	139,894	2.2x	141,384	2.2x
Equity	826,683	754,781	665,593	161,090	24.2%	71,902	9.5%

*Including KKB net loans of KZT 780,866 million recognised by the Bank at fair value + changes in KKB gross loan portfolio from acquisition date to 30 September 2017.

**Including changes in provisions created on KKB loan portfolio from acquisition date to 30 September 2017.

In 9M 2017, **total assets** increased by 62.2% vs. YE 2016, mainly due to consolidation of KKB. Compared to YE 2016, the Bank's assets, excluding those of KKB, remained almost flat.

Compared with YE 2016, **loans to customers** increased by 31.1% on a gross basis and 34.6% on a net basis, as a result of consolidation of Kazkommertsbank loan portfolio.

The Bank's **90-day NPL ratio** increased to 13.4% compared to 10.2% as at 30 June 2017 and 31 December 2016. The increase was mainly because of consolidation of Kazkommertsbank loan portfolio, as well as indebtedness from two previously impaired large-ticket corporate borrowers, operating in the agricultural sector, becoming overdue by more than 90 days. The increase in 90-day NPLs was partially offset by repayment of overdue indebtedness by a number of corporate borrowers, write-off of problem retail loans and an overall increase in the loan portfolio.

Allowances for loan impairment increased by 1.9% compared to YE 2016, mainly as a result of additional provisions created against impaired loans in the Bank's portfolio.

Deposits of legal entities and individuals increased by 38.6% and 84.2%, respectively, compared to YE 2016, mainly due to consolidation of Kazkommertsbank assets and liabilities, as well as due to growth of the Bank's deposit base. As at 30 September 2017, the share of corporate KZT deposits in total corporate deposits was 52.1% compared to 42.6% as at 30 June 2017 and 36.8% as at YE 2016, whereas the share of retail KZT deposits in total retail deposits was 37.7% compared to 39.8% as at 30 June 2017 and 32.1% as at YE 2016.

Amounts due to credit institutions decreased by 4.5% vs. YE 2016 mainly due to the Bank's partial repayment of a loan to KazAgro national management holding in 3Q 2017. The repayment was made out of the Bank's own funds. Compared to 30 June 2017 amounts due to credit institutions increased by 17.3% due to consolidation of Kazkommertsbank. As of 30 September 2017, over one half of the Bank's obligations to financial institutions was represented by loans from KazAgro national management holding, DAMU development fund, Development Bank of Kazakhstan drawn in FY2014 and FY2015 within the framework of government programmes supporting certain sectors of economy.

Debt securities issued increased by 69.0% vs. YE 2016, mainly due to consolidation of Kazkommertsbank's securities portfolio in 3Q 2017. As at the date of this press-release, the Bank's debt securities portfolio was as follows:

Description of the security	Nominal amount outstanding	Interest rate	Maturity Date
<i>Issued by Halyk Bank</i>			
Eurobond	USD 500 mln	7.25% p.a.	January 2021
Local bonds placed with the Unified Accumulative Pension Fund	KZT 100 bn	7.5% p.a.	November 2024
Local bonds placed with the Unified Accumulative Pension Fund	KZT 131.7 bn	7.5% p.a.	February 2025
<i>Issued by Kazkommertsbank*</i>			
Eurobond	USD 300 mln	8.5% p.a.	May 2018
Eurobond	USD 750 mln	5.5% p.a.	December 2022
Subordinated coupon international bonds	USD 100 mln	USD Libor + 6.1905%	Perpetual
Local bonds	KZT 94.2 bn	8.75% p.a.	January 2022
Local bonds	KZT 59.9 bn	8.4% p.a.	November 2019
Subordinated coupon bonds	KZT 101.1 bn	9.5% p.a.	October 2025
Subordinated coupon bonds	KZT 3.5 bn	Inflation indexed (currently 8.9% p.a.)	April 2019
Subordinated coupon bonds	KZT 10 bn	Inflation indexed (currently 10.5%p.a.)	November 2018

**Excluding debt securities of Kazkommertsbank's Russian subsidiary for USD 6.7 million and RUB 68.6 million.*

Compared with YE 2016 total equity increased by 24.2% mainly due to net profit earned by the Bank during 9M 2017, as well as consolidation of Kazkommertsbank in 3Q 2017.

The Bank's capital adequacy ratios were as follows:

01.10.2017*	01.07.2017*	01.04.2017*	01.01.2017
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Capital adequacy ratios, unconsolidated:

		Halyk Bank		
K1-1	20.2%	22.1%	21.3%	19.2%
K1-2	20.2%	22.1%	21.3%	19.2%
K2	20.1%	22.1%	21.3%	19.2%

		Kazkommertsbank		
K1-1	13.1%			
K1-2	15.0%			
K2	10.3%			

Capital adequacy ratios, consolidated:

CET	15.4%	21.6%	21.5%	19.4%
Tier 1 capital	15.8%	21.6%	21.5%	19.4%
Tier 2 capital	17.8%	21.6%	21.5%	19.4%

* The regulator increased minimum capital adequacy requirements starting from 1 January 2017: k1 – 9.5%, k1-2 – 10.5% and k2 – 12.0%, including conservation buffer of 3% and systemic buffer of 1% for each of these ratios.

The condensed interim consolidated financial information for the nine months ended 30 September 2017, including notes attached thereto, are available on Halyk Bank's website https://halykbank.kz/ifrs_reports2.

A 9M 2017 results webcast will be hosted at 1:00 p.m. GMT/8:00 a.m. EST on Monday, 20 November 2017: <http://www.audio-webcast.com/cgi-bin/visitors.ssp?fn=visitor&id=5175>

About Halyk Bank

Halyk Bank is Kazakhstan's leading financial services group, operating across a variety of segments, including retail, SME & corporate banking, insurance, leasing, brokerage and asset management. Halyk Bank has been listed on the Kazakhstan Stock Exchange since 1998 and on the London Stock Exchange since 2006.

In July 2017, the Bank purchased majority stake in Kazkommertsbank JSC – the second largest Bank in Kazakhstan by total assets.

With total assets of KZT 8,674.6 billion as at 30 September 2017, Halyk Bank is Kazakhstan's leading lender. The Bank has the largest customer base and broadest branch network in Kazakhstan, with 719 branches and outlets (including 220 branches and outlets of Kazkommertsbank) across the country. The Bank also operates in Georgia, Kyrgyzstan, Russia and Tajikistan.

For more information on Halyk Bank, please visit <https://www.halykbank.kz>

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