22 November 2010

Joint Stock Company 'Halyk Savings Bank of Kazakhstan'

Consolidated financial results for the nine months ended 30 September 2010

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 2010.

9M 2010 financial highlights

- Net income increased by 180.4 percent to KZT 26.0 billion from KZT 9.3 billion for 9M 2009
- Total assets increased by 2.0 percent
- Amounts due to customers increased by 7.5 percent during 9M 2010 and decreased by 7.2 percent during 3Q 2010
- Current accounts increased by 38.0 percent
- Amounts due to individuals increased by 12.3 percent
- Amounts due to legal entities increased by 5.4 percent during 9M 2010 and decreased by 11.9 percent during 3Q 2010
- Gross loans to customers decreased by 0.2 percent during 9M 2010 and increased by 1.2 percent during 3Q 2010
- Total equity increased by 10.1 percent
- Net interest income increased to KZT 29.4 billion from net interest loss of KZT 3.0 billion for 9M 2009
- Impairment charge on interest earning and other assets decreased by 48.1 percent to KZT 38.1 billion from KZT 73.4 billion for 9M 2009
- Fee and commission income (excluding pension fund and asset management) increased by 8.6 percent to KZT 18.6 billion from KZT 17.1 billion for 9M 2009
- Pension fund and asset management fees decreased by 55.3 percent to KZT 5.8 billion for 9M 2010 from KZT 13.0 billion for 9M 2009 and increased to KZT 2.4 billion for 3Q 2010 from KZT 8 million for 2Q 2010
- Other non-interest income increased by 1.9 percent to KZT 16.8 billion for 9M 2010 from KZT 16.5 billion for 9M 2009 and by 17.4 percent to KZT 5.7 billion for 3Q 2010 from KZT 4.9 billion for 2Q 2010
- Operating expenses increased by 19.3 percent to KZT 31.7 billion from KZT 26.6 billion for 9M 2009
- Net interest margin before allowance for impairment losses decreased to 4.7 percent for 9M 2010 from 5.5 percent for 9M 2009 and increased to 4.7 percent for 3Q 2010 from 4.3 percent for 2Q 2010
- Cost-to-income ratio increased to 31.4 percent from 23.9 percent for 9M 2009
- Basel Tier 1 capital adequacy ratio increased to 18.4 percent from 17.4 percent as at YE 2009
- Basel Total capital adequacy ratio increased to 22.5 percent from 21.0 percent as at YE 2009
- Loan-to-deposit ratio increased to 0.80x from 0.74x as at 30 June 2010
- Provisioning rate increased to 18.2 percent of gross loans to customers from 17.5 percent as at 30 June 2010

- Return on average common shareholders' equity increased to 11.8 percent per annum from 5.1 percent per annum for 9M 2009
- Return on average total assets increased to 1.6 percent per annum from 0.6 percent per annum for 9M 2009

Financial Overview

Condensed Interim Consolidated Income Statement

Net income

The Bank's net income increased by 180.4 percent to KZT 26.0 billion from KZT 9.3 billion for 9M 2009 primarily due to decrease in interest expense by 15.2 percent and impairment charge on interest earning and other assets by 48.1 percent, as well as increase in fee and commission income (excluding pension fund and asset management) by 8.6 percent and recoveries of provisions against letters of credit and guarantees issued for KZT 1.4 billion. The increase in net income was partially offset by decrease in interest income by 10.0 percent, decrease in pension fund and asset management fees by 55.3 percent, decrease in net gain on foreign exchange operations by 36.8 percent and increase in operating expenses by 19.3 percent.

Interest income

Interest income decreased by 10.0 percent to KZT 134.2 billion for 9M 2010 from KZT 149.2 billion for 9M 2009 mainly as a result of decrease in average interest rates on interest-earning assets to 9.4 percent p.a. for 9M 2010 from 11.8 percent p.a. for 9M 2009, as well as decrease in average balances of loans to customers by 8.6 percent for 9M 2010 compared to 9M 2009. The decrease in interest income was partially offset by a 80.1 percent increase in interest income on available-for-sale investment securities for 9M 2010 compared to 9M 2009 primarily due to purchases of higher-yielding corporate bonds into the portfolio of available-for-sale investment securities during 9M 2010.

Interest income decreased by 0.2 percent for 3Q 2010 compared to 2Q 2010 mainly due to decline in interest income on loans to customers by 0.4 percent and decline in interest income on amounts due from credit institutions and cash and cash equivalents by 15.2 percent. The decrease in interest income was partially offset by a 7.9 percent increase in interest income on available-for-sale investment securities in 3Q 2010 which average balances increased by 3.4 percent for 3Q 2010 compared to 2Q 2010. The average interest rates on interest-earning assets remained flat at 9.2 percent p.a. in 3Q 2010 compared to 2Q 2010.

Interest expense

Interest expense decreased by 15.2 percent to KZT 66.8 billion for 9M 2010 from KZT 78.8 billion for 9M 2009 as a result of decrease in average rates on interest-bearing liabilities to 5.0 percent p.a. for 9M 2010 from 6.2 percent p.a. for 9M 2009, partially offset by a 5.7 percent increase in average balances of interest-bearing liabilities for 9M 2010 compared to 9M 2009. The decrease in average rates on interest-bearing liabilities was mainly due to decrease in average rates on amounts due to customers to 4.5 percent p.a. for 9M 2010 from 5.8 percent p.a. for 9M 2009.

Interest expense decreased by 7.9 percent to KZT 20.8 billion for 3Q 2010 from KZT 22.6 billion for 2Q 2010 mainly due to average balances of amounts due to customers decreasing by 0.9 percent and average interest rates on amounts due to customers decreasing to 4.0 percent p.a. for 3Q 2010 from 4.5 percent p.a. for 2Q 2010.

Impairment charge on interest earning and other assets

Impairment charge on interest earning and other assets decreased by 48.1 percent to KZT 38.1 billion from KZT 73.4 billion for 9M 2009, reflecting continued stabilization of loan portfolio quality since mid-2009.

Fees and commissions

Fee and commission income (excluding pension fund and asset management) increased by 8.6 percent to KZT 18.6 billion from KZT 17.1 billion for 9M 2009 primarily as a result of growing volumes of transactional banking business.

Performance-linked asset management fees in pension fund business decreased by 70.1 percent to KZT 3.3 billion from KZT 11.1 billion for 9M 2009 as a result of overall decline on domestic and global securities markets in May, June and August 2010, as well as reflecting "one-off" increase in asset management fees in 1Q 2009 mainly due to KZT devaluation. This decline was partially offset by increase in pension administration fees by 34.5 percent to KZT 2.5 billion from KZT 1.8 billion for 9M 2009 as a result of growing number of pension fund customers and average size of pension contributions.

Pension fund business and asset management fees increased to KZT 2.4 billion for 3Q 2010 from KZT 8 million for 2Q 2010 due to better conditions on the global securities markets.

Fee and commission expense increased by 19.1 percent to KZT 4.0 billion from KZT 3.4 billion for 9M 2009 mainly as a result of increase in deposit insurance expenses by 32.2 percent for 9M 2010 compared to 9M 2009.

Other non-interest income

Other non-interest income increased by 1.9 percent to KZT 16.8 billion from KZT 16.5 billion for 9M 2009, primarily as a result of a 50.7 percent increase in insurance underwriting income for 9M 2010 compared to 9M 2009. The increase in other non-interest income was partially off-set by decrease in net gain on foreign exchange operations by 36.8 percent to KZT 5.4 billion from KZT 8.6 billion for 9M 2009 primarily as a result of "one-off" increase in volumes of foreign exchange operations by customers in 1Q 2009 due to KZT devaluation.

Net gain on foreign exchange dealing increased by 16.1 percent to KZT 2.0 billion for 3Q 2010 from KZT 1.7 billion for 2Q 2010 as a result of growing volumes of foreign exchange business with customers partially offset by lower spread on such transactions.

Insurance underwriting income less insurance claims incurred, net of reinsurance, increased by 13.8 percent to KZT 3.6 billion from KZT 3.1 billion for 9M 2009 primarily as a result of growth in insurance premiums written due to growing volumes of insurance business.

Non-interest expenses

Operating expenses increased by 19.3 percent to KZT 31.7 billion from KZT 26.6 billion for 9M 2009 primarily due to increase in salaries and other employee benefits by 18.4 percent as a result of partial accrual of employee bonuses for 2010, increase in other operating expenses by 188.8 percent and "one-off" write-off of intangible assets for KZT 1.1 billion in 1Q 2010. This was partially off-set by decreased expenses on repair and maintenance by 16.4 percent and rent expenses by 29.3 percent due to transfer of the Bank's Head Office to a new building at the end of 2009, professional services by 34.6 percent and insurance agents' fees by 32.9 percent.

Provisions created against letters of credit and guarantees issued have been recovered for KZT 1.4 billion during 3Q 2010 due to decrease in portfolio of guarantees.

Condensed Interim Consolidated Statement of Financial Position

Total assets

Total assets increased by 2.0 percent during 9M 2010 mainly due to increase in available-for-sale investment securities by 98.8 percent, a 9.6-fold increase in investments held to maturity and increase in insurance assets by 160.7 percent, partially offset by decrease in cash and cash equivalents by 49.1 percent, amounts due from credit institutions - by 63.5 percent and loans to customers – by 3.4 percent.

Liquid assets

Liquid assets increased by 6.4 percent to KZT 712.5 billion from KZT 669.8 billion as at YE 2009 mainly due to purchase of NBK notes and Treasury bills of the Ministry of Finance of Kazakhstan. The increase was partially offset by a 49.1 percent decrease in cash and cash equivalents during 9M 2010 mainly as a result of decrease in balances of short-term deposits with the National Bank of Kazakhstan, as well as in balances of correspondent accounts, short-term and overnight deposits with OECD based banks.

Liquid assets decreased by 14.0 percent to KZT 712.5 billion from KZT 828.6 billion as at 30 June 2010 mainly due to decrease in cash and cash equivalents by 35.4 percent during 3Q 2010.

Loans to customers

Net loans to customers declined by 3.4 percent compared to YE 2009 and increased by 0.3 percent compared to 30 June 2010. Loan portfolio growth in 3Q 2010 was attributable to growth in corporate, medium-sized and retail business. During 9M 2010, increase in loans to customers before allowance for impairment losses was the highest primarily in the following sectors: wholesale trade – by 15.5 percent, energy – by 66.2 percent and services – by 6.1 percent.

Loans with 30-day and 90-day overdue payments (NPLs) decreased to 18.5 percent and 17.5 percent from 19.6 percent and 19.1 percent, respectively, in 3Q 2010. The Bank created regulatory provisions that covered these delinquent loans 126.4 percent (30-day NPLs) and 120.5 percent (90-day NPLs).

Letters of credit and guarantees

Portfolio of commercial letters of credit increased by 7.8 percent compared to YE 2009 as a result of growing volumes of documentary credit business. Portfolio of guarantees issued decreased by 3.0 percent compared to YE 2009 due to the volume of guarantees expired exceeding the volume of guarantees issued during 9M 2010. As at 30 September 2010, the Bank held the highest market share in commercial letters of credit of 21.1 percent.

Amounts due to customers

Term deposits of legal entities decreased by 15.8 percent compared to YE 2009 mainly due to early repayment of a 3-year KZT 60 billion special government deposit to JSC “Sovereign Wealth Fund “Samruk-Kazyna” on 18 June 2010 and termination of a number of large-ticket corporate deposits in 3Q 2010. Current accounts of legal entities increased by 42.5 percent compared to YE 2009 mainly due to growing volumes of transactional banking business and transfer of part of term deposits to current accounts.

Term deposits and current accounts of individuals increased by 10.0 percent and 21.0 percent, respectively, compared to YE 2009.

Amounts due to customers comprise the largest source of funding for the Bank with 78.1 percent of liabilities as at 30 September 2010. The Bank held the highest market share in total retail deposits (20.8 percent) and retail current accounts (37.3 percent) and second largest market share in total corporate deposits (19.5 percent) among Kazakhstan banks as at 30 September 2010.

Amounts due to credit institutions

Amounts due to credit institutions decreased by 51.8 percent compared to YE 2009 mainly due to lower volumes of Treasury bills of the Ministry of Finance Repo transactions through KASE and decrease in loans and deposits from Kazakhstan and OECD based banks. Loans and deposits from OECD based banks decreased due to repayment by the Bank of trade finance and commercial loans in accordance with repayment schedules.

On 15 October 2010, the Bank made early repayment of a KZT 11.7 billion loan to Damu Entrepreneurship Development Fund JSC.

Debt securities issued

Debt securities issued decreased by 0.8 percent compared to YE 2009 primarily as a result of repayment of local subordinated bonds for a nominal amount of KZT 5 billion in June 2010, revaluation of Eurobonds and foreign currency indexed local bonds, as well as increased inflation rate with regard to reverse inflation indexed KZT denominated bonds. As at 30 September 2010, the Bank had three outstanding Eurobond issues for USD 300 million, USD 500 million and USD 700 million with bullet maturity in May 2013, October 2013 and May 2017, respectively.

On 9 November 2010, the Bank prepaid fixed rate KZT denominated local subordinated bonds for a nominal amount of KZT 5 billion.

Equity

Total equity increased by 10.1 percent compared to YE 2009 primarily as a result of increase in retained earnings and other reserves by 20.3 percent. Regulatory Tier 1 capital adequacy ratios k1-1 and k1-2 and total capital adequacy ratio k2 were 11.0 percent, 14.5 percent and 19.8 percent, respectively, as at 30 September 2010. Basel Tier 1 capital adequacy ratio and Total capital adequacy ratio were 18.4 percent and 22.5 percent, respectively, as at 30 September 2010.

Capital adequacy ratios increased in 3Q 2010 on the back of increased regulatory capital, as well as decreased total assets and risk-weighted assets.

The condensed interim consolidated financial information for the nine months ended 30 September 2010, including the notes attached thereto, are available on Halyk Bank's website (http://www.halykbank.kz/contents/index/type:invReport/lang:eng and http://www.halykbank.kz/eng/news/index).

KEY FINANCIAL RATIOS

	30-Sep-10 (unaudited)	30-Jun-10 (unaudited)	31-Mar-10 (unaudited)	31-Dec-09 (audited)	30-Sep-09 (unaudited)	30-Jun-09 (unaudited)
Amounts due to customers / total liabilities	78.1%	78.2%	76.0%	73.1%	71.7%	67.3%
Loans / deposits ratio (1)	0.80x	0.74x	0.80x	0.89x	0.86x	1.02x
Liquid assets(2) / total assets	34.5%	38.0%	36.3%	33.1%	36.7%	31.3%
NPLs / gross loans(3)	18.5%	19.6%	20.6%	19.0%	19.7%	17.9%
Provisioning rate (4)	18.2%	17.5%	16.4%	15.5%	14.8%	12.9%
Regulatory provisioning rate(5)	22.2%	21.5%	20.2%	18.8%	18.8%	16.5%
Tier 1 capital adequacy ratio(6)	18.4%	17.4%	17.9%	16.9%	16.1%	14.8%
Total capital adequacy ratio(6)	22.5%	21.0%	21.9%	20.6%	20.2%	18.5%
Tier 1 capital adequacy ratio (k1-1)(7)	11.0%	10.4%	10.9%	11.1%	9.9%	10.1%
Tier 1 capital adequacy ratio (k1-2)(7)	14.5%	14.2%	14.9%	14.3%	13.0%	-
Tier 2 capital adequacy ratio (k2)(7)	19.8%	18.7%	19.0%	18.0%	16.9%	15.7%

RETAIL BUSINESS DATA

	30-Sep-10 (unaudited)	30-Jun-10 (unaudited)	31-Mar-10 (unaudited)	31-Dec-09 (unaudited)	30-Sep-09 (unaudited)	30-Jun-09 (unaudited)
Number of branches and outlets	629	628	622	622	625	623
Number of ATMs	1,686	1,682	1,682	1,690	1,689	1,704
Number of POS-terminals	3,825	3,672	3,502	3,422	3,467	3,654
Information and transaction terminals (multiservice kiosks)	594	569	572	572	572	569

	For the nine months ended	
	30-Sep-10 (unaudited)	30-Sep-09 (unaudited)
Cost-to-income	31.4%	23.9%
Return on average common shareholders' equity (ROAE)	11.8%	5.1%
Return on average assets (ROAA)	1.6%	0.6%
Net interest margin	4.7%	5.5%
Operating expense/average total assets	2.0%	1.8%

(1) Loans to customers, net / amounts due to customers.
(2) On consolidated IFRS basis, liquid assets consist of "Cash and cash equivalents", NBK notes, Treasury bills of the Ministry of Finance of Kazakhstan, Treasury bills of the governments of other countries, notes of national banks of other countries, bonds of quasi-sovereign banks.
(3) Total NPLs 30+ (total principle amount of loans with principle and/or interest overdue by more than 30 days) / Gross loan portfolio, unconsolidated.
(4) Allowance for loan impairment / loans to customers before allowance for impairment losses.
(5) Unaudited.
(6) As per Guidelines adopted by the Basel Committee on Banking Regulations and Supervision Practices of the Bank for International Settlements.
(7) As per the FMSA Guidelines, Bank only.

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