HALYK BANK

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Attractive dividend yield and high growth potential

High profitability, capital adequacy and liquidity levels together with an adequate level of asset quality, makes Halyk Bank attractive investment. Our recommendation is "BUY". Target price is KZT48.5/share and $5.59/GDR.

Due to the difficult economic situation in the country, banking sector has faced the following problems: decreased solvency of the population, increased cost of funding, lack of liquidity, as well as increased risk of loan quality deterioration. Tenge devaluation also had a negative impact on banking sector, since significant amount of deposits was in US$.

Loan and deposit growth of Halyk Bank in 9M2015 was mainly on the back of currency devaluation. Due to considerable increase in deposits, the Bank has accumulated significant amount of liquid assets on balance sheet, therefore we expect no deposit growth in coming years. Loan growth will be in line with the market.

Bank demonstrates high profitability. By our estimates, net income growth in 2016-18 will be around 9% per annum on average. ROAE will be in the rage of 20-22% in coming three years. Considerable pressure on profitability in 2016 will come from declined net interest margin, which will mainly be the result of high liquidity level and increased cost of funding.

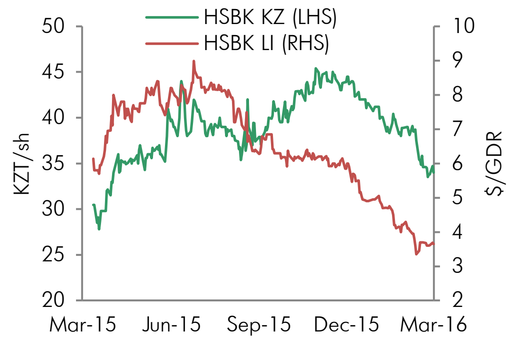
90-day overdue loans level has declined in 2015. However, we believe that it will go up in 2016, mainly due to the economic situation and KZT devaluation.

Dividends. Taking into account high liquidity and capitalization level, we believe, the Bank will pay dividends equaling 40% of its net income in 2016-17, which translates into a KZT4.2/share (US$0.49/GDR) and KZT4.6/share (US$0.54/GDR), respectively. According to our estimates, amount equivalent to 58% of current share price will be paid as dividends in 2016-19.

We recommend to "BUY" Halyk's shares. By our assumptions, fair value of the Bank at YE2016 is **KZT48.5/share** or **US$5.59/GDR.** Given price implies growth potential of **43%** for shares and **53%** for GDRs. Price to book and Price to earnings ratio for 2016 is equal to 0.61 and 2.9, respectively, which also looks attractive, in our view.

Halyk Bank	
Tickers	HSBK KZ/HSBK LI
Capitalization	KZT 373.9 bn.
Last Price	KZT 33.99
Range, 52 weeks.	KZT 27.8-45.39
Avg. daily volume (3m)	KZT 3.9m
Target price shares/GDRs	KZT 48.5/$5.59
Upside (ord./GDR)	+43%/+53%
Recommendation	BUY

SHARE PERFORMANCE (12-M)



KEY FINANCIAL INDICATORS

KZTbn	**2014**	**2015**	**2016**
Interest income	210.6	266.6	324.0
Interest expense	77.5	109.7	146.0
Net interest income	133.1	157.0	178.1
Operating profit	149.3	158.6	177.9
Impairment charge	-7.4	-13.9	-19.6
EBT	141.9	144.7	158.3
Net income	114.4	115.8	126.6

KEY RATIOS

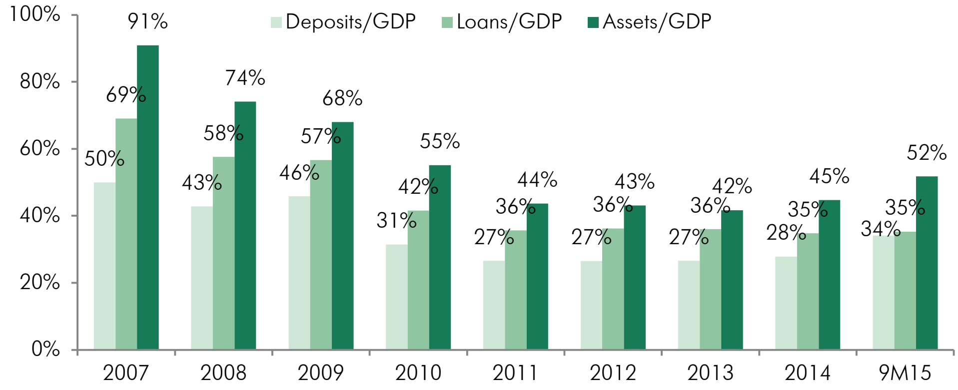
	2014	**2015**	**2016**
ROAE	26.4%	23.0%	22.2%
ROAA	4.3%	3.2%	2.8%
Net interest margin	5.9%	5.6%	5.4%
Cost-to-Income ratio	29%	31%	31%
P/B ratio	0,85	0,61	0,53
P/E ratio	3,9	2,9	2,7

Kazakhstan bankng sector

Low banking penetration level

In comparison to 2007 the share of the banking sector in the economy has decreased significantly. Over 2007-14 real GDP of Kazakhstan increased by 217%, while assets, loans and deposits increased by 56%, 60% and 70% respectively. As a result, assets/GDP ratio decreased from 91% to 45%, loans/GDP ratio decreased from 69% to 35% and deposits/GDP ratio decreased from 50% to 28%.

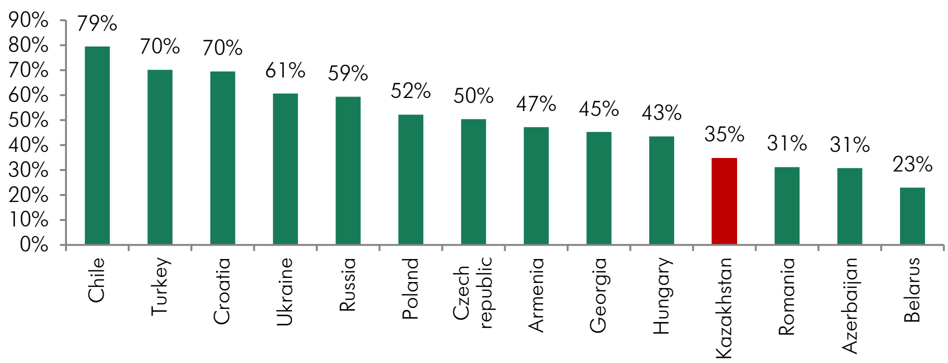
Fig 1 Banking assets, loans and deposits to GDP



Source: Statistics committee, National Bank

The penetration level of Kazakhstan's banking sector in the country's economy (loans/GDP) is lower than in many countries with a similar level of development. For example, loans/GDP ratio in Chile accounted to 79%, in Turkey and Croatia this ratio accounted to 70%. This indicator shows that the economy is insufficiently credited, and that the growth potential of the banking sector in Kazakhstan is higher. However, this potential cannot be fully realized without improvement in the economic situation in the country, the development of other sectors of the economy not related to raw materials, development of SME, the growth of confidence in the national currency and access to low-cost funding. It seems that, the last two items will not be solved in 2016.

Fig 2 Banking loans to GDP by countries – 2014

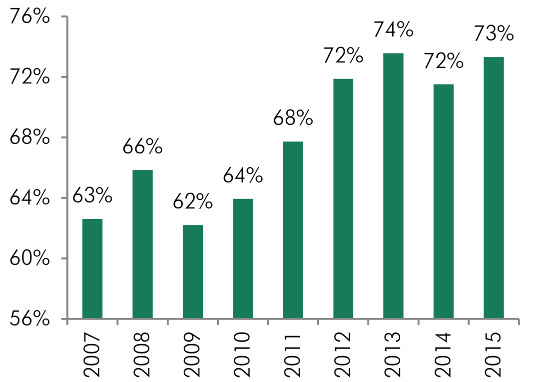


Source: The World Bank

Deposits as the main source of funding

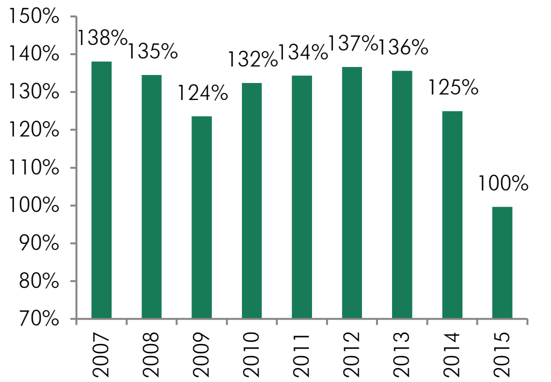
Another trend observed since the financial crisis of 2007-08 is changing funding structure of the banking sector. In the pre-crisis period, Kazakh banks actively attract external funding from foreign financial institutions. However, the financial problems of foreign partners, severely hit Kazakh banks that lost the ability to refinance their credits, which led to serious problems in the banking sector. As a result, banks started to shift towards deposits and as of today approximately 3/4 of bank's liabilities are represented by deposits (in 2007 the share of deposits was 63%) and the loans/deposits ratio accounts to 100% (in 2007 the loans/deposits ratio accounted to 138%). However, the shift toward deposits reduced the average duration of liabilities, which in turn makes it difficult to issue long-term loans.

Fig 3 Share of deposits in total liabilities



Source: National Bank

Fig 4 Loans to deposits ratio

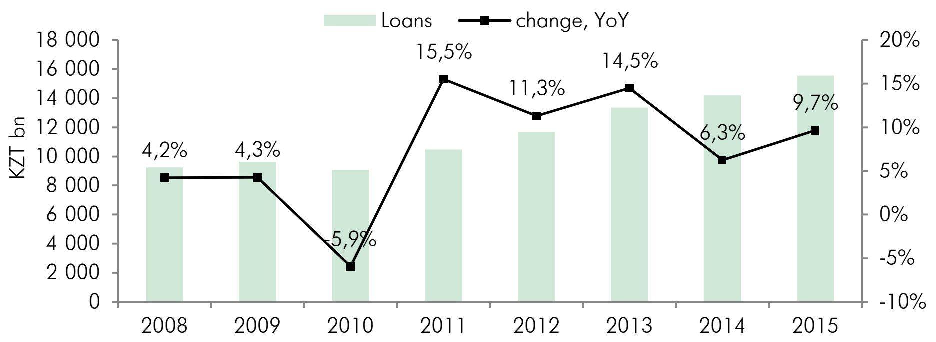


Source: National Bank

Low loan growth and active deposits growth

In recent years, Kazakh banking sector saw noticeable deceleration in lending. Loan portfolio increased by only 16.5% in 2014-15. Taking into account that tenge has depreciated by 55% against the US dollar during this period; we can say that loan portfolio has actually decreased in real terms. The average annual loan growth in 2007-15 was 7.3%.

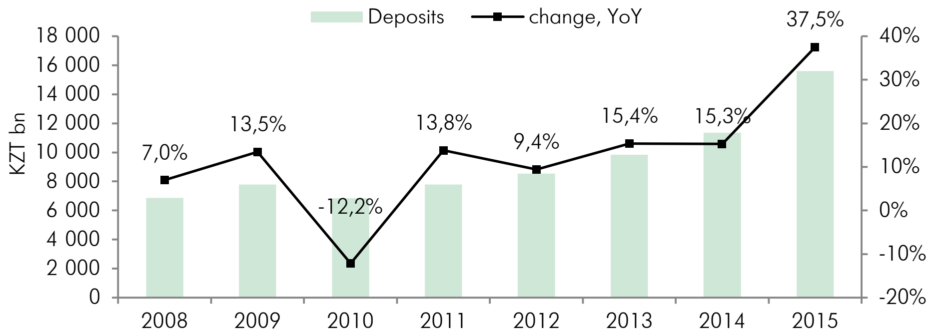
Fig 5 Banking sector loans dynamics



Source: National Bank

Deposits, unlike loans, demonstrated healthy growth in 2014-15. In 2014, deposits increased by 15.3%, while in 2015 the increase was 37.5%. Obviously, the bulk of the growth was due to the currency devaluation, since 54% of deposits were denominated in foreign currency as of August 1, 2015 (before the devaluation of tenge). At the end of 2015, the share of deposits in foreign currency accounted to 69%.

Fig 6 Banking sector deposits dynamics



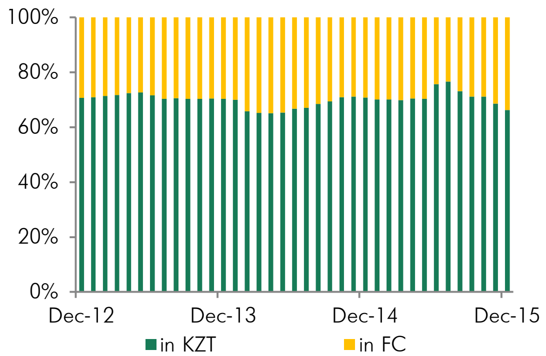
Source: National Bank

Liquidity deficit in tenge

Another major issue of the banking sector is a lack of tenge liquidity. The lack of confidence in tenge by population and companies after a significant devaluation of tenge in 2014 and in 2015, and continuing devaluation in 2016, led to such a problem. Population and companies prefer to keep their money in foreign currency deposits, which creates a deficit of tenge liquidity, thus limiting the potential volume of lending in tenge.

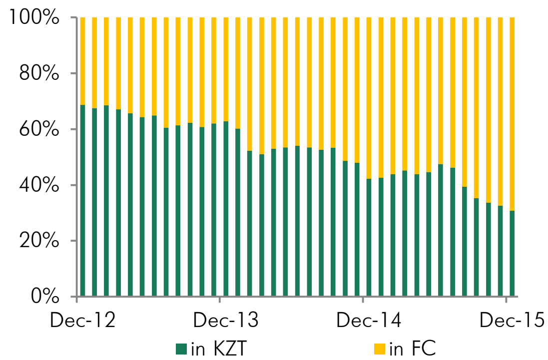
The banks faced with a difficult choice in anticipation of the devaluation. It was not profitable to make loans in tenge due to depreciating currency while lending in dollars could lead to an increase in problem loans. As a result, banks have tried to keep most of their assets in foreign currencies with high liquidity.

Fig 7 Loans by currency



Source: National Bank

Fig 8 Deposits by currency



Source: National Bank

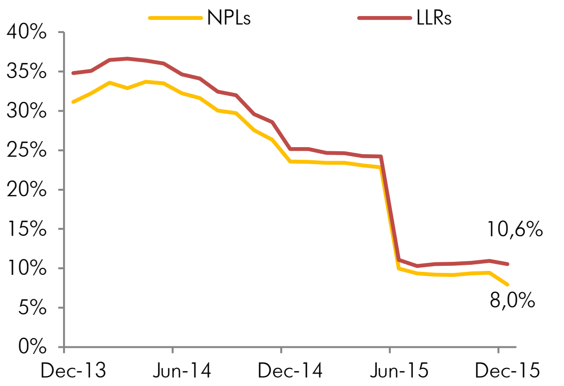
The share of foreign currency loans in total loans rose to 34% at the end of 2015, compared with 29% at the beginning of the year. The share of foreign currency deposits in total deposits rose to 69% at the end of 2015, from 58% at the beginning of the year.

NPLs have decreased in 2015

The level of non-performing loans (NPLs) in the banking sector of Kazakhstan has fallen to 8.0% as of YE2015 from 23.5% at the beginning of the year. Such a decrease was mainly achieved due to the fact that BTA Bank, Alliance Bank and Temir Bank have left the market, as well as due to the transfer of bad loans of KKB to BTA Bank. Basically, significant amount of problem loans remain in the market, they are just simply "removed" from the statistics (surrender of license by above-mentioned banks). The work on these NPLs will continue until either recovery or to the cancellation. We recall that at the beginning of 2015, 59% of NPLs in the banking sector belonged to BTA, Alliance and Temir Bank.

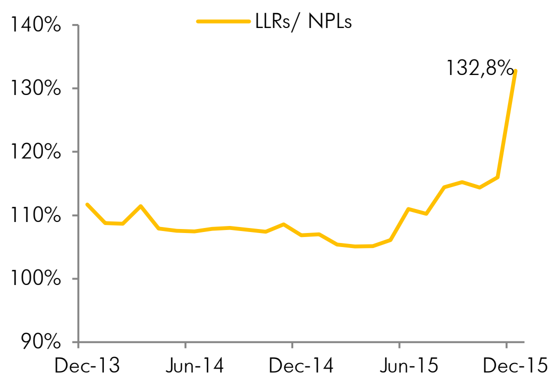
The level of NPLs of the banking sector at the beginning of 2015 would have amounted to 11.9% (instead of 23.5%) if we remove above-mentioned 3 banks. The improvement was less significant than it seems at first sight. But nevertheless, there is an improvement. Positive effect was achieved due to a complex of measures. Financial regulator, together with the government amended the tax laws, as well as the regulations of the National Bank. This improved the effectiveness of the work with toxic assets. Key measures include: write-off of the balance, restructuring, the sale to collection organizations, transfer to own subsidiaries. In addition, a significant role was devoted to the Problem loans fund with the help of which some mortgage loans were refinanced. The program is aimed at mitigating mortgage loan terms and reducing level of problem loans.

Fig 9 Non-performing loans and reserves



Source: National Bank

Fig 10 Non-performing loans coverage ratio



Source: National Bank

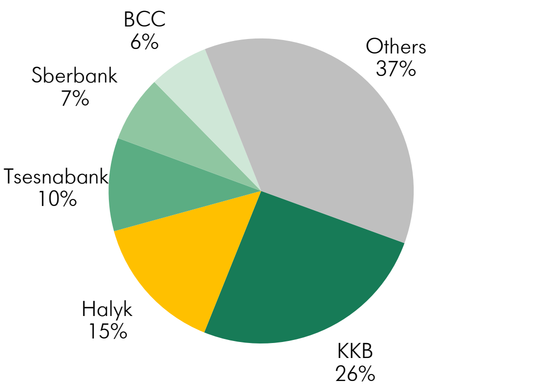
The NPL coverage ratio increased from 107% at the beginning of the year to 133% at the end of 2015, which we assess as a good level. The increase in the level of provisions in relation to NPLs indicates a risk of loan quality deterioration, which is probably related to KZT devaluation.

We think that the situation with the devaluation of the tenge will negatively affect the Bank's borrowers and likely to increase the level of NPLs in 2016, creating additional pressure on the profitability of banks. In addition, the high level of NPLs slows the credit growth as banks need to create additional reserves, diverting resources on creation of additional capital.

Halyk Bank

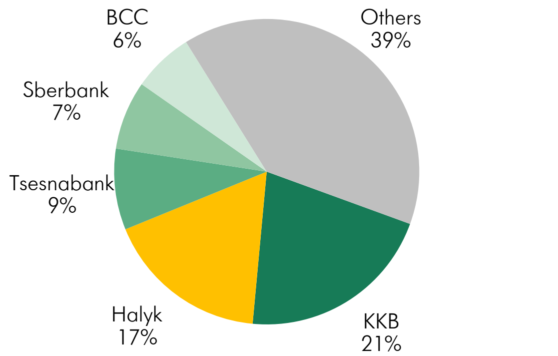
Halyk Bank is a systemic bank of Kazakhstan. It is the second largest bank by total assets, loans and deposits. The Bank's market share by assets at the end of 2015 was 17%, by loans 15% and by deposits 17%. In addition, Halyk Bank owns 100% stake in JSC «Altyn Bank», which occupies about 1% market share in terms of assets, loans and deposits.

Fig 11 Market share by loans (2015)



Source: National Bank

Fig 12 Market share by deposits (2015)

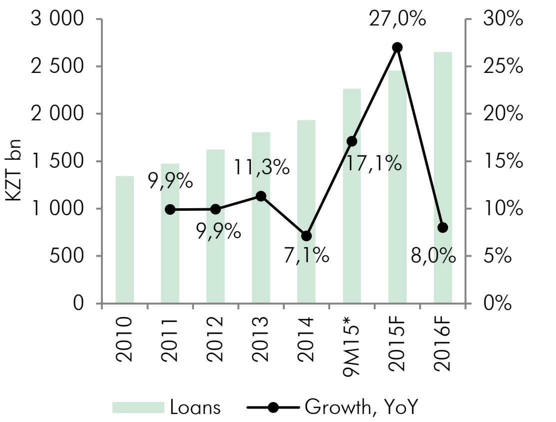


Source: National Bank

Loans to customers

Gross loans increased by 17.1% in 9M2015, while the growth in 2014 was only 7.1%. The growth was mainly due to the devaluation of the tenge. At the beginning of 2015 loans in foreign currency represented 27% of the Bank's net loan portfolio. The growth of these loans from devaluation was the main reason of the increase in loans. Excluding the effect of the devaluation, the increase in the net loan portfolio, would be 5.5% in 9M2015, whereas the actual growth was 19.4%.

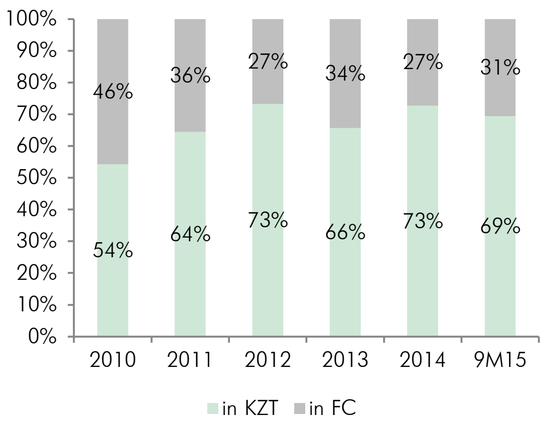
Fig 13 Loans and loan growth



Source: Company data, BCC-Invest estimates

*YtD growth

Fig 14 Loans by currency

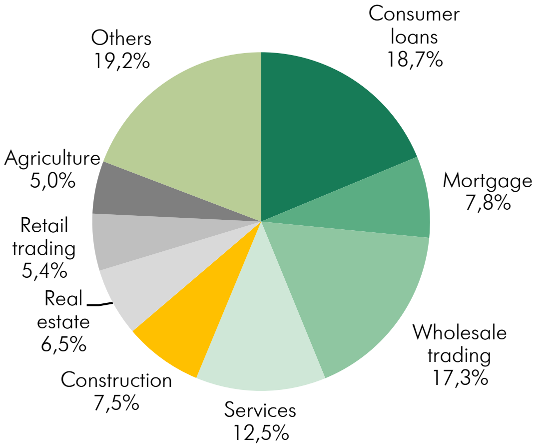


Source: Company data

In our view, significant devaluation of the tenge may discourage banks to lend to the economy in 2016, which is associated with an increased risk of insolvency of the borrowers. However, Halyk Bank cannot exclude the loan growth, as a large amount of liquidity in the Bank's balance sheet will put pressure on the Bank's profitability. We think that the loan growth in 2016 will amount to 8%.

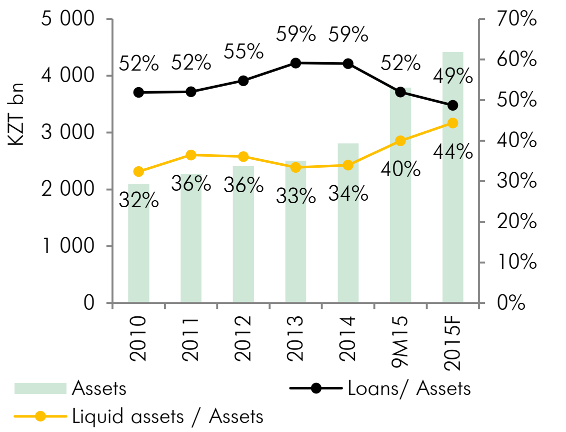
Loan book structure of the Bank is well diversified. Significant part of the loan portfolio is represented by consumer loans (18.7%) and wholesale trade (17.3%). Loans to the service sector amount to 12.5%. Loans to the industry related to real estate (mortgage, real estate, construction) account for 21.8%, which in our opinion is a quite decent amount.

Fig 15 Loan structure (9M2015)



Source: Company data

Fig 16 Asset structure



Source: Company data

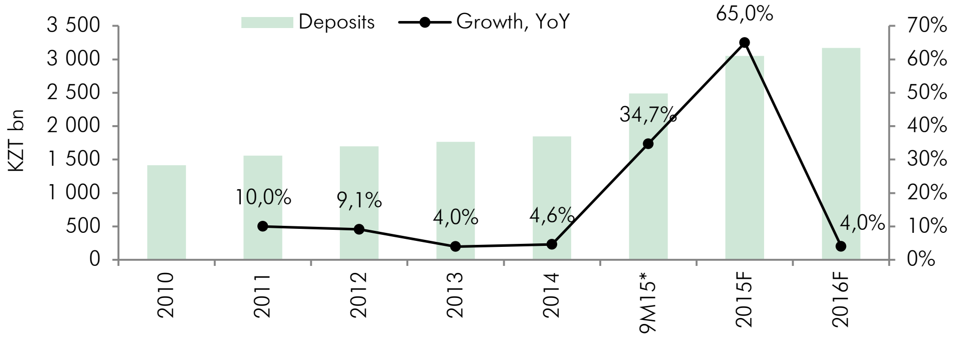
The asset structure of the Bank is not sufficiently efficient. The bank has high level of liquid assets (40%) and low level of loans in the asset structure (52%). This fact negatively affects the profitability of the Bank's assets. However, the presence of significant amount of liquid assets can allow the bank to increase its loan portfolio as needed. We think that the Bank's management will seek to reduce the level of liquidity. Therefore, we think that the lending rate will exceed the funds attracted in the coming years, which will reduce the level of liquid assets and improve the efficiency of the asset structure.

Deposits

Deposit growth of Halyk Bank demonstrated weak performance in 2013-14, when growth in each of these years accounted to 4-5%. However, in 9M2015 deposit base of the Bank grew by 34.7%. Whole deposit growth took place in 3rd quarter. Main reason of the growth was KZT devaluation, as 65% of all deposits at the beginning of the year were in foreign currency.

By our estimates that were based on unconsolidated data for 2015, Bank's deposits will increase by 65% in 2015. Continuation of the growth in 4Q will also be on the back of KZT devaluation. In our view, in 2016 deposits will increase by 4%. Growth will be solely due to change in exchange rate. In real terms, Bank's deposits will remain almost unchanged. In further periods, we also expect almost no deposit growth.

Fig 17 Deposits dynamics



Source: Company data, BCC-Invest estimates

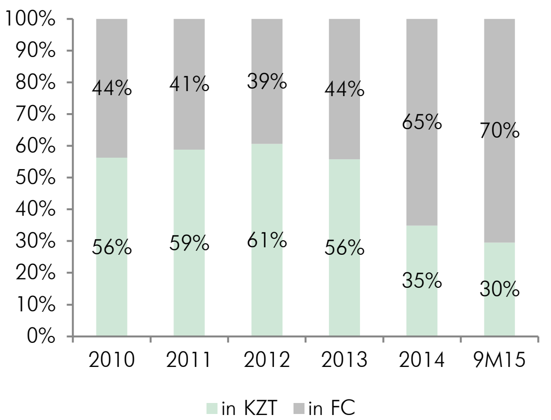
*YtD growth

Our expectations are based on the fact that the Bank has a very high liquidity level in the asset structure, which puts pressure on the Bank's profitability. Accordingly, management will do its best to minimize deposit growth.

Devaluation expectations and then expectations of further devaluation led to the fact that majority of depositors kept their money in foreign currency. As of 30 September 2015, 70% of all deposits in the Bank were in foreign currency. In our view, in 4Q the share of deposits in foreign currency will increase even more.

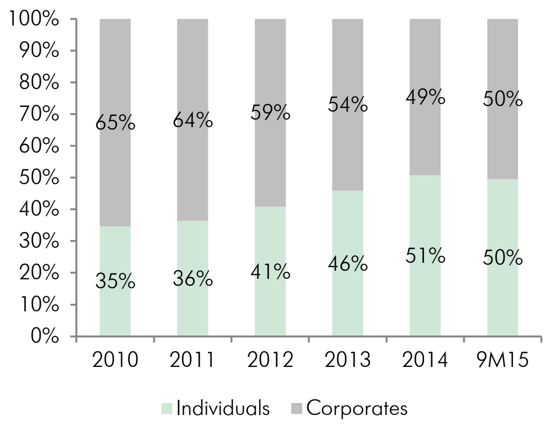
However, we believe, the share of deposits in KZT will start to increase starting from 1Q2016 due to decreased pressure on tenge, as well as increased difference between interest rates on deposits in KZT and foreign currency from 7% to 12%.

Fig 18 Deposit structure by currency



Source: Company data

Fig 19 Deposit structure

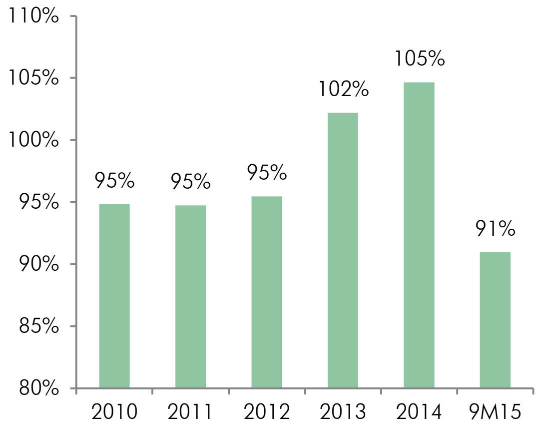


Source: Company data

The share of individuals and legal entities in deposit structure is the same. But, in recent years the share of deposits from individuals has increased considerably, which in our view is related to relatively low interest rate on corporate deposits, whereas interest rates on individual deposits remain in line with the market, which contributes to further deposit inflow from individuals.

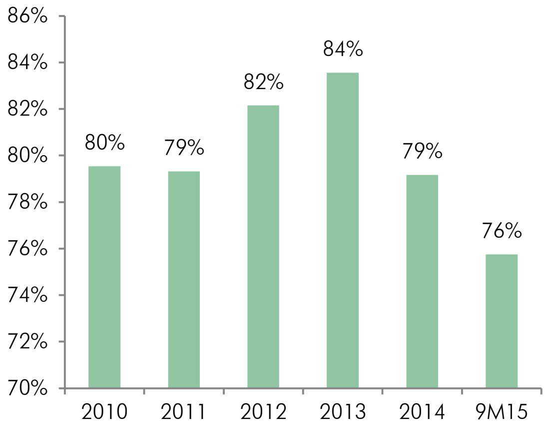
The amount of loans and deposits in recent years is approximately similar, which means that the Bank's lending is almost entirely funded using deposits. In 9M2015 loan to deposit ratio has declined significantly and amounted to 0.91. Given change took place due to KZT devaluation.

Fig 20 Gross loan to deposits



Source: Company data

Fig 21 Deposits in total liabilities



Source: Company data

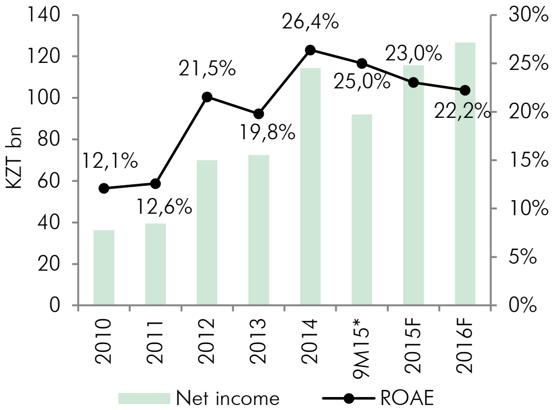
Deposits represent bulk of Bank's liabilities. At 3Q2015, the share of deposits in liabilities amounted to 76%.

Profitability

Net income of Halyk Bank in 9M2015 equaled KZT 92.0bn, which is equal to the net income of the Bank at 9M2014. In comparison with the previous year, net interest income increased by 17%, which positively affected the Bank's net profit. Negative effect on net income was due to the higher operating expenses (+13% YoY) and increased provision expenses.

Moreover, the Bank has received a considerable income from trading operations and transactions with derivates, but at the same time it has received a significant loss from operations with foreign currency. Both items are related with the situation on the currency market. Taking into account that this trend has not changed in 4Q2015, we believe given items will also be higher than normal. The total balance on given items are positive.

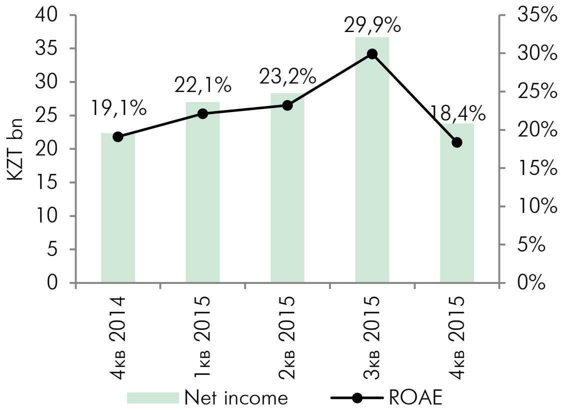
Fig 22 Net income and ROAE, annual



Source: Company data

*Net income in 9M2015

Fig 23 Net income and ROAE, quarterly



Source: Company data

Among others, it is important to note significant decline in commission income (-15% YoY). Main reason is transfer of pension assets to Government pension fund. We note that previously, the Bank was receiving bulk of its commission income from managing pension assets. However, it is important to mention that transactional commission income increased by 14%.

Net income in 9M2015 translates into a 25.0% ROAE, which is a quite decent profitability, in our view. Going forward, the Bank's ROAE will be declining gradually, as equity will grow faster than net income. The situation can change if large amount (exceeding current payout ratio range according to dividend policy) of dividends is paid. However, it is not our base case scenario.

Net income in 4Q2015 will be much less (-35%) than in 3Q and will amount to KZT23.8bn. The main reason of this decline, in our view, will be increased provision expenses that are related to further KZT weakening. In addition, such a difference in earnings is related to a significant amount of net income in 3Q, which was received from trading operations. By our forecasts, ROAE in 4Q2015 will be 18.4%. As a result, ROAE in 2015 will amount to 23.0%.

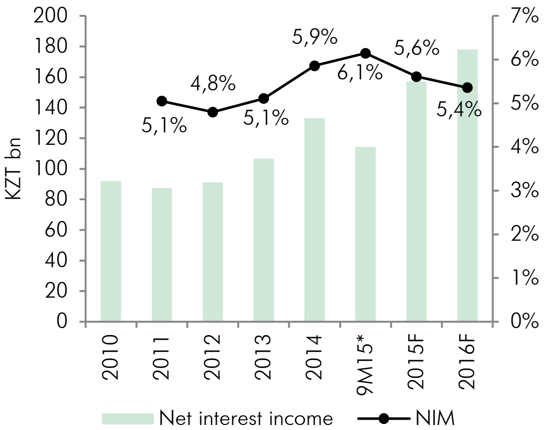
Net income will grow by 9% in 2016. Implied ROAE will be 22.2%.

Interest income and expenses

In 9M2015, 67% of operating income was received from net interest income. Bank's net interest margin (NIM) in this period stood at 6.1% that is higher than in previous years. Such a growth was achieved thanks to increased yield on interest earning assets, while cost of funding remained unchanged.

In 3Q NIM contracted QoQ by 58 b.p. to 6.0%, which was a result of substantial increase in liquid assets, which decreases efficiency of assets. By our estimates, the trend will continue in 4Q due to further devaluation of tenge, and the Bank's liquidity level will increase further. In this regard, we forecast further decline in NIM in 4Q to 5.6%. As a result of the year, NIM will amount to 5.6% (vs. 5.9% in 2014).

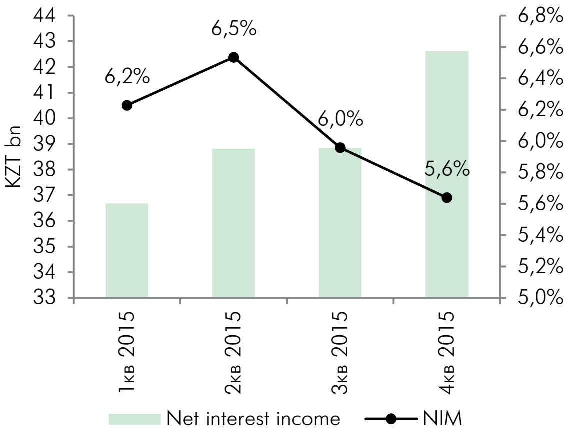
Fig 24 Net interest income and NIM, annual



Source: Company data, BCC-Invest estimates

*Net interest income in 9M2015

Fig 25 Net interest income and NIM, quarterly



Source: Company data

By our estimates, in 2016 NIM will decline further – to 5.4%. Yield on interest earning assets and cost of funding will increase approximately at the same rate. However, due to high liquidity level, we will see decline in NIM. Starting from 2017, we expect NIM to start to increase as asset structure efficiency should improve.

Individuals are more sensitive to changes in interest rates on deposits than legal entities. Therefore, interest rates on deposits in Halyk Bank are at the same level as market rates; however, in regards to interest rates on corporate deposits, management tries to cut rates to the level that will prevent deposits from growth.

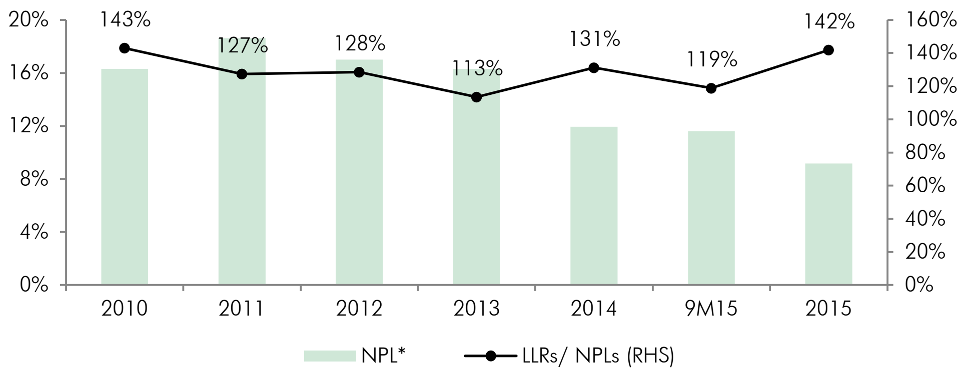
This is a main reason why deposits from individuals grow faster than corporate deposits.

Moreover, increased difference between deposit rates in KZT and US$ from 7% to 12% at the beginning of 2016, as well as decreased expectations on further KZT devaluation may lead to increase in tenge deposits. Taking into account high cost of deposits in KZT for individuals, this may increase total cost of funding. This is our base scenario; therefore, we expect insignificant increase in cost of funding.

Loan quality

According to National Bank data, level of 90-day overdue loans (NPLs) accounts to 9.2% of total loan portfolio as at YE2015. NPL level has declined in 4Q. However, we would not interpret it as an improvement in loan quality since total level of overdue loans did not change. It is also important to note increased NPL coverage by provisions, which went up to 142% by YE2015. Such a high level, perhaps, reflects growing risks of loan quality deterioration on the back of weaker tenge. We note that 31% of loans at the end of September 2015 were loans in foreign currency, which creates additional pressure on the borrower. Moreover, the value of collateral securing given loans decreased more than the value of loans that also increases the risk for the bank.

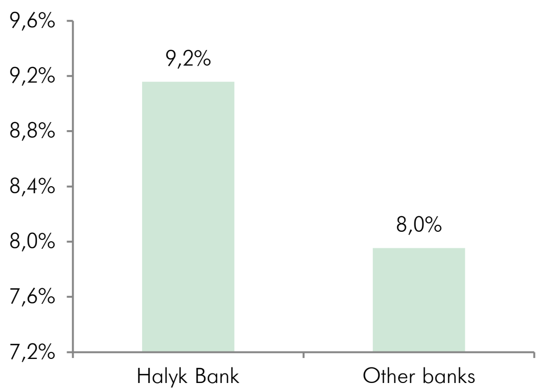
Fig 26 Non-performing loans and reserves



Source: National Bank
*90-day overdue loans. Based on unconsolidated data.

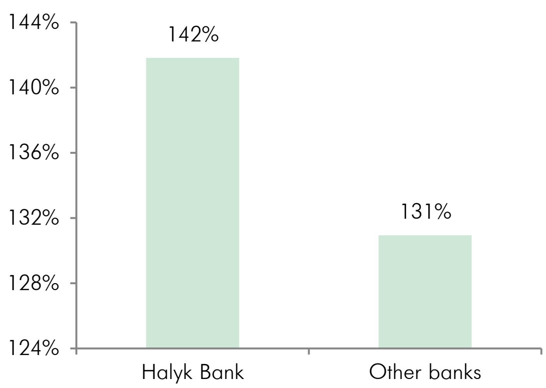
Level of NPLs (90-day overdue) in Halyk Bank is slightly higher than in the sector. However, at the same time NPL coverage ratio is also higher than the sector.

Fig 27 NPLs (+90-day overdue)



Source: Company data

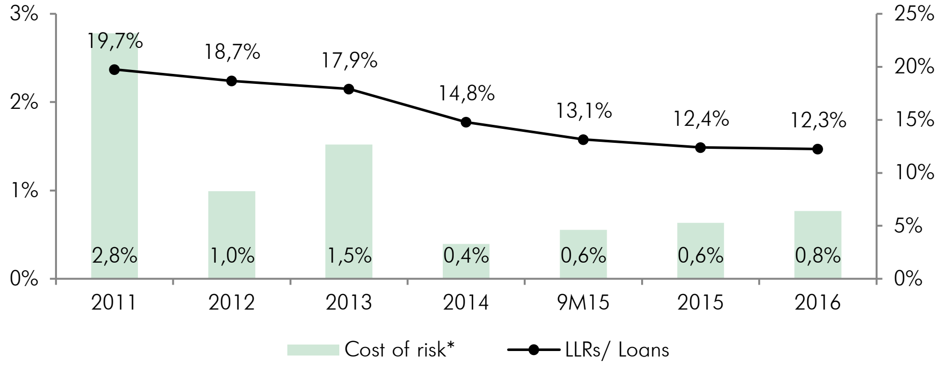
Fig 28 LLRs/ NPLs (+90-day overdue)



Source: Company data

In our view, NPL level may increase in 2016, due to deteriorated solvency of the population and companies after KZT devaluation. This will lead to provision expenses putting additional pressure on profitability. By our estimates, cost of risk in 2015 and 2016 will account to 0.6% and 0.8%, respectively.

Fig 29 Cost of risk and LLRs

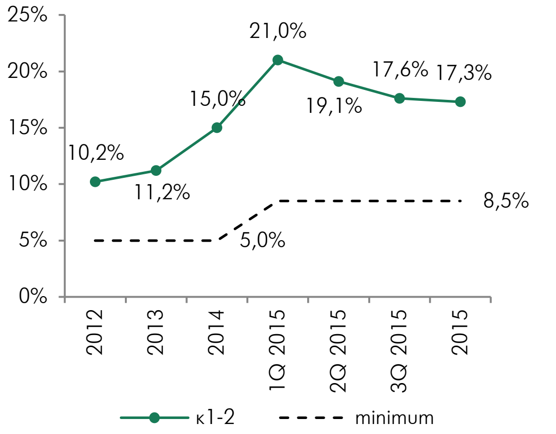


Source: Company data, BCC Invest estimates
*provision expenses as % of average loan portfolio for the year.

Well capitalized

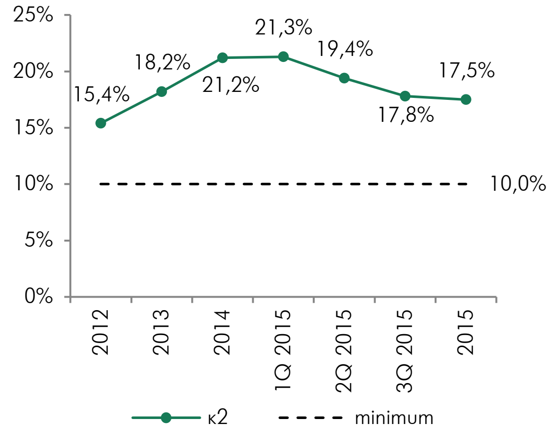
The Bank is highly capitalized. According to the National Bank requirements, k1-2 and k2 capital levels of Halyk Bank stand at 17.3% and 17.5% respectively, which is well above the required minimums (8.5% k1-2 and 10% k2).

Fig 30 Capital adequacy ratio – k1-2



Source: National Bank

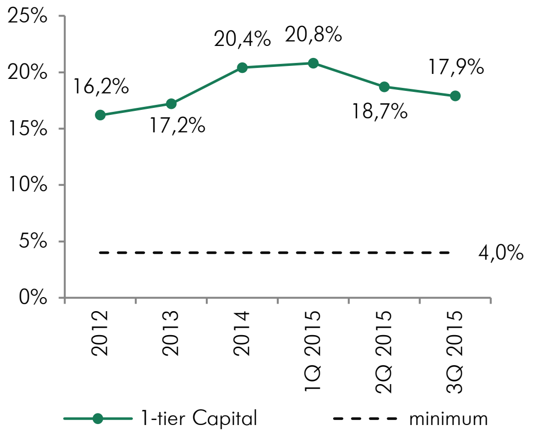
Fig 31 Capital adequacy ratio – k2



Source: National Bank

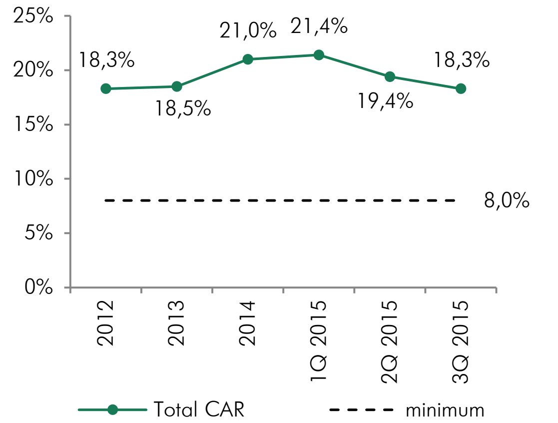
According to Basel standards, the Bank's capital adequacy ratio exceeds the minimum required level by more than 2 times. Taking into account high ROAE, coupled with high capital adequacy levels, we believe the Bank will continue to pay dividends in coming years according to its dividend policy.

Fig 32 Tier-1 capital under Basel standards



Source: Company data

Fig 33 Total CAR under Basel standards



Source: Company data

Currency risk

The Bank is exposed to currency risk, as financial liabilities in foreign currency exceed financial assets by KZT248bn. That is, in the case of a further weakening of the tenge, this difference will increase, adversely affecting the company's financial position.

Half of total financial assets comprise of assets in foreign currency, while the share of foreign currency liabilities in total liabilities is 64%. This difference arose due to the significant volume of deposits in foreign currency (70% of total deposits), while loans in foreign currency represent only 31%.

However, currency risk is at an acceptable level as off-balance sheet items substantially neutralize the items of the balance sheet.

Fig 34 Financial assets and liabilities – 30 September 2015

KZTm	In FC	In KZT	Total
Financial assets:			
Cash and cash equivalents	949 303	71 052	1 020 355
Loans	602 035	1 365 146	1 967 181
Other assets	270 854	339 325	610 179
	1 822 192	*1 775 523*	*3 597 715*
Financial liabilities:			
Deposits	1 753 473	736 185	2 489 658
Other liabilities	316 842	391 034	707 876
	2 070 315	*1 127 219*	*3 197 534*
Net position on balance sheet	**-248 123**	**648 304**	**400 181**
Net position – off-balance sheet	**329 447**	**-208 900**	
Total net position	**81 324**	**439 404**	

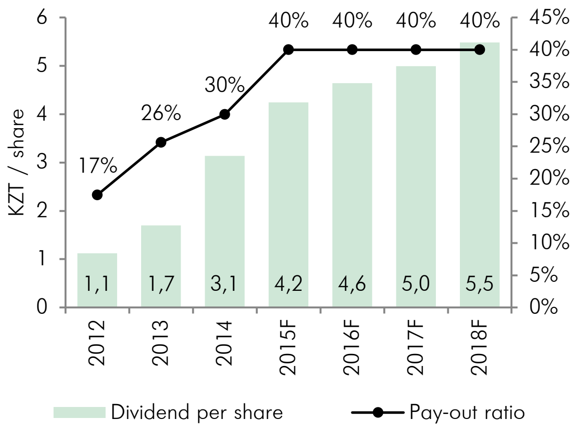
Source: Company data

Dividends

Dividend story

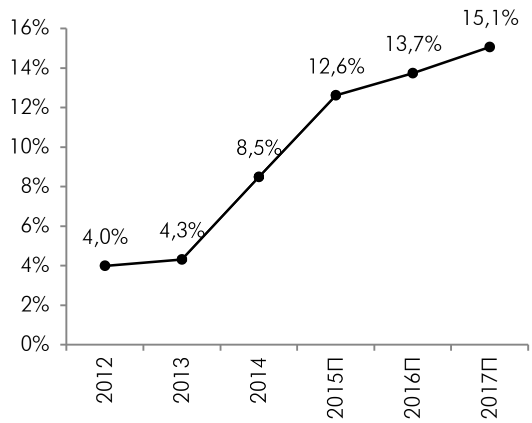
Dividend policy of Halyk Bank implies dividend payment equaling 15% to 50% of net profit for the year. In 2013, 2014 and 2015 payout ratio was 17%, 26% and 30%, respectively. Such amount of dividends implied dividend yield of 4.0%, 4.3% and 8.5% in 2013-15, respectively.

Fig 35 Dividends and dividend pay-out ratios



Source: Company data, BCC-Invest estimates

Fig 36 Dividend yield



Source: BCC-Invest estimates

Dividend yield for previous periods were calculated based on the market price as of "fixing" date.

Forecasts on dividends

In our view, Bank's net income per share will amount to KZT10.6 in 2015 and KZT11.6 in 2016. Taking into account high liquidity and capitalization levels, we believe that the Bank will pay 40% of its net income as dividends in 2015-16, which equals to KZT4.2 (US$0.49/GDR) and KZT4.6 (US$0.54/GDR) per share, respectively. By our assumptions, 57% of current share price will be repaid as dividends in 2016-19 (for 2015-18). The average dividend yield will be 14.2% per annum, which is quite attractive yield, in our view.

Residual income valuation

To calculate a fair value of Halyk Bank, we have used a residual income valuation approach. The underlying idea is that investors require a rate of return from their resources (investments or equity) – under the control of the entity's management, compensating them for their opportunity cost and accounting for the level of risk resulting. This rate of return is the cost of equity, and a formal equity cost must be subtracted from net income. Consequently, to create shareholder value, management must generate returns at least as big as this cost. Our valuation is based on our forecasts for the Bank for 2015-20F.

Fig 37 Discounted residual income

KZTm	2015	2016	2017	2018	2019	2020
Net income net of dividends on preference shares	115 273	126 302	135 871	149 363	158 303	161 160
ROAE	22,9%	22,2%	20,8%	20,1%	18,9%	17,2%
Equity	529 933	609 777	694 927	789 836	888 287	985 753
Residual income	24 895	22 307	17 353	14 660	6 809	-6 956
Discounted residual income		*22 307*	*14 825*	*10 699*	*4 246*	*-3 705*

Source: BCC-Invest

Fig 38 Valuation results

Book value (2016), KZTm	609 777
Terminal value, KZTm	-241 773
Discounted terminal value (2016), KZTm	-128 782
Sum of discounted residual income (2016-20), KZTm	48 371
Fair value (2016), KZTm	529 367
TP per ordinary shares, KZT	**48,5**
Upside	**43%**
TP per GDR, $	**5,59**
Upside	**53%**

Source: BCC-Invest

Based on our calculations, fair value of Halyk Bank at YE2016 is KZT48.5/share or US$5.59/GDR. Given price implies upside potential of 43% for shares and 53% for GDRs.

Fig 39 Price multiples

	2015A	2016F	2017F
Price / Book	0,85	0,61	0,53
Price / Earnings	3,9	2,9	2,7

Source: BCC-Invest estimates

Price to book and price to earnings ratios for 2016 are 0.61 and 2.9, respectively, which looks attractive, in our view.

Key financial indicators

Income Statement

Statement of profit or loss (mKZT)	2Q15	3Q15	%	9M14	9M15	%
Interest income	60 621	63 302	4%	156 472	181 588	16%
Interest expense	-21 807	-24 455	12%	-58 785	-67 252	14%
Net interest income before impairment	**38 814**	**38 847**	**0%**	**97 687**	**114 336**	**17%**
Impairment charge	-3 287	-6 916		-413	-8 541	1968%
Net interest income	**35 527**	**31 931**	**-10%**	**97 274**	**105 795**	**9%**
Fee and commission income	13 446	13 356	-1%	45 907	38 872	-15%
Fee and commission expense	-2 594	-2 931	13%	-6 168	-7 696	25%
Fees and commissions, net	**10 852**	**10 425**	**-4%**	**39 739**	**31 176**	**-22%**
Net (loss)/gain from financial assets and liabilities at fair value through profit and loss	-831	107 186		2400	107453	4377%
Net realized (loss)/gain from available-for-sale investment securities	-97	375		319	-926	
Net gain on foreign exchange operations	4 012	-91 242		6 160	-87 466	
Insurance underwriting income	5 957	6 780	14%	14 158	17 945	27%
Other income	1 052	3 691	251%	3 126	5 661	81%
Other non-interest income	**10 093**	**26 790**	**165%**	**26 163**	**42 667**	**63%**
Operating expenses	-15 577	-17 179	10%	-43 257	-48 764	13%
Recoveries of provision	51	-236		4 048	-234	
Insurance claims incurred, net of reinsurance	-5 833	-6 205	6%	-10 977	-16 541	51%
Non-interest expenses	**-21 359**	**-23 620**	**11%**	**-50 186**	**-65 539**	**31%**
Income before income tax expense	**35 113**	**45 526**	**30%**	**112 990**	**114 099**	**1%**
Income tax expense	-6 808	-8 828	30%	-20 993	-22 124	5%
Net Income	**28 305**	**36 698**	**30%**	**91 997**	**91 975**	**0%**

Source: Company data

Balance Sheet

Assets	2014	2Q15	3Q15	Q-o-Q	YTD
Cash and cash equivalents	540 537	620 350	1 020 355	64%	89%
Available-for-sale inv. Securities	386 423	307 520	379 026	23%	-2%
Loans to customers	**1 648 013**	**1 758 560**	**1 967 181**	**12%**	**19%**
-Gross loans to customers	1 934 031	2 039 598	2 264 751	11%	17%
-Allowance for loan impairment	-286 018	-281 038	-297 570	6%	4%
Other assets	234 809	269 045	426 156	58%	81%
Total assets	**2 809 782**	**2 955 475**	**3 792 718**	**28%**	**35%**
Amounts due to customers	**1 848 213**	**1 839 855**	**2 489 658**	**35%**	**35%**
-Term deposits	1 145 745	1 054 268	1 628 409	54%	42%
-Current accounts	702 468	785 587	861 249	10%	23%
Amounts due to credit institutions	107 192	119 063	156 067	31%	46%
Debt securities issued	311 009	439 822	528 022	20%	70%
Other liabilities	68 147	81 444	112 823	39%	66%
Total liabilities	**2 334 561**	**2 480 184**	**3 286 570**	**33%**	**41%**
Equity	475 221	475 291	506 148	6%	7%
Total liabilities and equity	**2 809 782**	**2 955 475**	**3 792 718**	**28%**	**35%**

Source: Company data

Financials and key ratios forecasts

Balance Sheet, mKZT	2013	2014	2015F	2016F	2017F
Assets					
Cash and cash equivalents	486 313	540 537	1 227 192	1 260 833	1 153 960
Available-for-sale inv. Securities and other financial assets	351 886	402 150	731 892	697 737	634 307
Amounts due from credit institutions	25 808	27 095	46 668	61 012	65 893
Gloss loans to customers	1 805 556	1 934 031	2 456 219	2 652 717	2 864 934
Allowance for loan impairment	323 311	286 018	304 326	324 958	336 099
Net loans to customers	1 482 245	1 648 013	2 151 894	2 327 759	2 528 835
Other assets	160 162	191 987	257 903	278 535	300 818
Total assets	**2 506 414**	**2 809 782**	**4 415 549**	**4 625 877**	**4 683 814**
Liabilities					
Amounts due to customers	1 766 648	1 848 213	3 049 551	3 171 534	3 171 534
Amounts due to credit institutions	107 395	107 192	191 165	198 811	198 811
Debt securities issued	189 515	311 009	544 266	544 266	517 052
Other liabilities	50 677	68 147	100 635	101 489	101 489
Total liabilities	**2 114 235**	**2 334 561**	**3 885 617**	**4 016 099**	**3 988 886**
Equity					
Total equity	**392 179**	**475 221**	**529 933**	**609 777**	**694 927**

Statement of profit or loss, mKZT	2013	2014	2015F	2016F	2017F
Interest income	182 563	210 593	266 620	324 028	344 314
Interest expense	-75 932	-77 458	-109 664	-145 957	-147 192
Net interest income before impairment	**106 631**	**133 135**	**156 956**	**178 071**	**197 122**
Non-interest income	63 141	78 560	71 588	78 110	69 193
Operating income	**169 772**	**211 695**	**228 544**	**256 181**	**266 314**
Operating expenses	-54 820	-62 410	-69 899	-78 287	-86 116
Operating profit	**114 952**	**149 285**	**158 645**	**177 894**	**180 198**
Impairment charge	-26 021	-7 387	-13 945	-19 601	-10 027
Income before income tax expense	**88 931**	**141 898**	**144 699**	**158 293**	**170 171**
Income tax expense	-16 522	-27 521	-28 940	-31 659	-34 034
Net income	**72 409**	**114 377**	**115 760**	**126 635**	**136 137**

Financials and key ratios forecasts

Key ratios and growth					
Balance	**2013**	**2014**	**2015F**	**2016F**	**2017F**
Liability growth	11,3%	7,1%	27,0%	8,0%	8,0%
Assets growth	-14,3%	19,9%	57,1%	4,8%	1,3%
Equity/ Assets	59%	59%	49%	50%	54%
Deposits growth	4,0%	4,6%	65,0%	4,0%	0,0%
Liability growth	2,2%	10,4%	66,4%	3,4%	-0,7%
Deposits/ Liabilities	84%	79%	78%	79%	80%
Gross loans/Deposits	102%	105%	81%	84%	90%
Equity / Assets	16%	17%	12%	13%	15%

Profitability and effectiveness					
Return on interest earning assets	8,7%	9,3%	9,5%	9,8%	9,9%
Cost of interest bearing liabilities	3,7%	3,6%	3,6%	3,8%	3,8%
Net interest spread	5,0%	5,7%	5,9%	6,0%	6,1%
Net interest margin	5,1%	5,9%	5,6%	5,4%	5,7%
Impairment charge/ Loan portfolio	-1,5%	-0,4%	-0,6%	-0,8%	-0,4%
Cost-to-Income ratio	-32%	-29%	-31%	-31%	-32%
ROAA	2,9%	4,3%	3,2%	2,8%	2,9%
ROAE	19,8%	26,4%	23,0%	22,2%	20,9%

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