

Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’

Consolidated financial results for three months ended 31 March 2019

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 three months ended 31 March 2019.

Consolidated income statements

KZT mln

	1Q 2019	1Q 2018	Change, abs	Y-o-Y, %
<i>Interest income</i>	176,183	163,733	12,450	7.6%
<i>Interest expense</i>	(83,574)	(87,617)	4,043	(4.6%)
Net interest income before credit loss expense	92,609	76,116	16,493	21.7%
<i>Fee and commission income</i>	26,973	26,374	599	2.3%
<i>Fee and commission expense</i>	(11,520)	(9,680)	(1,840)	19.0%
Net fee and commission income	15,453	16,694	(1,241)	(7.4%)
Insurance income ⁽¹⁾	843	292	551	2.9x
FX operations ⁽²⁾	17,198	55,425	(38,227)	(69.0%)
Loss from derivative operations and securities ⁽³⁾	(13,495)	(42,546)	29,051	(68.3%)
Other non-interest income	9,227	7,313	1,914	26.2%
Credit loss expense ⁽⁴⁾	(9,071)	1,139	(10,210)	(8.0x)
Recoveries of other credit loss expense	(305)	1,355	(1,660)	(0.2x)
Operating expenses	(30,136)	(35,697)	5,561	(15.6%)
Income tax expense	(7,821)	(10,159)	2,338	(23.0%)
Profit from discontinued operations	-	2,585	-	-
Non-controlling interest in net income	-	(10,464)	-	-
Net income	74,502	62,053	12,449	20.1%
Net interest margin, p.a.	5.0%	4.4%		
Return on average equity, p.a.	26.8%	29.2%		
Return on average assets, p.a.	3.3%	2.9%		
Cost-to-income ratio	24.1%	30.7%		
Cost of risk on loans to customers, p.a.	0.6%	(0.5%)		

- (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 loss from financial assets and liabilities at fair value through profit or loss and net realised gain financial assets at fair value through other comprehensive income (FVTOCI);
- (4) total credit loss expense, including credit loss expense on loans to customers, amounts due from credit institutions, debt securities at amortized cost and at FVTOCI and other assets.

Net income increased to KZT 74.5bn for 1Q 2019 compared to KZT 62.1bn for 1Q 2018 mainly as a result of higher net interest income and lower operating expenses in 1Q 2019.

Interest income increased to KZT 176.2bn for 1Q 2019 compared to KZT 163.7bn for 1Q 2018 mainly as a result of increase in average balances of interest-earning assets. **Interest expense** decreased by 4.6% compared to 1Q 2018. This was due to continuous repricing of retail term deposits following the decrease of deposit interest rate cap by Kazakhstan Deposit Insurance Fund. As a result of net interest income growth, **net interest margin** increased to 5.0% p.a. for 1Q 2019 compared to 4.4% p.a. for 1Q 2018. **Net interest margin** decreased to 5.0% p.a. for 1Q 2019 compared to 5.6% in 4Q 2018 mainly as

a result of accelerated amortisation of discount on the Bank's Eurobonds in the amount of KZT 7.4bn due to its early partial prepayment on 1 March 2019 as well as decrease in average rates on loans to customers.

Cost of risk on loans to customers for 1Q 2019 was at 0.6%.

Fee and commission income increased by 2.3% compared to 1Q 2018. Starting from 1Q 2019 the portion of fees relating to payment card operations, which was previously accounted within cash operations and bank transfers, will be represented as fees derived from payment card operations. Figures for 1Q 2018 were recalculated accordingly.

Prior to the merger, transfers within legal entities current accounts in Halyk and KKB were treated as external transfers and relevant fees were applied. After the integration, transfers between those current accounts are being treated as internal and therefore are free of charge. As a result, fees derived from Bank transfers – settlements decreased to KZT 3.5bn compared to KZT 4.1bn in 1Q 2018. Fee and commission income decreased by 8.6% compared to 4Q 2018 mainly on the back of seasonal effect.

Fee and commission expense increased by 19.0% compared to 1Q 2018 mainly due to increased number of transactions of other banks' cards in the acquiring network of the Bank.

Other non-interest income decreased by 18.2% to KZT 28.5bn for 1Q 2019 vs. KZT 34.8bn for 1Q 2018 mainly due to lower gain from revaluation of swap with NBK.

Operating expenses (including loss from impairment of non-financial assets) decreased by 15.6% to KZT 30.1bn vs. KZT 35.7bn for 1Q 2018. This was mainly a synergy effect on the back of cost optimisation following and during the merger process of KKB into the Bank.

The Bank's **cost-to-income** ratio decreased to 24.1% compared to 30.7% for 1Q 2018 on the back of lower operating expenses and higher operating income in 1Q 2019 vs. 1Q 2018. **Operating income** increased by 7.5% mainly due to increase in net interest income.

Statement of financial position review

KZT mln

	31-Mar-19	31-Dec-18	Change, abs	Change YTD, %
Total assets	8,864,688	8,959,024	(94,336)	(1.1%)
Cash and reserves	1,603,235	1,870,879	(267,644)	(14.3%)
Amounts due from credit institutions	49,585	55,035	(5,450)	(9.9%)
T-bills & NBK notes	2,388,241	2,226,320	161,921	7.3%
Other securities & derivatives	842,741	782,356	60,385	7.7%
<i>Gross loan portfolio*</i>	3,834,366	3,890,872	(56,506)	(1.5%)
<i>Stock of provisions**</i>	(413,564)	(409,793)	3,771	0.9%
Net loan portfolio	3,420,802	3,481,079	(60,277)	(1.7%)
Assets held for sale	56,362	56,129	233	0.4%
Other assets	503,722	487,226	16,496	3.4%
Total liabilities	7,714,905	7,893,378	178,473	(2.3%)
Total deposits, including:	6,385,098	6,526,930	(141,832)	(2.2%)
<i>retail deposits</i>	3,281,658	3,395,590	(113,932)	(3.4%)

<i>term deposits</i>	2,843,352	2,918,070	(74,718)	(2.6%)
<i>current accounts</i>	438,306	477,520	(39,214)	(8.2%)
<i>corporate deposits</i>	3,103,440	3,131,340	(27,900)	(0.9%)
<i>term deposits</i>	1,289,374	1,374,592	(85,218)	(6.2%)
<i>current accounts</i>	1,814,066	1,756,748	(57,318)	3.3%
Debt securities	827,804	900,791	(72,987)	(8.1%)
Amounts due to credit institutions	167,909	168,379	(470)	(0.3%)
Other liabilities	334,094	297,278	36,816	12.4%
Equity	1,149,783	1,065,646	84,137	7.9%

Total assets decreased by 1.1% vs. the end of YE 2018 mainly as a result of partial withdrawal of funds by the Bank's customers in 1Q 2019.

Compared with the YE2018, **loans to customers** decreased by 1.5% on a gross basis and 1.7% on a net basis. Decrease of gross loan portfolio in 1Q 2019 was attributable to decrease in corporate loans (-0.2% on a gross basis), SME loans (-6.3% on a gross basis), mortgage loans (-1.5% on a gross basis) and consumer loans (-1.3% on a gross basis).

Halyk Bank's **90-day NPL ratio** increased to 9.1% from 8.2% as at the end of 2018. The increase was mainly as a result of some indebtedness of previously impaired corporate borrowers became overdue.

Deposits of legal entities and individuals decreased by 0.9% and 3.4%, respectively, compared to the YE 2018 mainly due to partial withdrawal of funds by the Bank's customers to finance their ongoing needs. As at 31 March 2019, the share of corporate KZT deposits in total corporate deposits was 50.3% compared to 48.3% as at 31 December 2018, whereas the share of retail KZT deposits in total retail deposits was 42.6% compared to 41.0% as at YE 2018.

Amounts due to credit institutions decreased slightly by 0.3% vs. YE 2018. As at 31 March 2018, 75.7% of the Bank's obligations to financial institutions were represented by loans from KazAgro national management holding, DAMU development fund, Development Bank of Kazakhstan drawn in 2014–2017 within the framework of government programmes supporting certain sectors of economy.

Debt securities issued decreased by 8.1% compared to YE 2018, mainly due to early partial prepayment on 1 March 2019 of Eurobond due in 2022 for the amount of USD 200 mln. 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
Eurobond	USD 500 mln	7.25% p.a.	January 2021
Eurobond	USD 548 mln	5.5% p.a.	December 2022
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
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
Local bonds listed at Astana International	USD 180.5 mln	3.0% p.a.	April 2022

Exchange

Compared with the YE 2018 total equity increased by 7.9% due to net profit earned by the Bank during 1Q 2019.

The Bank's capital adequacy ratios were as follows*:

	01.04.2019	01.01.2019	01.10.2018	01.07.2018	01.04.2018
<i>Capital adequacy ratios, unconsolidated:</i>					
	Halyk Bank				
k1-1	20.4%	19.7%	19.4%	20.6%	21.7%
k1-2	20.4%	19.7%	19.4%	20.6%	21.7%
k2	22.3%	21.6%	21.6%	20.6%	21.6%
<i>Capital adequacy ratios, consolidated:</i>					
CET	19.5%	18.5%	17.8%	17.2%	18.1%
Tier 1 capital	19.5%	18.5%	17.8%	17.2%	18.1%
Tier 2 capital	20.9%	19.9%	19.9%	19.1%	20.0%

* minimum capital adequacy requirements: 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 three months ended 31 March 2019, including the notes attached thereto, are available on Halyk Bank's website: https://halykbank.kz/investoram/ifrs_reports2.

A 1Q 2019 results webcast will be hosted at 2:00 p.m. GMT/9:00 a.m. EST on Friday, 15 May 2019: <https://webcasts.egs.com/halyk20190515>.

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 – and merged it fully in July 2018.

With total assets of KZT 8,864.7 billion as at 31 March 2019, Halyk Bank is Kazakhstan's leading lender. The Bank has the largest customer base and broadest branch network in Kazakhstan, with 645 branches and outlets 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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