



Acquisition of KKB by Halyk Bank Investor presentation

19 June 2017

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As set out in Halyk Bank’s announcement of 15 June 2017, the acquisition of the shares in Kazkommertsbank is subject to satisfaction of certain conditions precedent. Therefore, there is no guarantee that the acquisition will be completed.

1

Overview of the transaction

2

Acquisition rationale

3

Integration plan

Section 1

OVERVIEW OF THE TRANSACTION

Transaction highlights



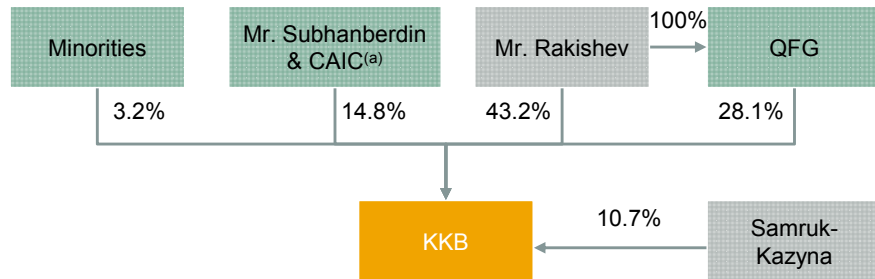
Transaction overview	<ul style="list-style-type: none"> ▪ Halyk Bank will acquire 96.8% of ordinary shares of KKB, 86.1% from Kenges Rakishev for a consideration of KZT 1 and 10.7% from Samruk Kazyna for a consideration of KZT 1 ▪ Fund of Problem Loans will purchase certain assets and loans from BTA Bank enabling the latter to repay the loan provided by KKB (“BTA Loan”). BTA Loan repayment is subject to a KZT2.4tn cap ▪ KKB will use the proceeds to repay the stabilisation loan provided by NBRK^(a) as part of optimisation of KKB funding. Excess liquidity will be invested in interest earning assets ▪ Halyk Bank expects to recapitalize KKB by KZT185bn in accordance with capital requirements set by the NBRK
Strategic rationale	<ul style="list-style-type: none"> ▪ KKB will be de-risked pre-closing: <ul style="list-style-type: none"> ▪ BTA Loan will be repaid and net asset value of KKB will be adjusted ▪ NPL coverage ratio will be increased to adequate levels ▪ Creation of the largest bank in Kazakhstan with 29% market share in gross customer loans, 38% in retail deposits and 34% in corporate deposits ▪ Creation of top bank in CIS better positioned to compete in the context of the Eurasian economic integration and WTO membership ▪ Strong synergy potential through realization of the productivity enhancement potential of KKB, significant regional overlap and cost savings ▪ Strengthening of retail, SME and payments businesses of enlarged Halyk Group ▪ Strategic deployment of substantial excess capital of Halyk Bank
Impact on capitalization	<ul style="list-style-type: none"> ▪ Day 1 post transaction k1 capital adequacy ratio is expected to be above 16% based on 1 May 2017 figure of 19.9% (19.2% as at YE 2016)

Attractive opportunity for Halyk Bank to deploy strategically its excess capital and become a clear market leader in Kazakhstan and a top bank in CIS

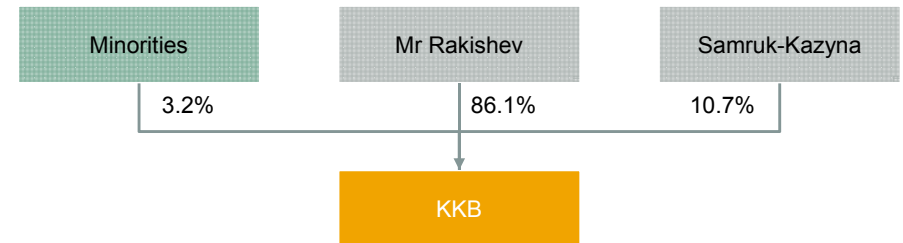
(a) NBRK – National Bank of Republic of Kazakhstan

Transaction structure

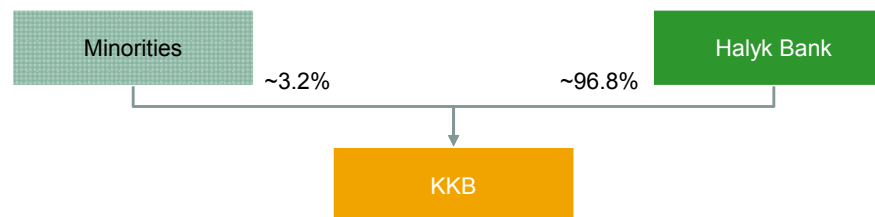
1 Current state



2 Pre transaction completion

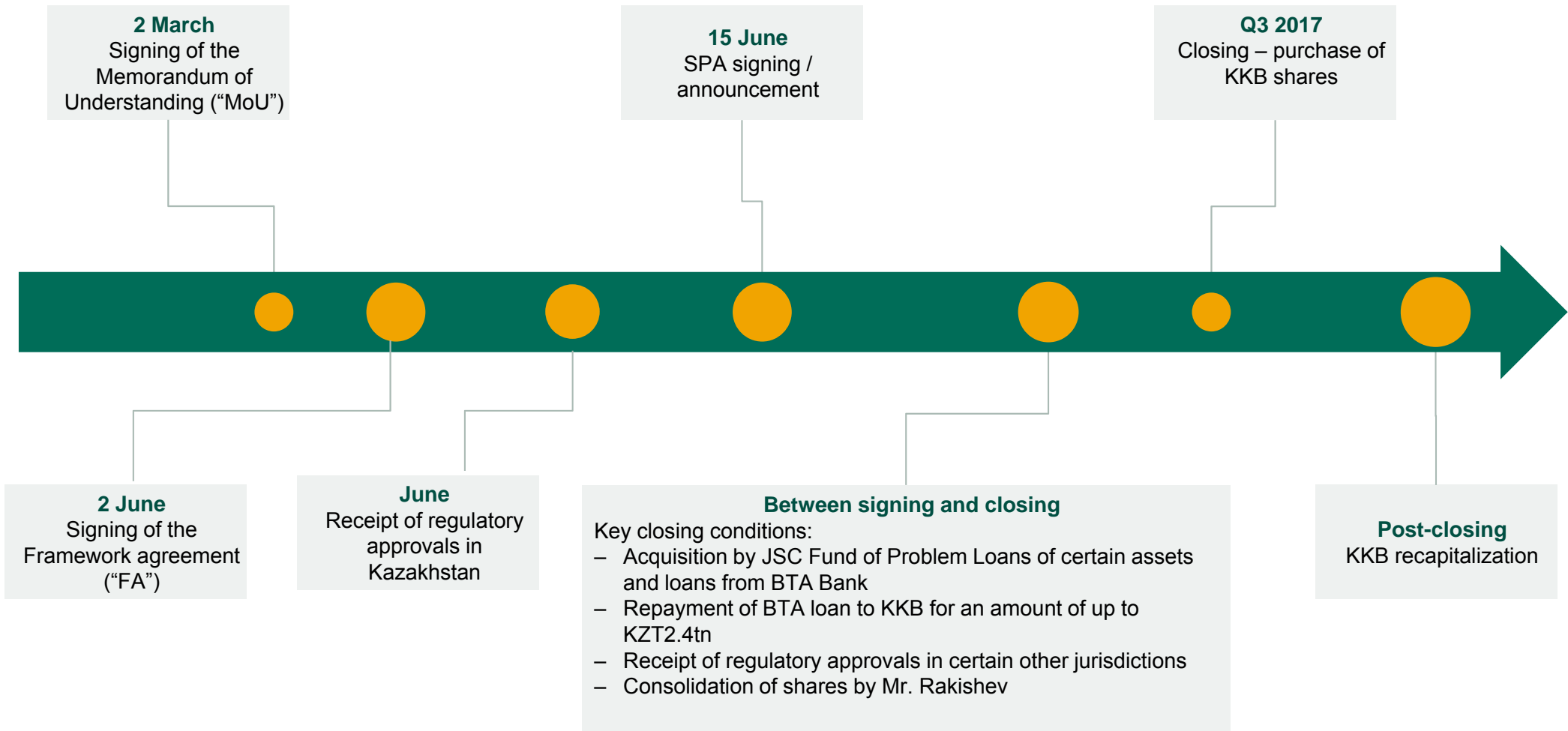


3 Post completion



(a) Mr Subhanberdin owns 5.99% directly and rest 8.79% via Central Asian Investment Company (CAIC), totalling 14.8%

Transaction timetable



Section 2

ACQUISITION RATIONALE

Transaction rationale

	Rationale	Comments
1	De-risked transaction	<ul style="list-style-type: none"> ▪ BTA Loan will be fully repaid (subject to KZT2.4tn cap), which de-risks KKB's balance sheet ▪ NPL coverage ratio will be increased to adequate levels pre-closing ▪ Excess liquidity will be invested in interest earning assets
2	Creation of the largest player in Kazakhstan	<ul style="list-style-type: none"> ▪ Combined bank will create a No 1 player in Kazakhstan with c 38% market share by assets^(a), c38% market share by retail deposits and 34% by corporate deposits ▪ Creation on #7 bank in CIS by total assets
3	Undisputed leader with increased presence in retail, SME and payments	<ul style="list-style-type: none"> ▪ Materially improved position across all client segments, strengthened branch, ATM and POS-terminal network ▪ Expanded products and services proposition to its clients in banking, insurance, brokerage and asset management ▪ KKB's attractive franchise in retail, SME and payments
4	Strengthens Halyk's position in insurance	<ul style="list-style-type: none"> ▪ Creates a leading insurance player in Kazakhstan, both in life and non-life <ul style="list-style-type: none"> ▪ #1 rank and 45% market share in non-life^(b) ▪ #1 rank and 25% market share in life^(b)
5	Synergy potential	<ul style="list-style-type: none"> ▪ Synergy opportunities in subsidiaries ▪ Additional potential for synergies through better cost discipline and removal of duplicate functions and IT systems ▪ Repricing and repayment of expensive KKB's deposits and wholesale funding
6	Strategic deployment of Halyk's excess capital	<ul style="list-style-type: none"> ▪ Halyk has substantial excess capital with CET1 ratio of 19.9% as at 1 May 2017 ▪ Substantial clean-up of KKB's balance sheet and synergies suggests strategic deployment of this excess capital

(a) Assumes BTA loan is replaced with cash and liquid securities, therefore, KKB total assets unchanged

(b) Ranking and market shares based on GWP as of May 2017 (Source: NBRK)

Section 3

INTEGRATION CONSIDERATIONS

Integration considerations



- It is currently envisaged that KKB will not be legally merged into Halyk and will remain a standalone subsidiary as of now
- KKB will work to implement Halyk Bank’s standards in the areas of risk management, cost management and corporate governance
- Clients will benefit from access to wider network of branches, ATMs and POS terminals
- Cost synergies are achievable in the areas of:
 - Removal of duplicate functions and systems
 - Optimization of operations (marketing, procurement, etc)
 - Adoption of Halyk’s cost discipline best practices by KKB
- Upside from cross-selling KKB’s products to retail customers of Halyk and deploying KKB’s retail technologies and know-how in Halyk

Annex

SUPPLEMENTARY MATERIAL

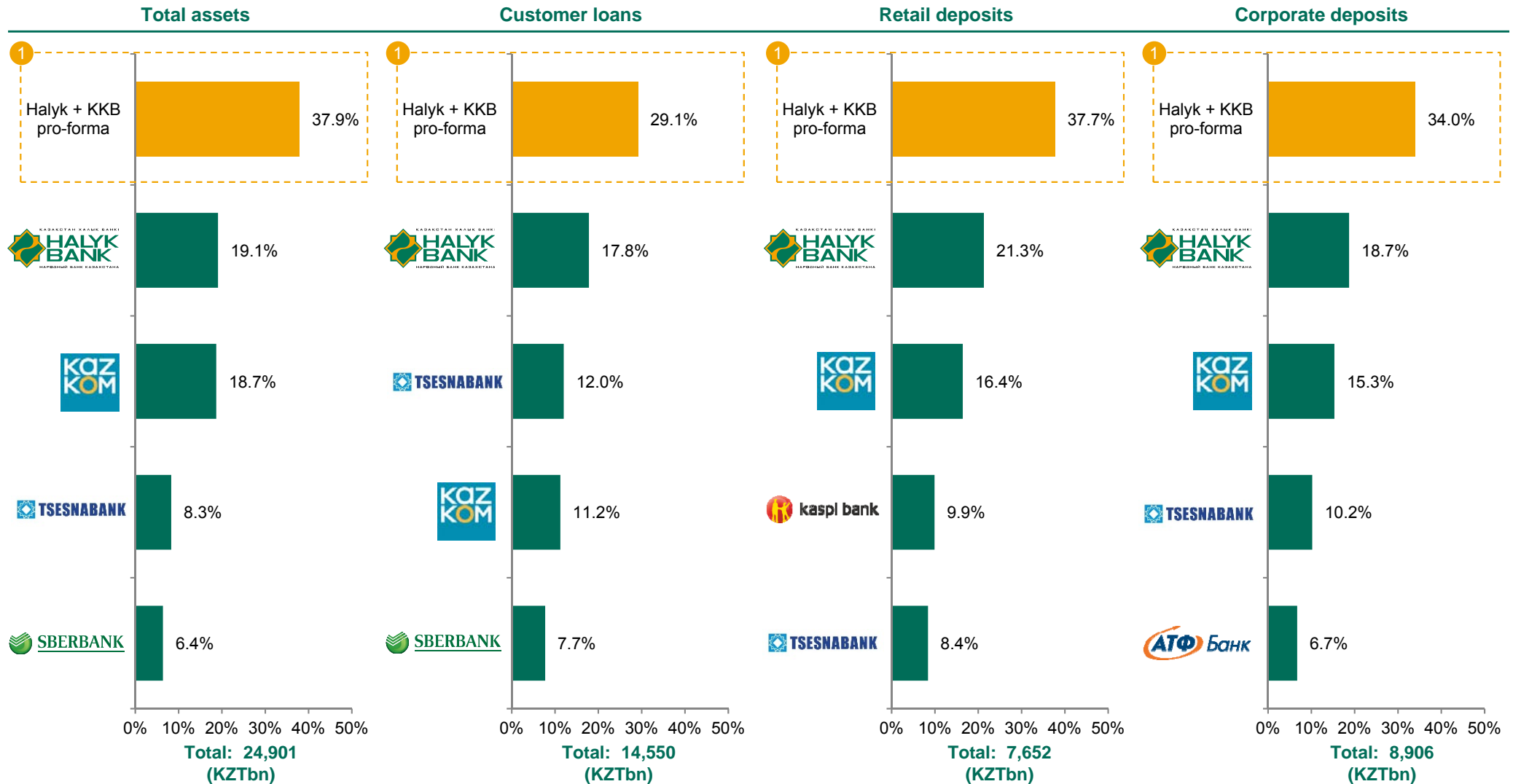
ASSETS

- BTA Loan will be fully repaid (subject to KZT2.4tn cap)
- NPL coverage ratio will be increased to adequate levels pre-closing
- Excess liquidity will be invested in interest earning assets

LIABILITIES and EQUITY

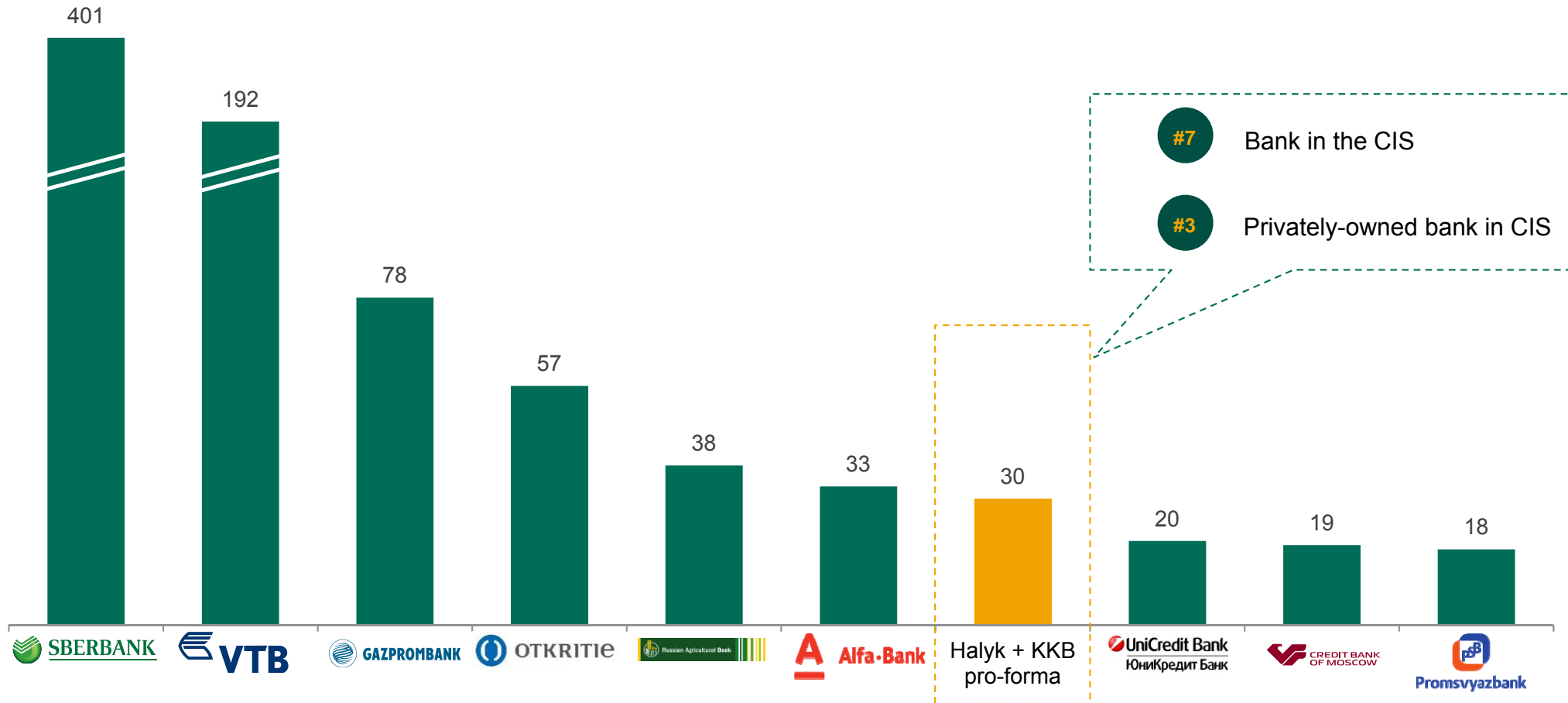
- NBRK emergency loan will be repaid as part of optimization of KKB funding
- Net asset value of KKB will be adjusted
- KZT185bn cash recapitalisation by Halyk Bank

2 Creation of national champion in Kazakhstan



The transaction will create a national champion with a leading diversified retail and corporate deposit base

Note: Assuming BTA Loan is replaced with cash and securities
Source: Company data, NBRK (May 2017)

Total assets
(USDbn)

Note: Assuming USD KZT of 310
 Source: NBRK (May 2017), CBR

3 Strong retail and payments franchise of KKB



Retail

- 6.1% market share in credit card loan market (June 2017)
- Overall ~2.5m cards issued
- First entry advantage of retail digital platform, mobile applications and internet bank homebank.kz
- Over 800 thousand users of homebank.kz

KKB	2016
ATMs	~2,600
POS-terminals	~40,000
Retail loan portfolio (net, KZTbn)	ca. 302

Payments

- Every third credit card currently issued in Kazakhstan is issued by KKB
- Leading position across multiple payment platforms



Exclusive issuer

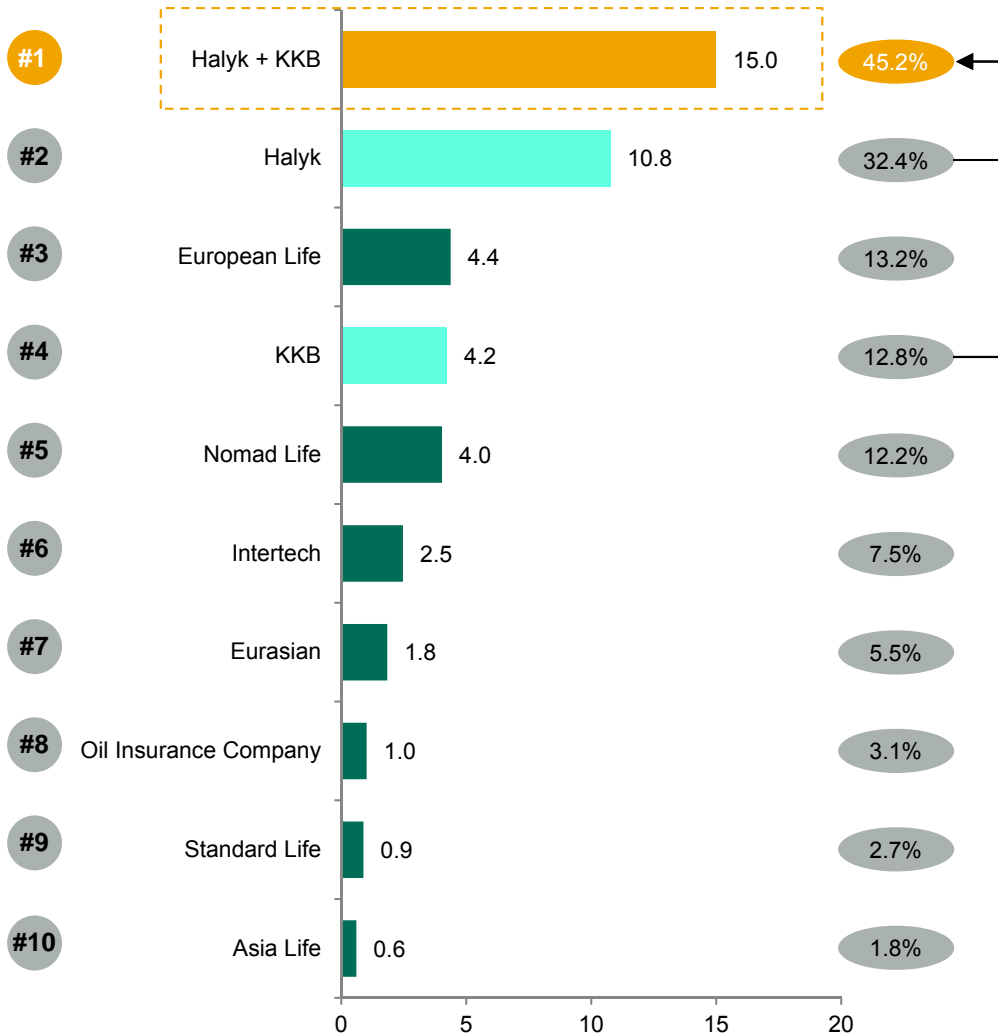


Only bank accepting

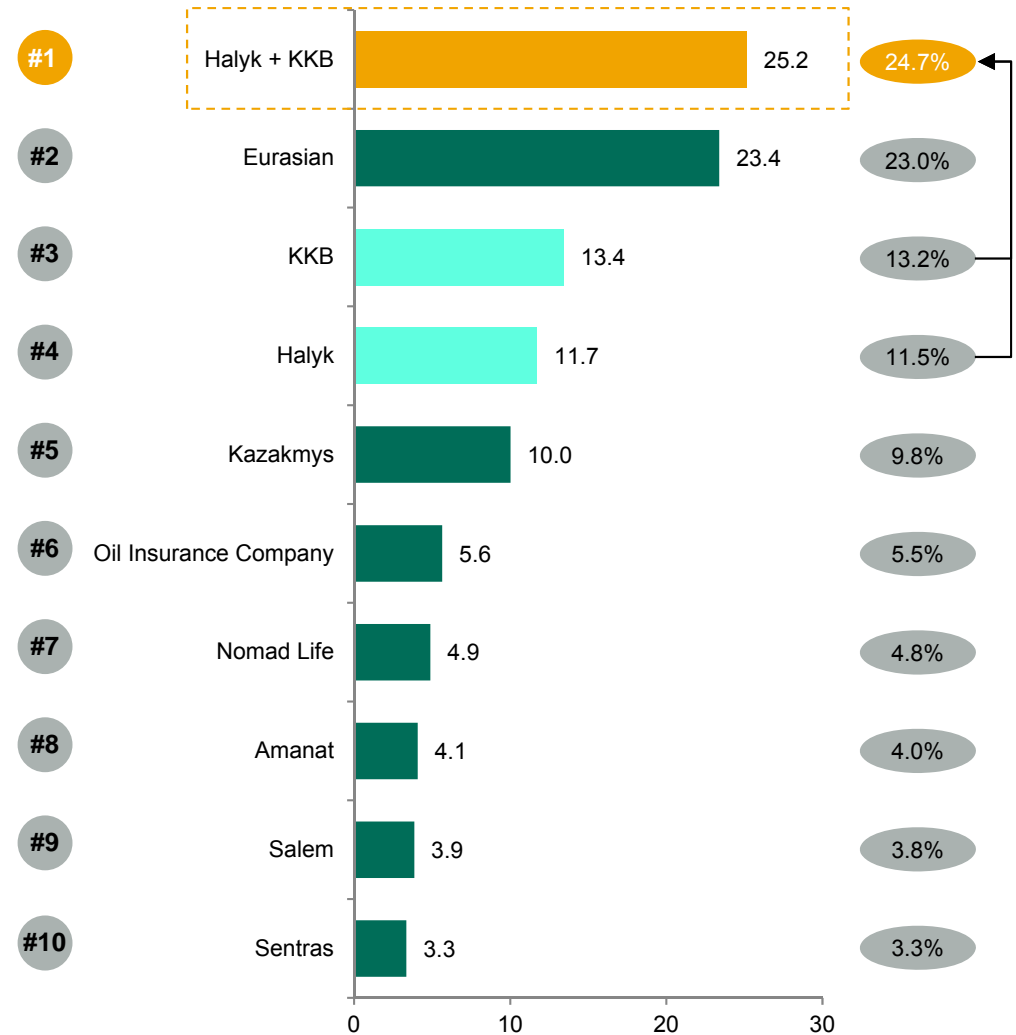
Source: Company data, KKB website

4 Strengthening Group's position in insurance

Life (GWP, KZTbn)



Non-life (GWP, KZTbn)



Source: NBRK (May 2017)

		2014 – 2016		
Operational costs	<ul style="list-style-type: none"> Optimization of operations (marketing, procurement, etc) Reduce maintenance cost of ATM and POS network Adoption of cost discipline best practices 	Halyk expenses growth ^(a)	~4%	
		KKB expenses growth ^(a)	>40%	
		Inflation (average)	10.5%	
Rent	<ul style="list-style-type: none"> Optimisation of regional coverage 	Halyk	KKB	
		# of branches (latest)	506	278
Funding costs	<ul style="list-style-type: none"> Opportunity to optimise KKBs funding costs KZT1,774bn Halyk's liquid assets^(b) as of 2016A 	Halyk	KKB	
		Liquid assets/ total assets	33%	60% ^(c)
		Issued Bond yields ^(d)	4.1%	7.1%

(a) Other expenses, not including personnel costs and rent

(b) Cash and cash equivalents

(c) Based on 2016A pro-forma balance sheet

(d) Refers to the Yield to Maturity of Halyk bank 7.25% USD bond maturing on 28-Jan-2021 and KKB 8.75% USD bond maturing on 21-Dec-2022

Source: Company data, EIU, Bloomberg

Estimated impact, Halyk Bank standalone

Comments

	Pre transaction		Post transaction (estimate) ^(a)	
	as at 1 Jan 2017	as at 1 May 2017		
Regulatory capital	599	653	566	<ul style="list-style-type: none"> RWA increase form capital injection in KKB
RWA	3,114	3,281	3,526	<ul style="list-style-type: none"> Difference with 31-Dec-2016 is around 300 bps
K1-1 ratio	19.2%	19.9%	16.1%	

(a) Based on 1 May 2017 financials