

Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’

Consolidated financial results

for the nine month and third quarter ended 30 September 2020

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 2020.

Consolidated income statements

KZT mln

	9M 2020	9M 2019	Y-o-Y,%	3Q 2020	3Q 2019	Y-o-Y,%
<i>Interest income</i>	540,387	531,389	1.7%	180,539	175,305	3.0%
<i>Interest expense</i>	(239,368)	(239,022)	0.1%	(87,943)	(73,198)	20.1%
Net interest income before credit loss expense	301,019	292,367	3.0%	92,596	102,107	(9.3%)
<i>Fee and commission income</i>	94,579	89,796	5.3%	34,333	32,112	6.9%
<i>Fee and commission expense</i>	(48,235)	(39,335)	22.6%	(16,445)	(14,579)	12.8%
Net fee and commission income	46,344	50,461	(8.2%)	17,888	17,533	2.0%
Net insurance income/(expense) ⁽¹⁾	14,260	745	19.1x	6,761	(517)	(13.1x)
FX operations ⁽²⁾	20,966	30,403	(31.0%)	9,804	(2,076)	(4.7x)
Gain/(loss) from derivative operations and securities ⁽³⁾	8,199	(6,878)	1.2x	2,210	13,212	(83.3%)
Other income, share in profit of associate, and income from non-banking activities	29,981	26,344	13.8%	8,963	5,563	61.1%
Credit loss expense ⁽⁴⁾	(35,902)	(21,140)	69.8%	(1,996)	(8,454)	(76.4%)
Other credit loss expense	(3,105)	(687)	4.5x	11	1,394	(99.2%)
Operating expenses	(112,592) ⁽⁵⁾	(94,475)	19.2%	(37,955) ⁽⁶⁾	(33,090)	14.7%
Income tax expense	(24,523)	(25,752)	(4.8%)	(9,629)	(8,513)	13.1%
Non-controlling interest	1	-	100%	1	-	100%
Net profit attributable to common shareholders	244,646	251,388	(2.7%)	88,652	87,159	1.7%
Net interest margin, p.a.	4.8%	5.2%		4.2%	5.4%	
Return on average equity, p.a.	23.8%	29.7%		25.9%	29.6%	
Return on average assets, p.a.	3.4%	3.8%		3.6%	3.9%	
Cost-to-income ratio	26%	22.6%		26.3%	22.7%	
Cost of risk on loans to customers, p.a.	0.9%	0.6%		0.2%	0.8%	

(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/(loss) on foreign exchange operations;

(3) Net gain/(loss) 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, debt securities at amortised cost, net of allowance, cash and cash equivalents and other assets;

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

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

Net profit attributable to common shareholders increased by 1.7% to KZT 88.7bn for 3Q 2020 compared to KZT 87.2bn for 3Q 2019 mainly due to increase in other non-interest income and decrease in credit loss expense.

Increase in **interest income** by 3.0% to KZT 180.5bn for 3Q 2020 compared to KZT 175.3bn for 3Q 2019 was due to increase in interest income on loans to customers by 12.7%, which was partially offset by the decrease in interest income on securities due to transfers in placement from high-yielding NBRK notes into low-yielding FX deposit with NBRK following the repayment of SWAP agreement with NBRK for the amount of USD 912mln. **Interest expense** increased by 20.1% vs. 3Q 2019 due to the increase of average balance and share of KZT deposits in the amounts due to customers and due to recognition of discount on receivables on sale of assets in installments. **Net interest margin** decreased to 4.2% p.a. for 3Q 2020 compared to 5.4% p.a. in 3Q 2019 as a result of transfers in placement from high-yielding NBRK notes into low-yielding FX deposit with NBRK following the repayment of SWAP agreement for the amount of USD 912mln. and due to one off negative effect from recognition of discount on receivables on sale of assets in installments in 3Q 2020 vs. income from amortization of discount on receivables on sale of assets in installments in 3Q 2019. NIM was also negatively affected by decrease in the average effective interest rate on retail loans due to increase in issued unsecured loans with a borrower's life insurance bundle, income on which is reflected in insurance income, and increase in online installment loans, which includes fees from merchants recognized in fee and commission income.

Also, in financial information for the nine months ended 30 September 2020, the note **"20. Net interest income"** now includes detailed disclosure of interest income on loans to customers and interest expense from customers accounts. The Note discloses detailed breakdown of interest income on loans to customers by business segments – corporate, SME and retail and interest expense from customers accounts by types of customers – individuals and legal entities.

Cost of risk decreased to 0.2% compared to 0.8% in 3Q 2019 due to repayments of large ticket problem loans of corporate borrowers and due to recovery of retail loans. The decrease of cost of risk was also affected by changes in macroeconomic assumptions when calculating provisioning rates for collective loans in accordance with IFRS 9.

Fee and commission income increased by 6.9% in comparison to 3Q 2019 mainly due to launch of online instalment loans, which are issued through ecosystem partners – the largest appliances retailers in the country and as a result of growing volumes of transactional banking, mainly in payment cards operations.

Fee and commission expense increased by 12.8% compared to 3Q 2019 due to increased number of transactions of other banks' cards in the acquiring network of the Bank and growth of service fees payable to the international payment systems as a result of increase of non-cash transactions.

Other non-interest income⁽⁷⁾ increased by 25.6% to KZT 21.0bn for 3Q 2020 vs. KZT 16.7bn for 3Q 2019 mainly as a result of higher income from the sale of property by subsidiary SPVs.

The new Note **"26. Income on non-banking activities"** was added to the financial information for the nine months ended 30 September 2020. This note discloses information about gain/ loss from the sale of commercial property, assets held for sale and investment property.

Net insurance income/ (expense)⁽⁸⁾ for 3Q 2020 significantly increased vs. 3Q 2019 as a result of new unsecured lending program with a borrower's life insurance bundle.

Operating expenses (including loss from impairment of non-financial assets) for 3Q 2020 increased by 14.7% vs. 3Q 2019 due to the increase in salaries & other employee benefits, and loyalty program bonuses payable to the customers, which are included in operating expenses related to the advertisement and loyalty program expense starting from 4Q 2019.

The Bank's **cost-to-income** ratio increased to 26.3% compared to 22.7% for 3Q 2019 on the back of higher operating expense in 3Q 2020 vs. 3Q 2019.

- (7) Other non-interest income (net gain on foreign exchange operations, net 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 and income on non – banking activities and other income);
- (8) 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-20	30-Jun-20	Change Q-o-Q, %	31-Dec-19	Change, abs	Change YTD, %
Total assets	9,999,141	9,731,200	2.8%	9,234,758	764,383	8.3%
Cash and reserves	2,372,908	2,304,306	3.0%	1,805,343	567,565	31.4%
Amounts due from credit institutions	211,883	101,351	109.1%	53,161	158,722	4.0x
T-bills & NBRK notes	1,815,799	2,075,528	(12.5%)	1,954,066	(138,267)	(7.1%)
Other securities & derivatives	814,472	721,004	13.0%	1,074,867	(260,395)	(24.2%)
<i>Gross loan portfolio</i>	<i>4,656,733</i>	<i>4,389,064</i>	<i>6.1%</i>	<i>4,161,153</i>	<i>495,580</i>	<i>11.9%</i>
<i>Stock of provisions</i>	<i>(450,712)</i>	<i>(444,585)</i>	<i>1.4%</i>	<i>(408,718)</i>	<i>(41,994)</i>	<i>10.3%</i>
Net loan portfolio	4,206,021	3,944,479	6.6%	3,752,445	453,576	12.1%
Assets held for sale	44,102	44,539	(1.0%)	45,766	(1,664)	(3.6%)
Other assets	533,956	539,993	(1.1%)	549,110	(15,154)	(2.8%)
Total liabilities	8,631,327	8,262,263	4.5%	7,927,535	703,792	8.9%
Total deposits, including:	7,094,061	6,756,011	5.0%	6,406,413	687,648	10.7%
<i>retail deposits</i>	<i>3,549,742</i>	<i>3,470,200</i>	<i>2.3%</i>	<i>3,251,216</i>	<i>298,526</i>	<i>9.2%</i>
<i>term deposits</i>	2,973,310	2,865,134	3.8%	2,743,019	230,291	8.4%
<i>current accounts</i>	576,432	605,066	(4.7%)	508,197	68,235	13.4%
<i>corporate deposits</i>	<i>3,544,319</i>	<i>3,285,811</i>	<i>7.9%</i>	<i>3,155,197</i>	<i>389,122</i>	<i>12.3%</i>
<i>term deposits</i>	1,728,607	1,588,246	8.8%	1,441,930	286,677	19.9%
<i>current accounts</i>	1,815,712	1,697,565	7.0%	1,713,267	102,445	6.0%
Debt securities	904,229	864,453	4.6%	834,446	69,783	8.4%
Amounts due to credit institutions	266,993	270,393	(1.3%)	305,965	(38,972)	(12.7%)
Other liabilities	366,044	371,406	(1.4%)	380,711	(14,667)	(3.9%)
Equity	1,367,814	1,468,937	(6.9%)	1,307,223	60,591	4.6%

As at the end of 3Q 2020, **total assets** increased by 8.3% vs. YE 2019 due to growth in deposits and total equity. Whereas, the increase by 2.8% vs. the end of the 2Q 2020 was caused by revaluation of FX balance sheet positions due to KZT depreciation versus US dollar during 3Q 2020.

Compared with YE 2019, **loans to customers** increased by 11.9% on a gross basis and 12.1% on a net basis. Increase of gross loan portfolio was attributable to increase in corporate loans (7.7% on a gross basis), increase in SME and retail loans by 15% and 19.9% on a gross basis, respectively.

As at the end of 3Q 2020, **Stage 3 ratio** decreased to 14.8% from 15.7% as at the end of 2Q 2020 mainly

as a result of repayments of large ticket problem loans of corporate borrowers and due to recovery and write-off of retail loans.

Deposits of legal entities and individuals increased by 12.3% and 9.2%, respectively, compared to YE 2019 mainly due to fund inflow from the Bank's clients, and positive revaluation of FX-denominated deposits due to KZT depreciation in 9M 2020. As at the end of 3Q 2020, the share of corporate KZT deposits in total corporate deposits was 55.5% compared to 56.6% as at the end of 2Q 2020, whereas the share of retail KZT deposits in total retail deposits was 43.5% compared to 43.6% as at the end of 2Q 2020.

Amounts due to credit institutions decreased by 12.7% vs. the end of YE 2019 mainly due to decrease in loans under REPO agreements. As at 30 September 2020, 67.5% of the Bank's obligations to financial institutions were represented by loans from Kazakhstan banks (incl. loans under REPO agreements), KazAgro National Managing Holding, DAMU Development Fund, Development Bank of Kazakhstan drawn in 2014–2017 within the framework of government programs supporting certain sectors of economy.

Debt securities issued increased by 4.6% compared to the end of 2Q 2020 as a result of revaluation of FX denominated debt securities due to KZT depreciation versus US dollar during 3Q 2020.

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	KZT 100 bn	7.5% p.a.	November 2024
Local bonds	KZT 131.7 bn	7.5% p.a.	February 2025
Local bonds	KZT 93.6 bn	8.75% p.a.	January 2022
Subordinated coupon bonds	KZT 101.1 bn	9.5% p.a.	October 2025
Local bonds listed at Astana International Exchange	USD 182 mln	3.0% p.a.	April 2022

As at the end of 3Q 2020, total equity decreased by 6.9% compared with the end of 2Q 2020 due to payout of dividends to shareholders in 3Q 2020.

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

	30-Sep-20	30-Jun-20	31-Mar-20	31-Dec-19	30-Sep-19
<i>Capital adequacy ratios, unconsolidated:</i>					
Halyk Bank					
k1-1	22.4%	25.9%	22.5%	21.3%	21.4%
k1-2	22.4%	25.9%	22.5%	21.3%	21.4%
k2	24.4%	27.9%	24.4%	23.1%	23.4%
<i>Capital adequacy ratios, consolidated:</i>					
CET 1	22.8%	25.2%	20.6%	20.6%	20.0%
Tier 1 capital	22.8%	25.2%	20.6%	20.6%	20.0%
Total capital	24.3%	26.7%	21.9%	21.9%	21.2%

* minimum capital regulatory adequacy requirements: k1 – 8.59%, k1-2 – 9.59% and k2 – 11.09%, including conservation buffer of 2% and systemic buffer of 1% for each of these ratios.

The consolidated financial information for nine months ended 30 September 2020, including the notes attached thereto, are available on Halyk Bank's website: <http://halykbank.com/financial-results>

A 3Q 2020 results webcast will be hosted at 1:00 p.m. London time/8:00 a.m. EST on Tuesday, 17 November 2020: <https://www.webcast-egs.com/halykbank20201117>

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 9,999.1bn as at 30 September 2020, Halyk Bank is Kazakhstan's leading lender. The Bank has the largest customer base and broadest branch network in Kazakhstan, with 613 branches and outlets across the country. The Bank operates in Georgia, Kyrgyzstan, Russia, Tajikistan and Uzbekistan.

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

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