

Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’

Consolidated financial results for the year ended 31 December 2018

Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’ and its subsidiaries (together “the Bank”) (LSE: HSBK) releases its consolidated financial statements for the year ended 31 December 2018 prepared in accordance with International Financial Reporting Standards, audited by Deloitte, LLP, and subject to further approval by the Bank’s Board of Directors and Annual General Shareholders’ Meeting.

Consolidated income statements

	KZT mln							
	12m 2018	12m 2017	Y-o-Y, %	4Q 2018	4Q 2017	Y-o-Y, %	3Q 2018	Q-o-Q, %
<i>Interest income</i>	682,041	506,328	34.7%	179,435	167,276	7.3%	167,867	6.9%
<i>Interest expense</i>	-333,772	-257,805	29.5%	-80,398	-85,569	-6.0%	-83,044	-3.2%
Net interest income before credit loss expense	348,269	248,523	40.1%	99,037	81,707	21.2%	84,823	16.8%
<i>Fee and commission income</i>	113,241	87,640	29.2%	29,505	28,760	2.6%	29,350	0.5%
<i>Fee and commission expense</i>	-39,006	-26,732	45.9%	-10,834	-10,703	1.2%	-10,199	6.2%
Net fee and commission income	74,235	60,908	21.9%	18,671	18,057	3.4%	19,151	-2.5%
Insurance income ⁽¹⁾	7,329	6,493	12.9%	4,342	2,933	48.0%	1,199	3.6x
FX operations ⁽²⁾	-64,577	-4,949	-13.0x	-27,523	43,216	-1.6x	-31,992	14.0%
Income/loss from derivative operations and securities ⁽³⁾	116,586	32,487	3.6x	28,707	-27,877	2.0x	56,156	-48.9%
Other income ⁽⁴⁾	24,664	23,618	4.4%	5,845	14,179	-58.8%	1,007	5.8x
Credit loss expense ⁽⁵⁾	-31,995	-67,302	-52.5%	-853	-43,149	-98.0%	-8,266	-89.7%
Recoveries of other credit loss expense	15,951	1,737	9.2x	12,906	1,275	10.1x	698	18.5x
Operating expenses ⁽⁴⁾	-164,531	-112,330	46.5%	-36,526	-46,216	21.0%	-33,879	7.8%
Income before income tax expense	325,931	189,185	72.3%	104,607	44,125	2.4x	88,896	17.7%
Income tax expense	-82,474	-25,598	3.2x	-14,330	-8,167	75.5%	-10,947	30.9%
Income after income tax expense	243,457	163,587	48.8%	90,277	35,958	2.5x	77,949	15.8%
Profit from discontinued operations	9,974	9,876	1.0%	-	2,134	-	-	-

Non-controlling Interest	807	-101	-8.0x	-	-51	-	-162	-100.0%
Net income	254,238	173,362	46.7%	90,277	38,041	2.4x	77,787	16.1%
Net interest margin, p.a.	5.1%	4.9%		5.6%	4.9%		5.1%	
Return on average equity, p.a.	27.9%	22.7%		35.5%	18.0%		33.8%	
Return on average assets, p.a.	3.0%	2.6%		4.1%	1.8%		3.7%	
Cost-to-income ratio	31.7%	29.5%		28.5%	33.5%		24.5%	
Cost of risk, p.a.	0.5%	2.2%		-0.6%	4.8%		1.5%	

- (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) previously in consolidated reports loss from impairment of non-financial assets was shown on gross basis and income from revaluation of non-financial assets was reflected in other income. Due to change in representation policy loss from impairment of non-financial assets is now netted by income from revaluation of non-financial assets. Therefore, other income, operating expenses, cost-to-income ratio and cost-to-average assets ratio for 9M 2018 and 3Q 2018 were recalculated taking into account such change in policy.
- (5) 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 90.3bn for 4Q 2018 compared to KZT 77.8bn for 3Q 2018 mainly as a result of higher net interest income in 4Q 2018.

Compared with 3Q 2018, **net interest income** increased by 16.8% to KZT 99.0bn, due to increase in average balances of interest-earning assets as well as decrease in interest expenses as a result of repricing of retail term deposits extended in 4Q 2018 following the decrease of deposit interest rate cap by Kazakhstan Deposit Insurance Fund. **Net interest margin** increased to 5.6% p.a. for 4Q 2018 compared to 5.1% p.a. for 3Q 2018 mainly due to repricing of retail term deposits and, to the lesser extent, due to increase of share of FX denominated deposits with lower interest rate.

Cost of risk on loans to customers is at (0.6%) for 4Q due to repayment of a large-ticket impaired corporate loan and transfer of few problem corporate loans to subsidiary SPVs, which resulted in provision recoveries.

Fee and commission income increased by 0.5% compared to 3Q 2018. Total fee and commission derived from payment card maintenance and bank transfers - settlements has decreased by 1.8% in 4Q 2018 vs. 3Q 2018.

Other non-interest income decreased by 42.4% to KZT 24.6bn* for 4Q 2018 vs. KZT 42.8bn* for 3Q 2018 mainly as a result of lower positive revaluation of swap with the NBK in 4Q 2018.

*recalculated excluding income from non-financial assets

Operating expenses (including loss from impairment of non-financial assets) increased by 7.8% to KZT 36.5bn vs. KZT 33.9bn for 3Q 2018. This was mainly as a result of KZT 2.3bn expense related to impairment of the Bank's property, investment assets and assets held for sale in 4Q 2018. In 3Q 2018 there was no major impairment of non-financial assets. The increase was partially offset by decrease in expenses on salaries and other employee benefits in 4Q 2018 by 8.7% vs. 3Q 2018 mainly due to one-off integration related payments in July 2018.

The Bank's **cost-to-income** ratio increased to 28.5% compared to 24.5% for 3Q 2018 on the back of

higher operating expenses and lower operating income in 4Q 2018 vs. 3Q 2018. **Operating income** decreased by 7.3% mainly due to decrease in other non-interest income.

Statement of financial position review

KZT mln

	31-Dec-18	30-Sep-18	31-Dec-17	Change YTD, %	Change, Q-o-Q, %
Total assets	8,959,024	8,389,875	8,857,781	1.1%	6.8%
Cash and reserves	1,870,879	1,803,679	1,891,587	-1.1%	3.7%
Amounts due from credit institutions	55,035	71,804	87,736	-37.3%	-23.4%
T-bills & NBK notes	2,226,320	2,026,220	1,878,870	18.5%	9.9%
Other securities & derivatives	782,356	684,170	831,531	-5.9%	14.4%
<i>Gross loan portfolio*</i>	3,890,872	3,614,422	3,568,263	9.0%	7.6%
<i>Stock of provisions**</i>	-409,793	-354,341	-317,161	29.2%	15.6%
Net loan portfolio	3,481,079	3,260,081	3,251,102	7.1%	6.8%
Assets held for sale	56,129	68,545	552,405	-89.8%	-18.1%
Other assets	487,226	475,376	364,550	33.7%	2.5%
Total liabilities	7,893,378	7,411,998	7,923,324	-0.4%	6.5%
Total deposits, including:	6,526,930	6,068,200	6,131,750	6.4%	7.6%
<i>retail deposits</i>	3,395,590	3,247,252	3,104,249	9.4%	4.6%
<i>term deposits</i>	2,918,070	2,848,028	2,691,886	8.4%	2.5%
<i>current accounts</i>	477,520	399,224	412,363	15.8%	19.6%
<i>corporate deposits</i>	3,131,340	2,820,948	3,027,501	3.4%	11.0%
<i>term deposits</i>	1,374,592	1,229,160	1,705,971	-19.4%	11.8%
<i>current accounts</i>	1,756,748	1,591,788	1,321,530	32.9%	10.4%
Debt securities	900,791	895,042	962,396	-6.4%	0.6%
Amounts due to credit institutions	168,379	161,416	255,151	-34.0%	4.3%
Liabilities directly associated with assets classified as held for sale	0	0	334,627	-100%	-
Other liabilities	297,278	287,340	239,400	24.2%	3.5%
Equity	1,065,646	977,877	934,457	14.0%	9.0%

Total assets increased by 6.8% vs. the end of 3Q 2018 mainly as a result of fund inflow from the Bank's clients and increase in retained earnings in 4Q 2018.

Compared with the end of 3Q 2018, **loans to customers** increased by 7.6% on a gross basis and 6.8% on a net basis. Growth of gross loan portfolio in 4Q 2018 was attributable to increase in corporate loans (+ 8.8% on a gross basis), SME loans (+ 17.8% on a gross basis) and mortgage loans (+ 1.9% on a gross basis), partially offset by decrease in consumer loans (-1.4% on a gross basis).

Halyk Bank's **90-day NPL ratio** was 8.2% compared 10.9% as at the end of 3Q 2018. The decrease compared to the end of 3Q 2018 was mainly due to write-off, repayment and restructuring of problem indebtedness.

Allowances for expected credit losses increased by 15.6% compared to the end of 3Q 2018, mainly due to increase of provisions as a result of restructuring of KKB loans which previously were consolidated on net basis (i.e. net of provisions created before 4 July 2017). Following restructuring such loans were booked as new loans on gross basis, i.e. increasing stock of provisions. This resulted in higher growth rate of gross loans as of 31 December 2018 vs. 30 September 2018 compared to the

growth rate of net loans.

Deposits of legal entities and individuals increased by 11.0% and 4.6%, respectively, compared to the end of 3Q 2018, due to fund inflow from the Bank's clients and positive revaluation of FX-denominated deposits due to increase in FX/KZT exchange rate over the fourth quarter. As at 31 December 2018, the share of corporate KZT deposits in total corporate deposits was 48.3% compared to 49.7% as at 30 September 2018 and 48.3% as at YE 2017, whereas the share of retail KZT deposits in total retail deposits remained largely flat at 41.0% compared to 41.4% as at 30 September 2018 and 40.7% as at YE 2017.

Amounts due to credit institutions increased by 4.3% vs. the end of 3Q 2018 due to growth in loans and deposit from Kazakhstan banks and increase in balances on correspondent accounts as at 31 December 2018 in the ordinary course of business. As at 31 December 2018, 76.0% 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 increased by 0.6% vs. the end of 3Q 2018, mainly due to revaluation of FX-denominated Eurobonds due to increase in FX/KZT exchange rate over the fourth quarter. On 1 March 2019 the Bank made a prepayment on its USD 750,000,000 Eurobond issue bearing 5.5% coupon rate due 2022. The prepayment was made for the amount of USD 200,000,000 together with the interest accrued but unpaid. 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 550 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
Subordinated coupon bonds	KZT 3.5 bn	Inflation indexed (currently 7.8% p.a.)	April 2019

Compared with the end of 3Q 2018 total equity increased by 9.0% due to net profit earned by the Bank during 4Q 2018.

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

	01.01.2019	01.10.2018	01.07.2018	01.04.2018	01.01.2018
<i>Capital adequacy ratios, unconsolidated:</i>					
Halyk Bank					
K1-1	19.7%	19.4%	20.6%	21.7%	21.5%
K1-2	19.7%	19.4%	20.6%	21.7%	21.5%
K2	21.6%	21.6%	20.6%	21.6%	21.4%
KKB, from period of ownership					
K1-1			20.8%	21.3%	18.0%

K1-2			20.8%	21.3%	19.9%
K2			28.6%	28.9%	26.9%

Capital adequacy ratios, consolidated:

CET	18.5%	17.8%	17.2%	18.1%	16.9%
Tier 1 capital	18.5%	17.8%	17.2%	18.1%	16.9%
Tier 2 capital	19.9%	19.9%	19.1%	20.0%	18.9%

* *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 consolidated financial information for the year ended 31 December 2018, including the notes attached thereto, are available on Halyk Bank’s website: https://halykbank.kz/investoram/ifrs_reports2.

A 12M/4Q 2018 results webcast will be hosted at 1:00 p.m. GMT/9:00 a.m. EST on Friday, 15 March 2019: <https://webcasts.egs.com/halyk20190315>

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 8,959.0 billion as at 31 December 2018, Halyk Bank is Kazakhstan’s leading lender. The Bank has the largest customer base and broadest branch network in Kazakhstan, with 647 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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