

Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’

Consolidated financial results

for the nine month and third quarter ended 30 September 2021

Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’ and its subsidiaries (together “the Bank”) (LSE: HSBK) releases consolidated financial information for the nine months and third quarter ended 30 September 2021.

Consolidated income statements

KZT mln

	9M 2021	9M 2020	Y-o-Y,%	3Q 2021	3Q 2020	Y-o-Y,%
<i>Interest income</i>	637,375	540,387	17.9%	229,738	180,539	27.3%
<i>Interest expense</i>	(255,666)	(239,368)	6.8%	(90,946)	(87,943)	3.4%
Net interest income before credit loss expense	381,709	301,019	26.8%	138,792	92,596	49.9%
<i>Fee and commission income</i>	108,684	94,579	14.9%	38,198	34,333	11.3%
<i>Fee and commission expense</i>	(51,774)	(48,235)	7.3%	(18,468)	(16,445)	12.3%
Net fee and commission income	56,910	46,344	22.8%	19,730	17,888	10.3%
Net insurance income ⁽¹⁾	34,221	14,260	2.4x	13,778	6,761	103.8%
FX operations ⁽²⁾	22,995	20,966	9.7%	6,882	9,804	(29.8%)
Gain/(loss) from derivative operations and securities ⁽³⁾	10,807	8,199	31.8%	1,788	2,210	(19.1%)
Other (expense)/income, share in profit of associate and income in non-banking activities	13,291	29,981	(55.7%)	71	8,963	(99.2%)
Credit loss expense ⁽⁴⁾	(5,473)	(35,902)	(84.8%)	(8,727)	(1,996)	4.4x
(Other credit loss expense)/recoveries of other credit loss expense	(3,633)	(3,105)	17.0%	745	11	67.7x
Operating expenses	(132,132) ⁽⁵⁾	(112,592) ⁽⁶⁾	17.4%	(48,502) ⁽⁷⁾	(37,955) ⁽⁸⁾	27.8%
Income tax expense	(45,600)	(24,523)	85.9%	(16,900)	(9,629)	75.5%
Non-controlling interest	-	1	-	-	1	-
Net profit attributable to common shareholders	333,095	244,646	36.2%	107,657	88,652	21.4%
Net interest margin, p.a.	5.3%	4.8%		5.5%	4.2%	
Return on average equity, p.a.	29.0%	23.8%		27.5%	25.9%	
Return on average assets, p.a.	4.1%	3.4%		3.9%	3.6%	
Cost-to-income ratio	24.1%	26.0%		25.4%	26.3%	
Cost of risk on loans to customers, p.a.	0.2%	0.9%		0.9%	0.2%	

(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 gain from financial assets and liabilities at fair value through profit or loss and net realised gain from financial assets at fair value through other comprehensive income (FVOCI);

(4) Total credit loss expense, including credit loss expense on loans to customers, amounts due from credit institutions, financial assets at FVTOCI, cash and cash equivalents and other assets;

(5) Including loss from impairment of non-financial assets of KZT 0.3 bn;

(6) Including loss from impairment of non-financial assets of KZT 4.2 bn;

(7) Including loss from impairment of non-financial assets of KZT -0.2 bn;

(8) Including loss from impairment of non-financial assets of KZT 0.6 bn;

Net profit attributable to common shareholders increased by 21.4% to KZT 107.7bn for 3Q 2021 compared to KZT 88.7bn for 3Q 2020 as a result of the overall business growth across all segments.

Interest income for 3Q 2021 increased by 27.3% to KZT 229.7bn compared to KZT 180.5bn for 3Q 2020 mainly due to increase in average balances of loans to customers. **Interest expense** for 3Q 2021 increased by 3.4% to KZT 90.9bn compared to KZT 87.9bn for 3Q 2020 mainly due to the increase of average balance and share of KZT deposits in the amounts due to customers, which was partially offset by the decrease in interest expense on debt securities as a result of a redemption of Bank's high-yielding Eurobonds. **Net interest margin** increased to 5.3% p.a. for 9M 2021 and to 5.5% p.a. for 3Q 2021 compared to 4.8% p.a. for 9M 2020 and to 4.2% p.a. for 3Q 2020 mainly due to the improved structure of placement of interest-bearing liabilities into interest-earning assets and due to savings on coupon payments as a result of an early redemption of Bank's high-yielding Eurobonds.

Cost of risk on loans to customers in 3Q 2021 was at more normalized level of 0.9%.

Fee and commission income increased by 11.3% in comparison to 3Q 2020 mainly due to growing volumes of transactional banking, mainly in plastic card operations.

Fee and commission expense increased by 12.3% compared to 3Q 2020 mainly due to the increase in payment cards expenses as a result of growing volumes of transactional banking and non-cash transactions, partially offset by the decrease in deposit insurance fees payable to the Kazakhstan Deposit Insurance Fund due to lower rates for the Bank on the back of increase of capital adequacy ratios.

Other non-interest income ⁽⁹⁾ decreased by 58.3% to KZT 8.7bn for 3Q 2021 vs. KZT 21bn for 3Q 2020. In 1Q 2021, the Bank made full prepayment of its outstanding Eurobond issue which resulted in accelerated amortization of discount in the amount of KZT 5 bn being recognized in interest expenses. Additionally, the Bank recognized KZT 14 bn of amortization expenses in 3Q 2021. Moreover, due to the nature of the transaction, the Management of the Bank believes that the accelerated amortization of discount on Bank's Eurobonds relates to non-interest expenses, as in such way it provides more valuable information to the readers of the financial statements and enables them to identify a more consistent basis for comparing the Bank's performance between financial periods. Therefore, in 3Q 2021, the Bank recognized additional KZT 14 bn of amortization expenses in non-interest expenses, and reclassified previously recognized KZT 5 bn of amortization expenses from interest expenses to non-interest expenses. In total, these translates into KZT 19 bn of amortization expenses being recognized in non-interest expenses for 9M 2021..

Net insurance income ⁽¹⁰⁾ for 3Q 2021 significantly increased vs. 3Q 2020 as a result of growth of unsecured lending program with a borrower's life insurance bundle.

Operating expenses (including loss from impairment of non-financial assets) for 3Q 2021 increased by 27.8% vs. 3Q 2020 mainly due to the indexation of salaries and other employee benefits starting from 1 March, 2021, increase in IT investments and increase in loyalty program bonuses payable to the customers.

The Bank's **cost-to-income** ratio decreased to 25.4% compared to 26.3% for 3Q 2020 due to higher operating income in 3Q 2021.

(9) Other non-interest income (net gain on foreign exchange operations, net gain from financial assets and liabilities at fair value through profit or loss, net realised gain from financial assets at fair value through other comprehensive income, share in profit of associate, income in non-banking activities and other (expense)/income);

(10) 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);

Statement of financial position review

KZT mln

	30-Sep-21	30-Jun-21	Change Q-o-Q, %	31-Dec-20	Change, abs	Change YTD, %
Total assets	11,284,457	11,002,405	2.6%	10,387,832	896,625	8.6%
Cash and reserves	1,225,099	1,164,815	5.2%	1,927,605	(702,506)	(36.4%)
Amounts due from credit institutions	663,484	832,403	(20.3%)	709,310	(45,826)	(6.5%)
T-bills & NBRK notes	2,268,061	2,287,195	(0.8%)	1,865,684	402,377	21.6%
Other securities & derivatives	1,088,130	1,074,174	1.3%	862,339	225,791	26.2%
<i>Gross loan portfolio</i>	5,849,967	5,445,151	7.4%	4,824,316	1,025,651	21.3%
<i>Stock of provisions</i>	(375,852)	(369,973)	1.6%	(378,041)	2,189	(0.6%)
Net loan portfolio	5,474,115	5,075,178	7.9%	4,446,275	1,027,840	23.1%
Assets held for sale	44,107	41,683	5.8%	42,244	1,863	4.4%
Other assets	521,461	526,957	(1.0%)	534,375	(12,914)	(2.4%)
Total liabilities	9,672,434	9,492,170	1.9%	8,894,564	777,870	8.7%
Total deposits, including:	8,392,647	8,179,584	2.6%	7,455,977	936,670	12.6%
<i>retail deposits</i>	4,177,401	4,159,869	0.4%	3,698,368	479,033	13.0%
<i>term deposits</i>	3,513,705	3,450,640	1.8%	3,073,187	440,518	14.3%
<i>current accounts</i>	663,696	709,229	(6.4%)	625,181	38,515	6.2%
<i>corporate deposits</i>	4,215,246	4,019,715	4.9%	3,757,609	457,637	12.2%
<i>term deposits</i>	2,235,688	2,037,109	9.7%	1,825,513	410,174	22.5%
<i>current accounts</i>	1,979,558	1,982,605	(0.2%)	1,932,096	47,463	2.5%
Debt securities	502,009	481,891	4.2%	778,192	(276,183)	(35.5%)
Amounts due to credit institutions	310,158	372,600	(16.8%)	300,727	9,431	3.1%
Other liabilities	467,620	458,095	2.1%	359,668	107,952	30.0%
Equity	1,612,023	1,510,235	6.7%	1,493,268	118,755	8.0%

As at the end of 3Q 2021, **total assets** increased by 8.6% vs. YE 2020 due to growth in amounts due to customers, which was partially offset by the decrease in debt securities issued.

Compared with the end of YE 2020, **loans to customers** increased by 21.3% on a gross basis and 23.1% on a net basis. Increase of gross loan portfolio in 9M 2021 was attributable to increase in corporate loans by 17.5%, SME and retail loans increased by 16% and 32.2%, respectively.

As at the end of 3Q 2021, **Stage 3 ratio** ⁽¹¹⁾ decreased to 9.8% from 10.4% as at the end of 2Q 2021 due to the growth of Stage 1 loans in the overall loan portfolio, while Stage 3 loans in absolute terms remained almost flat.

Deposits of legal entities and individuals increased by 12.2% and 13.0%, respectively, compared to YE 2020 due to the fund inflow from the Bank's clients. As at the end of 3Q 2021, the share of corporate KZT deposits in total corporate deposits was 55.2% compared to 57.3% as at the end of 2Q 2021, whereas the share of retail KZT deposits in total retail deposits was 50.0% compared to 49.2% as at the end of 2Q 2021.

(11) Including POCI (Purchased or originated credit-impaired assets)

Amounts due to credit institutions increased by 3.1% vs. the end of YE 2020 mainly due to increase in loans and deposits from OECD based banks, loans from other financial institutions and correspondent accounts. As at 30 September 2021, 67.8% of the Bank's obligations to financial institutions were represented by loans and deposits from Kazakhstan banks (incl. loans under REPO agreements), National Managing Holding Baiterek, DAMU development fund, Development Bank of Kazakhstan drawn in 2014–2021 within the framework of government programs supporting certain sectors of economy.

Debt securities issued decreased by 35.5% compared to the end of YE 2020 as a result of a redemption of Bank's high-yielding Eurobonds.

As at the end of 3Q 2021, total equity increased by 8% compared with the YE 2020 as a result of net profit earned by the Bank during 9M 2021.

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

	30-Sep-21	30-Jun-21	31-Mar-21	31-Dec-20	30-Sep-20
<i>Capital adequacy ratios, unconsolidated:</i>					
Halyk Bank					
k1-1	20.6%	20.2%	24.0%	23.7%	22.4%
k1-2	20.6%	20.2%	24.0%	23.7%	22.4%
k2	21.8%	21.5%	25.3%	25.1%	24.4%
<i>Capital adequacy ratios, consolidated:</i>					
CET 1	21.5%	21.1%	24.6%	24.4%	22.8%
Tier 1 capital	21.5%	21.1%	24.6%	24.4%	22.8%
Total capital	22.5%	22.1%	25.8%	25.5%	24.3%

* minimum capital regulatory adequacy requirements k1 -- 9.5%, k1-2 – 10.5% and k2 – 12%, including conservation buffer of 3% and systemic buffer of 1% for each of these ratios.

The consolidated financial information for nine months ended 30 September 2021, including the notes attached thereto, are available on Halyk Bank's website: <http://halykbank.com/financial-results>

A 9M & 3Q 2021 results webcast will be hosted at 1:00 p.m. London time/8:00 a.m. EST on Monday, 22 November 2021. A live webcast of the presentation can be accessed via Zoom link after the registration. The registration is open until 22 November 2021, 11:00am London / 5:00pm Almaty time, for the registration please [click here](#).

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, on the London Stock Exchange since 2006 and Astana International Exchange since October 2019.

With total assets of KZT 11,284.5 bn as at 30 September 2021, Halyk Bank is Kazakhstan's leading lender. The Bank has the largest customer base and broadest branch network in Kazakhstan, with 591 branches and outlets across the country. The Bank operates in Georgia, Kyrgyzstan, Russia and Uzbekistan.

For more information on Halyk Bank, please visit <https://www.halykbank.com>

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