

Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’

Consolidated financial results

for the six month ended 30 June 2020

Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’ and its subsidiaries (together “the Bank”) (LSE: HSBK) releases consolidated financial information for the six months ended 30 June 2020.

Consolidated income statements

KZT mln

	1H 2020	1H 2019	Y-o-Y,%	2Q 2020	2Q 2019	Y-o-Y,%
<i>Interest income</i>	359,848	356,084	1.1%	180,500	179,901	0.3%
<i>Interest expense</i>	(151,425)	(165,824)	(8.7%)	(76,151)	(82,250)	(7.4%)
Net interest income before credit loss expense	208,423	190,260	9.5%	104,349	97,651	6.9%
<i>Fee and commission income</i>	60,246	57,684	4.4%	29,435	30,711	(4.2%)
<i>Fee and commission expense</i>	(31,790)	(24,756)	28.4%	(14,855)	(13,236)	12.2%
Net fee and commission income	28,456	32,928	(13.6%)	14,580	17,475	(16.6%)
Insurance income ⁽¹⁾	7,499	1,262	5.9x	5,758	1,330	4.3x
FX operations ⁽²⁾	11,162	32,479	(65.6%)	52,259	15,281	3.4x
(Loss)/gain from derivative operations and securities ⁽³⁾	5,989	(20,090)	(129.8%)	(55,156)	(6,595)	8.3x
Other income and share in profit of associate	21,018	20,781	1.1%	5,908	11,554	(48.9%)
Credit loss expense ⁽⁴⁾	(33,906)	(12,686)	167.3%	(13,816)	(3,615)	3.8x
Other credit loss expense	(3,116)	(2,081)	49.7%	(1,205)	(1,776)	(32.2%)
Operating expenses	(74,637) ⁽⁵⁾	(61,385)	21.6%	(37,147) ⁽⁶⁾	(32,160)	15.5%
Income tax expense	(14,894)	(17,239)	(13.6%)	(605)	(9,418)	(93.6%)
	-	-	-	-	-	-
	-	-	-	-	-	-
Net income	155,994	164,229	(5.0%)	74,925	89,727	(16.5%)
Net interest margin, p.a.	5.2%	5.1%		5.0%	5.1%	
Return on average equity, p.a.	22.6%	29.8%		21.2%	32.5%	
Return on average assets, p.a.	3.3%	3.7%		3.1%	4.0%	
Cost-to-income ratio	25.8%	22.6%		28.2%	21.8%	
Cost of risk on loans to customers, p.a.	1.3%	0.5%		1.0%	0.3%	

(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)/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 3.6 bn;

(6) Including loss from impairment of non-financial assets of KZT 1.7 bn;

Net income decreased by 16.5% to KZT 74.9bn for 2Q 2020 compared to KZT 89.7bn for 2Q 2019 mainly as a result of increase in credit loss expenses.

Interest income slightly increased by 0.3% to KZT 180.5bn for 2Q 2020 compared to KZT 179.9bn for 2Q 2019 mainly as a result of increase in average balances of interest-earning assets. **Interest expense** decreased by 7.4% compared to 2Q 2019. In comparison with 2Q 2019, **net interest margin** decreased by 0.1% as a result of decline in interest rates on FX interbank deposits and increase in share of placement in lower yielding FX instruments.

Cost of risk increased to 1.0% compared to 0.3% in 2Q 2019 due to the additional allowances for expected credit losses reflecting the increased risk and uncertainty from COVID-19 outbreak and lockdown restrictions.

Fee and commission income reduction by 4.2% in comparison to 2Q 2019 was caused by decrease in fees derived from cash operations in 2Q 2020 due to the effect of COVID-19 lockdown, and as a result of some fees on payment card operations became free of charge.

Fee and commission expense increased by 12.2% compared to 2Q 2019 due to growth of service fees payable to the international payment systems as a result of increase of non-cash transactions.

Other non-interest income⁽⁷⁾ decreased by 85.1% to KZT 3.0bn for 2Q 2020 vs. KZT 20.2bn for 2Q 2019 due to net loss from derivative operations and securities mainly related to loss from revaluation of swap with NBRK and as a result of lower income from the sale of property by subsidiary SPVs.

Insurance income⁽⁸⁾ for 2Q 2020 increased by 4.3 times vs. 2Q 2019 due to the growth of insurance premium on life insurance of the borrower under the Bank's new unsecured lending program.

Operating expenses (including loss from impairment of non-financial assets) for 2Q 2020 increased by 15.5% vs. 2Q 2019 mainly due to loss from impairment of non-financial assets of KZT 1.7bn in 2Q 2020 and loyalty program bonuses payable to the customers, which are included in operating expenses related to the advertisement starting from 4Q 2019.

The Bank's **cost-to-income** ratio increased to 28.2% compared to 21.8% for 2Q 2019 due to lower operating income in 2Q 2020.

(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 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-Jun-20	31-Mar-20	Change Q-o-Q, %	31-Dec-19	Change, abs	Change YTD, %
Total assets	9,731,200	10,034,323	(3.0%)	9,234,758	496,442	5.4%
Cash and reserves	2,304,306	2,237,523	3.0%	1,805,343	498,963	27.6%
Amounts due from credit institutions	101,351	72,161	40.5%	53,161	48,190	90.6%
T-bills & NBRK notes	2,075,528	2,049,302	1.3%	1,954,066	121,462	6.2%
Other securities & derivatives	721,004	1,094,266	(34.1%)	1,074,867	(353,863)	(32.9%)
<i>Gross loan portfolio</i>	4,389,064	4,427,427	(0.9%)	4,161,163	227,901	5.5%
<i>Stock of provisions</i>	(444,585)	(454,166)	(2.1%)	(408,718)	(35,867)	8.8%
Net loan portfolio	3,944,479	3,973,261	(0.7%)	3,752,445	192,034	5.1%
Assets held for sale	44,539	62,455	(28.7%)	45,766	(1,227)	(2.7%)
Other assets	539,993	545,355	(1.0%)	549,110	(9,117)	(1.7%)
Total liabilities	8,262,263	8,674,629	(4.8%)	7,927,535	334,728	4.2%
Total deposits, including:	6,756,011	6,935,284	(2.6%)	6,406,413	349,598	5.5%
<i>retail deposits</i>	3,470,200	3,581,446	(3.1%)	3,251,216	218,984	6.7%
<i>term deposits</i>	2,865,134	3,081,899	(7.0%)	2,743,019	122,115	4.5%
<i>current accounts</i>	605,066	499,547	21.1%	508,197	96,869	19.1%
<i>corporate deposits</i>	3,285,811	3,353,838	(2.0%)	3,155,197	130,614	4.1%
<i>term deposits</i>	1,588,246	1,364,196	16.4%	1,441,930	146,316	10.1%
<i>current accounts</i>	1,697,565	1,989,642	(14.7%)	1,713,267	(15,702)	(0.9%)
Debt securities	864,453	917,361	(5.8%)	834,446	30,007	3.6%
Amounts due to credit institutions	270,393	418,047	(35.3%)	305,965	(35,572)	(11.6%)
Other liabilities	371,406	403,937	(8.1%)	380,711	(9,305)	(2.4%)
Equity	1,468,937	1,359,694	8.0%	1,307,223	161,714	12.4%

As at the end of 2Q 2020, **total assets** increased by 5.4% vs. YE 2019 due to growth in deposits and total equity. Whereas, the decrease by 3.0% vs. the end of the 1Q 2020 was caused by revaluation of FX balance sheet positions due to KZT appreciation versus US dollar during 2Q 2020 and decrease in the volume of funds raised under REPO transactions.

Compared with the end of 1Q 2020, **loans to customers** decreased by 0.9% on a gross basis and 0.7% on a net basis. Decrease of gross loan portfolio in 2Q 2020 was attributable to decrease in corporate loans (5.1% on a gross basis) mainly due to revaluation of FX loans, whereas SME and retail loans increased by 8.3% and 3.9% on a gross basis, respectively.

As at the end of 2Q 2020, **Stage 3 ratio** increased to 15.7% from 15.5% as at the end of 1Q 2020 mainly due to impairment of a corporate borrower previously considered as the borrower with increased credit risk.

Deposits of legal entities and individuals increased by 4.1% and 6.7%, 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 1H 2020. As at the end of 2Q 2020, the share of corporate KZT deposits in total corporate deposits was 56.7% compared to 50.8% as at the end of 1Q 2020, whereas the share of retail KZT deposits in total retail deposits was 43.6% compared to 37.6% as at the end of 1Q 2020.

Amounts due to credit institutions decreased by 35.3% vs. the end of 1Q 2020 mainly due to decrease in loans under REPO agreements attracted in 1Q to provide current cash flows in KZT within the Bank's operating activities. As at 30 June 2020, 77.3% 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 decreased by 5.8% compared to the end of 1Q 2020 as a result of revaluation of FX denominated debt securities due to KZT appreciation versus US dollar during 2Q 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 100.0 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 181.5 mln	3.0% p.a.	April 2022

As at the end of 2Q 2020, total equity increased by 8.0% compared with the end of 1Q 2020 as a result of net profit earned by the Bank during 2Q 2020.

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

	30-Jun-20	31-Mar-20	31-Dec-19	30-Sep-19	30-Jun-19
<i>Capital adequacy ratios, unconsolidated:</i>					
Halyk Bank					
k1-1	25.9%	22.5%	21.3%	21.4%	19.7%
k1-2	25.9%	22.5%	21.3%	21.4%	19.7%
k2	27.9%	24.4%	23.1%	23.4%	21.5%
<i>Capital adequacy ratios, consolidated:</i>					
CET 1	25.2%	20.6%	20.6%	20.0%	18.3%
Tier 1 capital	25.2%	20.6%	20.6%	20.0%	18.3%
Total capital	26.7%	21.9%	21.9%	21.2%	19.6%

* minimum capital regulatory adequacy requirements: k1 – 9.72%, k1-2 – 10.72% and k2 – 12.22%, including conservation buffer of 3% and systemic buffer of 1% for each of these ratios.

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

A 2Q 2020 results webcast will be hosted at 2:00 p.m. London time/9:00 a.m. EST on Monday, 17 August 2020: <https://webcasts.eqs.com/halykbank20200817>

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 9,731.2 bn as at 30 June 2020, Halyk Bank is Kazakhstan's leading lender. The Bank has the largest customer base and broadest branch network in Kazakhstan, with 621 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>

- ENDS-

**For further information, please contact:
Halyk Bank**

Mira Kassenova +7 727 259 04 30
MiraK@halykbank.kz

Margulan Tanirtayev +7 727 259 04 53
Margulant@halykbank.kz