14 March 2022

Joint Stock Company 'Halyk Savings Bank of Kazakhstan' Consolidated financial results for the year ended 31 December 2021

Joint Stock Company 'Halyk Savings Bank of Kazakhstan' and its subsidiaries (together "the Bank") (LSE: HSBK) releases consolidated financial statements and independent auditors' report for the year ended 31 December 2021.

Consolidated income statements

KZT mln

	12M 2021	12M 2020	Y-o-Y,%	4Q 2021	4Q 2020	Y-o-Y,%
Interest income	879,865	733,234	20.0%	242,490	192,847	25.7%
Interest expense	(366,792)	(333,741)	9.9%	(111,126)	(94,373)	17.8%
Net interest income before credit loss expense	**513,073**	**399,493**	**28.4%**	**131,364**	**98,474**	**33.4%**
Fee and commission income	138,389	124,121	11.5%	36,640	35,250	3.9%
Fee and commission expense	(71,789)	(63,184)	13.6%	(20,015)	(14,949)	33.9%
Fees and commissions, net	**66,600**	**60,937**	**9.3%**	**16,625**	**20,301**	**(18.1%)**
Net insurance income(1)	49,021	22,482	118.0%	14,800	8,222	80.0%
FX operations(2)	30,536	40,940	(25.4%)	7,541	19,974	(62.2%)
Gain/(loss) from derivative operations and securities (3)	16,472	6,625	148.6%	5,665	(1,574)	(3.6x)
Other (expense)/income, share in profit of associate and income in non-banking activities	31,348	41,957	(25.3%)	18,057	11,976	50.8%
Recovery of credit loss expense /(Credit loss expense) (4)	4,004	(26,918)	(114.9%)	9,477	8,984	5.5%
Other credit loss expense	(4,002)	(5,025)	(20.4%)	(369)	(1,920)	(80.8%)
Operating expenses	(182,437) (5)	(150,959) (6)	20.9%	(57,240) (7)	(44,075) (8)	29.9%
Income tax expense	(62,237)	(36,878)	68.8%	(16,637)	(12,355)	34.7%
Net profit	**462,378**	**352,654**	**31.1%**	**129,283**	**108,007**	**19.7%**
Non-controlling interest	1	1	-	1	-	-
Net profit attributable to common shareholders	**462,377**	**352,653**	**31.1%**	**129,282**	**108,007**	**19.7%**
Net interest margin, p.a.	**5.2%**	**4.7%**		**5.0%**	**4.4%**	
Return on average equity, p.a.	**29.7%**	**25.5%**		**31.7%**	**30.4%**	
Return on average assets, p.a.	**4.2%**	**3.6%**		**4.4%**	**4.3%**	
Cost-to-income ratio	**24.6%**	**25.8%**		**28.4%**	**28.2%**	
Cost of risk on loans to customers, p.a.	**0.2%**	**0.4%**		**0.2%**	**(1.0%)**	

(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/(loss) on 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, debt securities at amortised cost, net of allowance for expected credit losses, cash and cash equivalents and other assets;
(5) Including loss from impairment of non-financial assets of KZT 5.8 bn;
(6) Including loss from impairment of non-financial assets of KZT 5.1 bn;
(7) Including loss from impairment of non-financial assets of KZT 5.6 bn;
(8) Including loss from impairment of non-financial assets of KZT 0.9 bn;

Net profit attributable to common shareholders increased by 31.1% to KZT 462.4bn for 12M 2021 compared to KZT 352.7bn for 12M 2020 as a result of the overall business growth across all segments.

Interest income for 12M 2021 increased by 20.0% to KZT 879.9bn compared to KZT 733.2bn for 12M 2020 mainly due to increase in average balances of loans to customers. **Interest expense** for 12M 2021 increased by 9.9% to KZT 366.8bn compared to KZT 333.7bn for 12M 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 5.2% p.a. for 12M 2021 and to 5.0% p.a. for 4Q 2021 compared to 4.7% p.a. for 12M 2020 and to 4.4% p.a. for 4Q 2020 mainly due to 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 for 12M 2021 decreased to 0.2% compared to 0.4% for 12M 2020 due to repayments of large ticket problem and previously impaired corporate loans.

Certain reclassification have been made to the consolidated statement of profit or loss for the years ended 31 December 2020 and 2019 to conform to the presentation for the year ended 31 December 2021, as management believes that loyalty programs should be netted with fee and commission income in accordance with the requirements of IFRS 15 on revenue accounting. The reclassification is related to the loyalty program, according to which the Group accrues bonuses to customers on card transactions, which in turn should be recognized under IFRS 15 as a "decrease in revenue", i.e. in this case, a decrease in fee and commission income. Therefore, starting from the YE 2021, loyalty program bonuses payable to the customers are included in fee and commission income. All of the previous periods were reclassified accordingly. **Fee and commission income** for 12M 2021 increased by 11.5% vs. 12M 2020 as a result of growing volumes of transactional banking, mainly in plastic card operations and bank transfers – settlements, which was partially offset by the increase in loyalty program bonuses.

Fee and commission expense increased by 13.6% compared to 12M 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 12.5% to KZT 78.4bn for 12M 2021 vs. KZT 89.5bn for 12M 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 5bn being recognized in interest expenses. Additionally, the Bank recognized KZT 14bn 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 14bn of amortization expenses in non-interest expenses, and reclassified previously recognized KZT 5bn of amortization expenses from interest expenses to non-interest expenses. In total, this translates into KZT 19bn of amortization expenses being recognized in non-interest expenses for 12M 2021.

Net insurance income (10) for 12M 2021 significantly increased vs. 12M 2020 as a result of growth of unsecured lending program with a borrower's life insurance bundle.

(9) Other non-interest income (net gain on foreign exchange operations, net gain/(loss) 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 income/(expense));

(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);

Operating expenses (including loss from impairment of non-financial assets) for 12M 2021 increased by 20.9% vs. 12M 2020 mainly due to the indexation of salaries and other employee benefits starting from 1 March, 2021 and increase in advertisement expenses. Starting from the YE 2021, loyalty program bonuses payable to the customers are excluded from operating expenses. All of the previous periods were reclassified accordingly.

The Bank's **cost-to-income** ratio decreased to 24.6% compared to 25.8% for 12M 2020 due to higher operating income in 12M 2021.

Statement of financial position review

KZT mln

	30-Dec-21	30-Sep-21	Change Q-o-Q, %	31-Dec-20	Change, abs	Change YTD, %
Total assets	**12,091,370**	**11,284,457**	**7.2%**	**10,387,832**	**1,703,538**	**16.4%**
Cash and reserves	1,633,452	1,225,099	33.3%	1,927,605	(294,153)	(15.3%)
Amounts due from credit institutions	602,125	663,484	(9.2%)	709,310	(107,185)	(15.1%)
T-bills & NBRK notes	2,195,931	2,268,061	(3.2%)	1,865,684	330,247	17.7%
Other securities & derivatives	1,247,257	1,088,130	14.6%	862,339	384,918	44.6%
Gross loan portfolio	6,250,260	5,849,967	6.8%	4,824,316	1,425,944	29.6%
Stock of provisions	(378,032)	(375,852)	0.6%	(378,041)	9	(0.0%)
Net loan portfolio	5,872,228	5,474,115	7.3%	4,446,275	1,425,953	32.1%
Assets held for sale	45,412	44,107	3.0%	42,244	3,168	7.5%
Other assets	494,965	521,461	(5.1%)	534,375	(39,410)	(7.4%)
Total liabilities	**10,517,766**	**9,672,434**	**8.7%**	**8,894,564**	**1,623,202**	**18.2%**
Total deposits, including:	8,473,407	8,392,647	1.0%	7,455,977	1,017,430	13.6%
retail deposits	4,415,103	4,177,401	5.7%	3,698,368	716,735	19.4%
term deposits	3,674,572	3,513,705	4.6%	3,073,187	601,385	19.6%
current accounts	740,531	663,696	11.6%	625,181	115,350	18.5%
corporate deposits	4,058,304	4,215,246	(3.7%)	3,757,609	300,695	8.0%
term deposits	2,046,999	2,235,688	(8.4%)	1,825,513	221,486	12.1%
current accounts	2,011,305	1,979,558	1.6%	1,932,096	79,209	4.1%
Debt securities	499,812	502,009	(0.4%)	778,192	(278,380)	(35.8%)
Amounts due to credit institutions	1,071,642	310,158	3.5x	300,727	770,915	3.6x
Other liabilities	472,905	467,620	1.1%	359,668	113,237	31.5%
Equity	**1,573,604**	**1,612,023**	**(2.4%)**	**1,493,268**	**80,336**	**5.4%**

As at YE 2021, **total assets** increased by 16.4% vs. YE 2020 due to growth in amounts due to customers and amounts due to credit institutions which was partially offset by the decrease in debt securities issued.

Compared with the end of YE 2020, **loans to customers** increased by 29.6% on a gross basis and 32.1% on a net basis. Increase of gross loan portfolio in 12M 2021 was attributable to increase in corporate loans by 21.9%, SME and retail loans increased by 31.1% and 44.2%, respectively.

As at YE 2021, **Stage 3 ratio** [11] decreased to 8.6% from 9.8% as at the end of 3Q 2021 mainly due to repayments of large ticket problem and previously impaired corporate loans.

Deposits of legal entities and **individuals** increased by 8.0% and 19.4%, respectively, compared to YE 2020 due to the fund inflow from the Bank's clients. As at YE 2021, the share of corporate KZT deposits in total corporate deposits was 52.9% compared to 55.2% as at the end of 3Q 2021, whereas the share of retail KZT deposits in total retail deposits was 50.6% compared to 50.0% as at the end of 3Q 2021.

Amounts due to credit institutions increased by 3.6 times vs. the end of YE 2020 mainly due to increase in loans and deposits from Kazakhstan banks (including loans under REPO agreements). As at 31 December 2021, 95.3% of the Bank's obligations to financial institutions were represented by loans and deposits from Kazakhstan banks (incl. loans under REPO agreements), loans from DAMU development fund and Development Bank of Kazakhstan drawn in 2014–2021 within the framework of government programs supporting certain sectors of economy.

Debt securities issued decreased by 35.8% compared to the end of YE 2020 as a result of a redemption of Bank's high-yielding Eurobonds.

As at YE 2021, total equity increased by 5.4% compared with the YE 2020 as a result of net profit earned by the Bank during 12M 2021, which was partially offset by the repurchase of 7.2% of the Bank's outstanding common shares. In December 2021, the Bank repurchased 7.2% of its outstanding common shares, including shares in the form of global depositary receipts, for a total amount of KZT 154 bn. The rationale of the repurchase was to optimize the capital structure of the Group. As a result, Bank's capital adequacy ratios decreased as of YE 2021.

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

	31-Dec-21	30-Sep-21	30-Jun-21	31-Mar-21	31-Dec-20
Capital adequacy ratios, unconsolidated:					
Halyk Bank					
k1-1	19.6%	20.6%	20.2%	24.0%	23.7%
k1-2	19.6%	20.6%	20.2%	24.0%	23.7%
k2	20.4%	21.8%	21.5%	25.3%	25.1%
Capital adequacy ratios, consolidated:					
CET 1	19.3%	21.5%	21.1%	24.6%	24.4%
Tier 1 capital	19.3%	21.5%	21.1%	24.6%	24.4%
Total capital	19.9%	22.5%	22.1%	25.8%	25.5%

* *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 statements and independent auditors' report for the year ended 31 December 2021, including the notes attached thereto, are available on Halyk Bank's website: http://halykbank.com/financial-results

A 12M & 4Q 2021 results webcast will be hosted at 1:00 p.m. London time/8:00 a.m. EST on Tuesday, 15 March 2022. A live webcast of the presentation can be accessed via Zoom link after the registration. The registration is open until 15 March 2022, 11:00am London / 5:00pm Almaty time, for the registration please click here.

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

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 12,091.4bn as at 31 December 2021, Halyk Bank is Kazakhstan's leading lender. The Bank has the largest customer base and broadest branch network in Kazakhstan, with 589 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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