

Joint Stock Company 'Halyk Savings Bank of Kazakhstan'

Consolidated financial results for the nine month ended 30 September 2019

Joint Stock Company 'Halyk Savings Bank of Kazakhstan' and its subsidiaries (together "the Bank") (LSE: HSBK) releases its condensed interim consolidated financial information for the nine months ended 30 September 2019.

Consolidated income statements

KZT mln

	9M 2019	9M 2018	Y-o-Y, %	3Q 2019	3Q 2018	Y-o-Y, %
<i>Interest income</i>	531,389	502,606	5.7%	175,305	167,867	4.4%
<i>Interest expense</i>	(239,022)	(253,374)	(5.7%)	(73,198)	(83,044)	(11.9%)
Net interest income before credit loss expense	292,367	249,232	17.3%	102,107	84,823	20.4%
<i>Fee and commission income</i>	89,796	83,736	7.2%	32,112	29,350	9.4%
<i>Fee and commission expense</i>	(39,335)	(28,172)	39.6%	(14,579)	(10,199)	42.9%
Net fee and commission income	50,461	55,564	(9.2%)	17,533	19,151	(8.4%)
Insurance income ⁽¹⁾	3,770	2,987	26.2%	628	1,199	(47.6%)
FX operations ⁽²⁾	30,403	(37,054)	(182.1%)	(2,076)	(31,992)	(93.5%)
(Loss)/gain from derivative operations and securities ⁽³⁾	(6,878)	87,879	(107.8%)	13,212	56,156	(76.5%)
Other income and share in profit of associate	26,344	25,328	4.0%	5,563	2,398	5.5x
Credit loss expense ⁽⁴⁾	(21,140)	(31,142)	(32.1%)	(8,454)	(8,266)	2.3%
Recoveries of other credit loss expense	(687)	3,045	(122.6%)	1,394	698	99.7%
Operating expenses	(97,500)	(134,515) ⁽⁵⁾	(27.5%)	(34,235)	(35,271) ⁽⁶⁾	(2.9%)
Income tax expense	(25,752)	(68,144)	(62.2%)	(8,513)	(10,947)	(22.2%)
Profit from discontinued operations	-	9,974	-	-	-	-
Non-controlling interest in net income	-	(807)	-	-	162	-
Net income	251,388	163,961	53.3%	87,159	77,787	12.0%
Net interest margin, p.a.	5.2%	4.9%		5.4%	5.1%	
Return on average equity, p.a.	29.7%	24.9%		29.6%	33.8%	
Return on average assets, p.a.	3.8%	2.6%		3.9%	3.7%	
Cost-to-income ratio	23.2%	33.8%		23.3%	25.3%	
Cost of risk on loans to customers, p.a.	0.6%	0.9%		0.8%	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 (loss)/gain 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 (FVTOCI);

(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 31.5bn

(6) including loss from impairment of non-financial assets of KZT 1.2bn

Net income increased by 53.3% to KZT 251.4bn for 9M 2019 compared to KZT 164.0bn for 9M 2018 mainly due to net interest income growth in 9M 2019. For 9M 2018 the Bank had higher loss from impairment of non-financial assets of KZT 31.5bn compared to nil for 9M 2019, and in 2Q 2018 there was a de-recognition of tax loss carry forward of KZT 43.3bn by Kazkommertsbank's (KKB) due to the merger into Halyk Bank.

Interest income increased by 5.7% to KZT 531.4bn for 9M 2019 compared to KZT 502.6bn for 9M 2018 mainly as a result of increase in average balances of interest-earning assets by 10.3%. **Interest expense** for 9M 2019 decreased by 5.7% compared to 9M 2018 mainly due to continuous repricing of retail term deposits following the decrease of deposit interest rate cap by Kazakhstan Deposit Insurance Fund. As a result of net interest income growth, **Net interest margin** increased to 5.2% p.a. for 9M 2019 compared to 4.9% p.a. in 9M 2018, despite the negative effect from accelerated amortisation of discount on the Bank's Eurobonds in the amount of KZT 7.4bn due to its early partial prepayment on 1 March 2019.

Cost of risk on loans to customers for 9M 2019 was at 0.6% due to one-off repayments of large ticket problem loans in 2Q 2019, while **cost of risk** on loans to customers for 3Q 2019 was at a more normalized level of 0.8%.

Fee and commission income* for 9M 2019 increased by 7.2% p.a. vs. 9M 2018 as a result of growing volumes of transactional banking, mainly in payment cards operations, as well as letters of credit and guarantees issued.

Prior to the merger, the transfers within legal entities' current accounts in Halyk and KKB were treated as external transfers and relevant fees were applied. After the integration, the transfers between those current accounts are being treated as internal and therefore are free of charge. As a result, fees derived from Bank transfers – settlements decreased in 9M 2019 vs. 9M 2018. The decrease in fees derived from cash operations in 9M 2019 vs. 9M 2018 was mainly due to increased volumes of non-cash transactions.

Fee and commission expense increased by 39.6% compared to 9M 2018 mainly due to increased number of transactions of other banks' cards in the acquiring network of the Bank.

Operating income increased by 5.5% vs. 9M 2018 mainly due to increase in net interest income.

Operating expenses for 9M 2019 decreased by 27.5% vs. 9M 2018 mainly due to loss from impairment of non-financial assets of KZT 28.5bn in 2Q 2018 and cost optimisation on the back of synergy effect from merger of KKB into the Bank.

On the back of lower operating expenses and higher operating income for 9M 2019 vs. 9M 2018, the Bank's **cost-to-income** ratio decreased to 23.2% compared to 33.8% for 9M 2018.

* Starting from 1Q 2019 the portion of fees relating to payment card operations, which was previously accounted within cash operations and bank transfers, are represented as fees derived from payment card operations. Figures for 3Q 2018 were recalculated accordingly.

Statement of financial position review

KZT mln

	30-Sep-19	30-June-19	Change Q-o-Q, %	31-Dec-18	Change, abs	Change YTD, %
Total assets	8,992,491	9,059,149	(0.7%)	8,959,024	33,467	0.4%
Cash and reserves	1,869,364	2,224,142	(16.0%)	1,870,879	(1,515)	(0.1%)
Amounts due from credit institutions	48,185	51,357	(6.2%)	55,035	(6,850)	(12.4%)
T-bills & NBK notes	1,964,806	1,817,083	8.1%	2,226,320	(261,514)	(11.7%)
Other securities & derivatives	998,379	900,282	10.9%	782,356	216,023	27.6%
<i>Gross loan portfolio</i>	3,990,965	3,909,256	2.1%	3,890,872	100,093	2.6%
<i>Stock of provisions</i>	(424,255)	(416,681)	1.8%	(409,793)	(14,462)	3.5%
Net loan portfolio	3,566,710	3,492,575	2.1%	3,481,079	85,631	2.5%
Assets held for sale	58,193	55,990	3.9%	56,129	2,064	3.7%
Other assets	486,854	517,720	(6.0%)	487,226	(0,372)	(0.1%)
Total liabilities	7,765,703	7,931,554	(2.1%)	7,893,378	(127,675)	(1.6%)
Total deposits, including:	6,190,717	6,220,463	(0.5%)	6,526,930	(336,213)	(5.2%)
<i>retail deposits</i>	3,167,448	3,241,081	(2.3%)	3,395,590	(228,142)	(6.7%)
<i>term deposits</i>	2,716,866	2,770,374	(1.9%)	2,918,070	(201,204)	(6.9%)
<i>current accounts</i>	450,582	470,707	(4.3%)	477,520	402,830	(5.6%)
<i>corporate deposits</i>	3,023,269	2,979,382	1.5%	3,131,340	(108,071)	(3.5%)
<i>term deposits</i>	1,273,017	1,455,387	(12.5%)	1,374,592	(101,575)	(7.4%)
<i>current accounts</i>	1,750,252	1,523,995	14.8%	1,756,748	(6,496)	(0.4%)
Debt securities	919,154	903,536	1.7%	900,791	18,363	2.0%
Amounts due to credit institutions	337,211	476,703	(29.3%)	168,379	168,832	100.3%
Other liabilities	318,621	330,852	(3.7%)	297,278	21,343	7.2%
Equity	1,226,788	1,127,595	8.8%	1,065,646	61,142	15.1%

In 3Q 2019, **total assets** increased by 0.4% vs. YE 2018 mainly due to increase in loans from Kazakhstan banks under REPO agreements and decreased by 0.7% vs. 2Q 2019 mainly as a result of loans and deposits from Kazakhstan banks (including loans under REPO agreements).

Compared with the 2Q 2019, **loans to customers** increased by 2.1% on a gross basis and 2.1% on a net basis. Increase of gross loan portfolio in 3Q 2019 was attributable to increase in corporate loans (0.8% on a gross basis), increase in SME loans (4.3% on a gross basis), and increase in retail loans (3.9% on a gross basis).

As at the end of 3Q 2019, **Stage 3 ratio** decreased to 17.9% from 18.6% as at the end of 2Q 2019 mainly as a result of repayments of previously impaired indebtedness of corporate and retail borrowers.

Deposits of legal entities and individuals decreased by 3.5% and 6.7%, respectively, compared to YE 2018 mainly due to partial withdrawal of funds by the Bank's customers to finance their ongoing needs, including the repayment of external debt obligations of national companies, and transfer of a part of FX retail deposits into USD-denominated bonds placed at Astana International Exchange. As at 30 September 2019, the share of corporate KZT deposits in total corporate deposits was 49.6% compared to 55.8% as at 30 June 2019, whereas the share of retail KZT deposits in total retail deposits was 42.2% compared to 41.8% as at the end of 2Q 2019.

Amounts due to credit institutions decreased by 29.3% vs. 2Q 2019 mainly due to decrease in loans and deposits from Kazakhstan banks (including loans under REPO agreements) attracted for placement at higher rates. As at 30 September 2019, 90.0% 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 programmes supporting certain sectors of economy.

Debt securities issued increased by 1.7% compared to 2Q 2019. 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 180.5 mln	3.0% p.a.	April 2022

Compared with the 2Q 2019 total equity increased by 8.8% as a result of net profit earned by the Bank during 3Q 2019.

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

	30-Sep-19	30-June-19	31-Mar-19	31-Dec-19	30-Sep-18
<i>Capital adequacy ratios, unconsolidated:</i>					
	Halyk Bank				
k1-1	21.4%	19.7%	20.4%	19.7%	19.4%
k1-2	21.4%	19.7%	20.4%	19.7%	19.4%
k2	23.4%	21.5%	22.3%	21.6%	21.6%
<i>Capital adequacy ratios, consolidated:</i>					
CET 1	20.0%	18.3%	19.5%	18.5%	17.8%
Tier 1 capital	20.0%	18.3%	19.5%	18.5%	17.8%
Total capital	23.4%	19.6%	20.9%	19.9%	19.9%

* minimum capital regulatory 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 condensed interim consolidated financial information for the nine months ended 30 September 2019, including the notes attached thereto, are available on Halyk Bank's website: <https://halykbank.kz/en/investors/ifrs-reports>.

A 9M & 3Q 2019 results webcast will be hosted at 19:00 p.m. London time/13:00 p.m. EST on Monday, 18 November 2019:

<https://webcasts.eqs.com/halykbank20191118>

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.

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 8,992.4 billion as at 30 September 2019, Halyk Bank is Kazakhstan's leading lender. The Bank has the largest customer base and broadest branch network in Kazakhstan, with 631 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.kz>

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