

# Joint Stock Company “Halyk Savings Bank of Kazakhstan”

## Consolidated financial results for the six months ended 30 June 2012

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 6 months ended 30 June 2012.

### 6 months 2012 financial highlights

- Net income is up by 49.8% to KZT 31.6 bn
- Total assets are up by 13.5%
- Net loans to customers are almost flat vs. YE 2011 and up by 3.2% vs. 31 March 2012
- Amounts due to customers are up by 17.8% vs. YE 2011 and almost flat vs. 31 March 2012
- Customer current accounts are up by 46.0%
- Total equity is down by 0.7% vs. YE 2011 and by 7.0% vs. 31 March 2012 as a result of buy-back of preferred shares from Samruk-Kazyna
- Impairment charge is down by 59.3%
- Net interest income is up by 61.1%
- Fees and commissions, net are up by 6.8%
- Operating expenses are up by 11.5%
- Net interest margin is up to 5.1% p.a. (4.3% p.a. for 1H 2011)
- Cost-to-income ratio at 35.1%
- RoAE is up to 17.8% p.a. (13.2% p.a. for 1H 2011)
- RoAA is up to 2.6% p.a. (1.9% p.a. for 1H 2011)

### Income statement review

**Interest income** decreased by 4.5% for 1H 2012 vs. 1H 2011 mainly due to decline in average interest rate on loans to customers to 11.9% p.a. for 1H 2012 vs. 13.3% p.a. for 1H 2011. **Interest expense** decreased by 14.9% for 1H 2012 vs. 1H 2011 mainly due to decline in average interest rate on amounts due to customers to 2.5% p.a. for 1H 2012 vs. 3.5% p.a. for 1H 2011. As a result, **net interest income before impairment charge** increased by 5.0% to KZT 45.6 bn for 1H 2012 vs. 1H 2011.

**Impairment charge** decreased by 59.3% for 1H 2012 vs. 1H 2011, reflecting sufficient provisioning level and continued stabilization of the loan portfolio quality. Allowances for loan impairment represented 20.0% of gross loans to customers as at 30 June 2012 vs. 20.6% as at 31 March 2012 and 19.7% as at YE 2011.

**Fee and commission income** from transactional banking (i.e. excluding pension fund and asset management) increased by 14.1% to KZT 15.9 bn for 1H 2012 vs. 1H 2011 as a result of growing volumes of transactional banking business.

**Pension fund and asset management fees** decreased by 10.0% to KZT 6.5 bn for 1H 2012 vs. 1H 2011 mainly due to downturn in global financial markets in May 2012. The loss incurred in

3Q 2011 from management of pension assets and recognized as liabilities due to customers of pension fund decreased to KZT 1.2 bn as at 30 June 2012 vs. KZT 5.2 bn as at YE 2011. As at 31 July 2012, these liabilities were fully discharged.

**Other non-interest income** (excluding insurance) increased by 16.3% to KZT 6.6 bn for 1H 2012 vs. 1H 2011 mainly as a result of increase in other income by 58% to KZT 2.1 bn for 1H 2012 vs. 1H 2011 and net realized gain from available-for-sale investment securities to KZT 0.8 bn for 1H 2012 vs. KZT 0.01 bn for 1H 2011. Increase in other income was mainly due to higher dividends received from investment securities available for sale.

Increase in other non-interest income (excluding insurance) was partially offset by decrease in net gain on foreign exchange operations.

Net gain on foreign exchange operations decreased by 15.4% to KZT 4.3 bn for 1H 2012 vs. 1H 2011 mainly as a result of 3-fold decrease of FX translation differences. Higher FX translation differences in 1H 2011, including net fair value adjustment, was attributable to KZT/USD exchange rate volatility and higher volumes of forward operations in 1H2011 compared to 1H2012. Decrease in net gain on foreign exchange operations was partially offset by increase in FX dealing by 51.5% to KZT 3.3 bn for 1H 2012 vs. 1H2011.

**Insurance underwriting income less insurance claims incurred, net of reinsurance**, increased by 101% to KZT 2.9 bn for 1H 2012 vs. 1H 2011 mainly due to growing volumes of both life and non-life insurance businesses and lower insurance reserves. Increase in insurance underwriting income less insurance claims incurred, net of reinsurance was partially offset by increase in insurance payments by 55.9% to KZT 4.5 bn for 1H 2012 vs. for 1H 2011 mainly in life insurance business due to increase in pay-outs under pension annuities.

**Non-interest expenses** (excluding insurance claims incurred, net of reinsurance) increased by 20.6% for 1H 2012 vs. 1H 2011 as result of 11.5% increase in operating expenses to KZT 24.6 bn for 1H 2012 vs. 1H 2011 and KZT 2.1 bn one-off impairment loss recognized by the Bank. The increase in operating expenses was mainly due to 21.2% increase in salaries and other employee benefits for 1H 2012 vs. 1H 2011 as a result of salary adjustment to inflation in July 2011, higher employee bonuses accrued for 1H 2012 vs. 1H 2011, as well as increase in number of employees at some of the Bank's subsidiaries. One-off impairment loss of KZT 2.1 bn in 1H 2012 was due to revaluation of assets pledged as collateral for defaulted loans and recognized as assets held for sale at fair value during 2Q 2012.

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

**Total assets** increased by 13.5% vs. YE 2011 mainly due to 35.3% increase in liquid assets as a result of increase in amounts due to customers.

**Loans to customers** increased by 0.2% on a gross basis and decreased by 0.1% on a net basis vs. YE 2011. During 1H 2012, the increase in gross loans to customers was mainly driven by 14.4% growth in consumer lending. The decrease in net loans to customers was mainly due to higher provisions on impaired loans to customers recognized in 1Q 2012.

During 2Q 2012, loans to customers increased by 2.3% on a gross basis and by 3.2% on a net basis vs. 1Q 2012. The increase was due to lending growth across all types of businesses – corporate loans by 1.6%, SMEs by 0.6% and consumer lending by 11.1%, partially offset by 2.2% decline in mortgage loans during 2Q 2012.

30-day NPLs and 90-day NPLs decreased to 20.1% and 18.8% of gross loans, respectively, as at 30 June 2012 from 20.5% and 19.0%, respectively, as at 31 March 2012. The decrease of 30-day

and 90-day NPLs was mostly due to increase in loans to customers during 2Q 2012. The Bank created regulatory provisions that covered these delinquent loans by 118.9% (30-day NPLs) and 125.4% (90-day NPLs) as at 30 June 2012.

**Term deposits of legal entities** decreased by 22.5% as a result of lower interest rates offered by the Bank compared to its peers, as well as partial withdrawal of funds by some corporate clients to finance their ongoing business needs. **Current accounts of legal entities** increased by 53.7% mainly due to the inflow of new funds from the Bank's corporate clients.

**Term deposits and current accounts of individuals** increased by 10.6% and 14.8%, respectively, compared to YE 2011.

The share of low-cost current accounts in total amounts due to customers increased to 56.5% as at 30 June 2012 vs. 45.6% as at YE 2011.

**Debt securities issued** decreased by 3.8% mainly due to repayment of EUR- and USD-indexed unsubordinated local debt securities for the nominal amounts of KZT 19.5 bn and KZT 15.0 bn, respectively, in March 2012.

Total **equity** decreased by 0.7% vs. YE 2011 and by 7.0% vs. 31 March 2012.

In May 2012, the Bank purchased a call option in respect of its preferred shares for KZT 7.1 bn from Joint Stock Company Holding Group Almex, its major shareholder. The option grants the right to buy back up to 196,232,499 preferred shares of the Bank from Joint Stock Company "Sovereign Wealth Fund "Samruk-Kazyna" (hereinafter – Samruk-Kazyna) before 2014. Under this option, on 29 June 2012, the Bank repurchased 150,000,000 of its preferred shares from Samruk-Kazyna for the total amount of KZT 27 bn.

Following the transaction, regulatory Tier 1 **capital adequacy ratios** k1-1 and k1-2 and total capital adequacy ratio k2 decreased to 8.1%, 12.2% and 16.3%, respectively, as at 30 June 2012 vs. 9.7%, 14.2% and 17.3%, respectively, as at 31 March 2012. Basel Tier 1 capital adequacy ratio and total capital adequacy ratio decreased to 16.7% and 19.5%, respectively, as at 30 June 2012 vs. 17.8% and 20.4%, respectively, as at 31 March 2012.

On 5 July 2012, the Bank repurchased 40,000,000 of its preferred shares from Samruk-Kazyna for the total amount of KZT 7.2 bn.

As a result, Samruk-Kazyna continues owning 6,232,499 preferred shares of the Bank which may be repurchased by the Bank as per terms and conditions of the option.

The condensed interim consolidated financial information for the six months ended 30 June 2012, including the notes attached thereto, are available on Halyk Bank's website <http://www.halykbank.kz/en/financial-reports> and <http://www.halykbank.kz/en/news>).