16 August 2023

Joint Stock Company 'Halyk Bank of Kazakhstan' Consolidated financial results the six month ended 30 June 2023

Joint Stock Company 'Halyk Bank of Kazakhstan' and its subsidiaries (together "the Bank") (LSE: HSBK) releases consolidated financial information for the six months ended 30 June 2023.

Consolidated income statements

KZT mln

	1H 2023	1H 2022	Y-o-Y,%	2Q 2023	2Q 2022	Y-o-Y,%
Interest income	780,462	551,575	41.5%	400,193	297,735	34.4%
Interest expense	(393,555)	(253,073)	55.5%	(205,378)	(143,494)	43.1%
Net interest income before credit loss expense	**386,907**	**298,502**	**29.6%**	**194,815**	**154,241**	**26.3%**
Fee and commission income	98,689	79,300	24.5%	51,284	45,778	12.0%
Fee and commission expense	(46,970)	(43,818)	7.2%	(24,484)	(23,509)	4.1%
Net fee and commission income	**51,719**	**35,482**	**45.8%**	**26,800**	**22,269**	**20.3%**
Net insurance income(1)	28,597	3,116	9.2x	9,249	4,663	2.0x
FX operations(2)	31,410	109,401	(71.3%)	11,273	82,754	(86.4%)
Net gain/(loss) from derivative operations and securities (3)	21,174	(1,389)	(15.2x)	17,701	(21,125)	(183.8%)
Other income, share in profit of associate and income from non-banking activities	36,862	28,127	31.1%	15,668	14,572	7.5%
Credit loss expense	(32,659)	(56,913)	(42.6%)	(17,840)	(31,536)	(43.4%)
Recovery of other credit loss expense/(other credit loss expense)	1,557	(902)	(1.7x)	305	587	(48.0%)
Operating expenses	(99,578) (4)	(90,824) (5)	9.6%	(53,092) (6)	(47,462)	11.9%
Income tax expense	(60,830)	(38,764)	56.9%	(27,921)	(17,603)	58.6%
Net profit	**365,159**	**285,836**	**27.8%**	**176,958**	**161,360**	**9.7%**
Non-controlling interest	1	-	-	1	-	-
Net profit attributable to common shareholders	**365,158**	**285,836**	**27.8%**	**176,957**	**161,360**	**9.7%**
Net interest margin, p.a.	**6.0%**	**5.2%**		**6.1%**	**5.2%**	
Return on average equity, p.a.	**36.0%**	**34.8%**		**34.3%**	**38.5%**	
Return on average assets, p.a.	**5.2%**	**4.5%**		**5.0%**	**4.9%**	
Cost-to-income ratio	**17.9%**	**19.2%**		**19.3%**	**18.4%**	
Cost of risk on loans to customers, p.a.	**0.9%**	**1.5%**		**1.0%**	**1.5%**	

(1) Insurance underwriting income less insurance claims incurred and net expenses from reinsurance contracts held;
(2) Net gain/(loss) from financial assets and liabilities at fair value through profit or loss and net realised loss from financial assets at fair value through other comprehensive income;
(3) 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;
(4) Including recovery from impairment of non-financial assets of KZT 0.01bn;
(5) Including loss from impairment of non-financial assets of KZT -0.1bn;
(6) Including recovery from impairment of non-financial assets of KZT 0.1bn;

Starting from 1 January 2023, Halyk Group's financial statements have been transited to IFRS 17 "Insurance Contracts" from IFRS 4, which resulted in recalculation of certain P&L items for 1H 2022 and 2Q 2022. All of the ratios were also recalculated accordingly. For more detailed information please refer to Halyk Group's financial statements for 2Q 2023, note #4.

Net profit attributable to common shareholders to KZT 177.0bn in 2Q 2023, up 9.7% compared with KZT 161.4bn in 2Q 2022 mainly due to significant increase in lending and transactional businesses.

Interest income for 2Q 2023 increased by 34.4% vs. 2Q 2022 mainly due to increase in average rate and balances of loans to customers. **Interest expense** for 2Q 2023 increased by 43.1% vs. 2Q 2022 mainly as a result of the growth in average rate and balances of amounts due to customers. Consequently, net interest income for 2Q 2023 grew by 26.3% vs. 2Q 2022.

In 2Q 2023, **net interest margin** was affected by the increase in average rates on both loans to customers and amounts due to customers following the significant increase in interest rates. Furthermore, the share of loans to customers in total interest-earning assets increased substantially. Moreover, there was an increase in the average rate of FX amounts due from credit institutions and FX interest-earning cash and cash equivalents following the global increase of USD interest rates. As a result, net interest margin increased to 6.1% p.a. for 2Q 2023 compared to 5.2% p.a. for 2Q 2022. Net interest margin in 1H 2023 and 2Q 2023 was negatively affected by the accelerated amortization of discount on the deposit of Kazakhstan Sustainability Fund, which was partially prepaid by the Bank as a requirement under new regulation, requiring banks with state support funds on their balance sheet to make such prepayments in case of dividend payments. Excluding these effects, net interest margin would have amounted to 6.3% p.a. for 1H 2023 and 6.5% p.a. for 2Q 2023.

The cost of risk on loans to customers for 2Q 2023 was at normalized level within the scope of our full year guidance of 1.2%.

In 2Q 2023 compared to 2Q 2022, **the overall dynamics of fee and commission income and expense** was driven by the increased transactional activity as a result of the clients inflow due to changes in the operating landscape. **Net fee and commission income** for 2Q 2023 increased by 20.3% vs. 2Q 2022 due to increase in net transactional income of legal entities and individuals.

Other non-interest income (7) decreased by 41.4% for 2Q 2023 vs. 2Q 2022 mainly due to lower net gain from financial assets and liabilities at fair value through profit or loss and net gain on foreign exchange operations as a result of higher volatility of exchange rates and interest rates in 2Q 2022.

Net insurance income (8) for 2Q 2023 increased by 2x year-on-year, due to overall business growth and as a result of recognition of insurance reserve expenses on unsecured consumer loans with a borrower's life insurance bundle in 2Q 2022.

Operating expenses for 2Q 2023 increased by 11.9% vs. 2Q 2022 mainly due to the indexation of salaries and other employee benefits starting from March 1, 2023

The **cost-to-income ratio** equalled 19.3% in 2Q 2023, compared with 18.4% in 2Q 2022 due to higher operating expenses for 2Q 2023.

(7) 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 loss from financial assets at fair value through other comprehensive income, share in profit of associate, income on non-banking activities and other income);

(8) Insurance underwriting income less insurance claims incurred and net expenses from reinsurance contracts held.

Statement of financial position review

KZT mln

	30-Jun-23	31-Mar-23	Change Q-o-Q, %	31-Dec-22	Change, abs	Change YTD, %
Total assets	**14,241,463**	**14,142,764**	**0.7%**	**14,287,295**	**(45,832)**	**(0.3%)**
Cash and reserves	1,518,976	1,950,750	(22.1%)	2,288,375	(769,399)	(33.6%)
Amounts due from credit institutions	116,666	133,401	(12.5%)	135,655	(18,989)	(14.0%)
T-bills & NBRK notes	2,159,093	2,036,033	6.0%	1,920,189	238,904	12.4%
Other securities & derivatives	1,725,686	1,669,919	3.3%	1,550,337	175,349	11.3%
Gross loan portfolio	8,629,902	8,239,576	4.7%	8,280,290	349,612	4.2%
Stock of provisions	(456,216)	(438,588)	4.0%	(422,388)	(33,828)	8.0%
Net loan portfolio	8,173,686	7,800,988	4.8%	7,857,902	315,784	4.0%
Assets held for sale	38,610	27,890	38.4%	23,923	14,687	61.4%
Other assets	508,746	523,783	(2.9%)	510,914	(2,168)	(0.4%)
Total liabilities	**12,224,183**	**12,026,447**	**1.6%**	**12,365,149**	**(140,966)**	**(1.1%)**
Total deposits, including:	10,174,797	10,132,432	0.4%	10,512,048	(337,251)	(3.2%)
retail deposits	5,302,501	5,046,300	5.1%	5,243,764	58,737	1.1%
term deposits	4,320,692	4,191,590	3.1%	4,351,846	(31,154)	(0.7%)
current accounts	981,809	854,709	14.9%	891,918	89,891	10.1%
corporate deposits	4,872,296	5,086,132	(4.2%)	5,268,284	(395,988)	(7.5%)
term deposits	2,936,368	2,994,176	(1.9%)	2,898,924	37,444	1.3%
current accounts	1,935,928	2,091,956	(7.5%)	2,369,360	(433,432)	(18.3%)
Debt securities	561,214	419,638	33.7%	462,817	98,397	21.3%
Amounts due to credit institutions	958,413	935,593	2.4%	878,665	79,748	9.1%
Other liabilities	529,759	538,784	(1.7%)	511,619	18,140	3.5%
Equity	**2,017,280**	**2,116,317**	**(4.7%)**	**1,922,146**	**95,134**	**4.9%**

As at end of 2Q 2023, total assets were down 0.3% year-to-date due to decrease in amounts due to customers.

Compared with the end of 2022, **loans to customers** were up 4.2% on a gross and 4.0% on a net basis. The increase in the gross loan portfolio was attributable to a rise of 2.4% in corporate, 3.3% in SME and 7.9% in retail loans.

Stage 3 loans slightly increased to 8.1% as at the end of 2Q 2023 mainly due to increase in non-performing retail loans.

Compared with the end of 2022, **the deposits of legal entities** were down 7.5% mainly due to overall transfers of funds across the banking sector into higher-yielding securities market in light of elevated interest rates.

Compared with the end of 2022**, the deposits of individuals** were up 1.1% due to fund inflow from the Bank's clients.

As at the-end of 2Q 2023, the share of KZT deposits in total corporate deposits was 63.7% compared to

60.6% as at the YE 2022, while the share in total retail deposits was 58.2% vs. 52.6% as at YE 2022.

As at the end of 2Q 2023, **debt securities issued** were up 21.3% year-to-date, mainly due to the issuance of bonds listed on AIX in the amount USD 500 million with a coupon rate of 3.5%. 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
Local bonds	KZT 100 bn	7.5% p.a.	November 2024
Local bonds	KZT 131.7 bn	7.5% p.a.	February 2025
Subordinated coupon bonds	KZT 101.1 bn	9.5% p.a.	October 2025
Local bonds listed at Astana International Exchange	USD 187.5 mln	3.5% p.a.	May 2025
Local bonds listed at Astana International Exchange	USD 299.5 mln	3.5% p.a.	May 2025
Local bonds listed at Astana International Exchange	USD 220.8 mln	3.5% p.a.	July 2025

In 1H 2023, **total equity** of the Bank increased by KZT 95.1bn or by 4.9% compared to the YE 2022, mainly due to net profit earned by the Bank during 1H 2023, which was partially offset by the payment of dividends.

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

	30-Jun-23	31-Mar-23	31-Dec-22	30-Sep-22	30-Jun-22
Capital adequacy ratios, unconsolidated:					
Halyk Bank					
k1-1	18.1%	20.2%	18.5%	18.5%	18.1%
k1-2	18.1%	20.2%	18.5%	18.5%	18.1%
k2	18.4%	20.6%	18.9%	19.1%	18.8%
Capital adequacy ratios, consolidated:					
CET 1	17.9%	20.2%	18.3%	17.8%	17.5%
Tier 1 capital	17.9%	20.2%	18.3%	17.8%	17.5%
Total capital	18.3%	20.5%	18.7%	18.3%	18.1%

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

The consolidated financial information for the three months ended 30 June 2023, including the notes attached thereto, are available on Halyk Bank's website: http://halykbank.com/financial-results.

A 1H & 2Q 2023 results webcast will be hosted at 2:00 p.m. London time/9:00 a.m. EST on Thursday, 17 August 2023. A live webcast of the presentation can be accessed via Zoom link after the registration. The registration is open until 17 August, 2023 (including), 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 14,241.5bn as at June 30, 2023, Halyk Bank is Kazakhstan's leading lender. The Bank has the largest customer base and broadest branch network in Kazakhstan, with 570 branches and outlets across the country. The Bank also operates in Georgia, Kyrgyzstan and Uzbekistan.

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

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