29 May 2020

Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’ Consolidated financial results for the three months ended 31 March 2020

Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’ and its subsidiaries (together “the Bank”) (LSE: HSBK) releases consolidated financial information for the three months ended 31 March 2020

Umut Shayakhmetova, the CEO of Halyk Bank commented: «The coronavirus pandemic presents an unprecedented social and economic challenge which is having a significant impact on people and businesses in Kazakhstan and around the world. We are entering these turbulent times confident in the soundness of our business model and strategy. Our operational model driven by technological and digital developments demonstrates agility by being able quickly put into live new online services. Robustness of the Bank’s balance sheet keeps our clients and partners safe and confident that they would be able to get necessary support from us. On the financial results side - despite the tightening operating environment and related to it increase in credit loss expenses, the Bank earned KZT 81.1bn for 1Q 2020 which resulted in strong RoAE at 24.1%.”

Consolidated income statements

KZT mln

	1Q 2020	1Q 2019	Change, abs	Y-o-Y, %
Interest income	179,348	176,183	3,165	1.8%
Interest expense	(75,274)	(83,574)	8,300	(9.9%)
Net interest income before credit loss expense	104,074	92,609	11,465	12.4%
Fee and commission income	30,811	26,973	3,838	14.2%
Fee and commission expense	(16,935)	(11,520)	(5,415)	47.0%
Net fee and commission income	13,876	15,453	(1,577)	(10.2%)
Insurance income(1)	1,741	(68)	1,809	(25.6x)
FX operations(2)	(41,097)	17,198	(58,295)	(2.4x)
(Loss)/gain from derivative operations and securities (3)	61,145	(13,495)	74,640	(4.5x)
Other income and share in profit of associate	15,110	9,227	5,883	63.8%
Credit loss expense (4)	(20,090)	(9,071)	(11,019)	121.5%
Other credit loss expense	(1,911)	(305)	(1,606)	6.3x
Operating expenses	(37,490) (5)	(29,225)	(8,265)	28.3%
Income tax expense	(14,289)	(7,821)	(6,468)	82.7%
	-	-	-	-
	-	-	-	-
Net income	81,069	74,502	6,567	8.8%

	1Q 2020	1Q 2019
Net interest margin, p.a.	5.3%	5.0%
Return on average equity, p.a.	24.1%	26.9%
Return on average assets, p.a.	3.5%	3.3%
Cost-to-income ratio	23.8%	23.5%
Cost of risk on loans to customers, p.a.	1.7%	0.6%

(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 (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 1.9 bn.

Net income increased by 8.8% to KZT 81.1bn for 1Q 2020 compared to KZT 74.5bn for 1Q 2019 mainly as a result of higher net interest income and other non-interest income in 1Q 2020.

Interest income increased by 1.8% to KZT 179.3bn for 1Q 2020 compared to KZT 176.2bn for 1Q 2019 mainly as a result of increase in average balances of interest-earning assets. Interest expense decreased by 9.9% compared to 1Q 2019.

Net interest margin increased to 5.3% p.a. for 1Q 2020 compared to 5% in 1Q 2019 mainly as a result of accelerated amortisation of discount on the Bank's Eurobonds in the amount of KZT 7.4bn in 1Q 2019 due to its early partial prepayment on 1 March 2019, decrease of deposit interest rates vs. 1Q 2019 as well as increase in average rates on loans to customers in 1Q 2020.

In 1Q 2020 credit loss expense increased significantly to KZT 18.1 bn due to the additional allowances for expected credit losses reflecting the increased risk and uncertainty from the COVID-19 outbreak, although the Group's loan portfolio remains robust and well positioned. As a result, the cost of risk increased to 1.7% for 1Q 2020 compared 0.6% for 1Q 2019.

The Bank's management has concluded that in accordance with the requirements of IFRS 9, it is necessary to take into account the potential impact of the macroeconomic situation on a possible change in the quality of the loan portfolio in the future. The revised expected credit loses overlay will be monitored and refined as more observable data on economic and customer outcomes becomes available. Although market dynamics are challenging a number of sectors and corporate customers, the corporate portfolio's diverse client base and limits are being proactively managed and have relatively limited exposure to the most vulnerable sectors affected by the coronavirus outbreak. The impact of the COVID-19 scenario and weighting adjustments has resulted in an increase in credit loss expense from the previous scenario, primarily driven by the higher probability of default in retail unsecured loans. These drivers are partially offset by the impact of the NBRK, the Government and other support measures, which are assumed to mitigate a material portion of future losses.

Fee and commission income increased by 14.2% compared to 1Q 2019, as a result of growing volumes of transactional banking, mainly in payment card operations.

Fee and commission expense increased by 47% compared to 1Q 2019, mainly due to increased number of transactions of other banks' cards in the acquiring network of the Bank.

Other non-interest income increased by 93.9% to KZT 55.3bn for 1Q 2020 vs. KZT 28.5bn for 1Q 2019 due to higher net gain from derivative operations and securities mainly related to significant positive revaluation of the swap agreement with NBRK as a result of KZT depreciation in 1Q 2020.

Operating expenses (including loss from impairment of non-financial assets) increased by 28.3% vs 1Q 2019 mainly due to the indexation of salaries and other employee benefits starting from 1 March, 2019, loss from impairment of non-financial assets of KZT 1.9 bn in 1Q 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** slightly increased to 23.8% compared to 23.5% for 1Q 2019 on the back of higher operating expenses in 1Q 2020 vs. 1Q 2019.

Statement of financial position review

KZT mln

	31-Mar-20	31-Dec-19	Change, abs	Change YTD, %
Total assets	**10,034,323**	9,234,758	**799,565**	8.7%
Cash and reserves	2,237,523	1,805,343	432,180	23.9%
Amounts due from credit institutions	72,161	53,161	19,000	35.7%
T-bills & NBK notes	2,049,302	1,954,066	95,236	4.9%
Other securities & derivatives	1,094,266	1,074,867	19,399	1.8%
Gross loan portfolio	4,427,427	4,161,163	266,274	6.4%
Stock of provisions	(454,166)	(408,718)	(45,448)	11.1%
Net loan portfolio	3,973,261	3,752,445	220,816	5.9%
Assets held for sale	62,455	45,766	16,689	36.5%
Other assets	545,355	549,110	(3,755)	(0.7%)
Total liabilities	**8,674,629**	7,927,535	747,094	**9.4%**
Total deposits, including:	6,935,284	6,406,413	528,871	8.3%
retail deposits	3,581,446	3,251,216	330,230	10.2%
term deposits	3,081,899	2,743,019	338,880	12.4%
current accounts	499,547	508,197	(8,651)	(1.7%)
corporate deposits	3,353,838	3,155,198	198,640	6.3%
term deposits	1,364,196	1,441,931	(77,735)	(5.4%)
current accounts	1,989,642	1,713,266	276,376	16.1%
Debt securities	917,361	834,446	82,915	9.9%
Amounts due to credit institutions	418,047	305,965	112,082	36.6%
Other liabilities	403,937	380,711	23,226	6.1%
Equity	**1,359,694**	**1,307,223**	**52,471**	**4.0%**

Total assets increased by 8.7 % vs. the end of YE 2019 mainly as a result of revaluation of FX balance sheet positions due to KZT depreciation versus US dollar during 1Q 2020.

Compared with the YE 2019, **loans to customers** increased by 6.4% on a gross basis and 5.9% on a net basis. Increase of gross loan portfolio in 1Q 2020 was attributable to increase in corporate loans (8.3% on a gross basis) mainly due to revaluation of FX loans, increase in SME loans (0.1% on a gross basis), and increase in retail loans (5.9% on a gross basis).

As at the end of 1Q 2020, **Stage 3 ratio** decreased to 15.5% from 16.0% as at the end of 2019 mainly as a result of write-off and repayment of previously impaired indebtedness of corporate borrowers.

Deposits of legal entities increased by 6.3% and **deposits of individuals** increased by 10.2%, compared to YE 2019 as a result of revaluation of FX deposits due to KZT depreciation versus US dollar during 1Q 2020.

Amounts due to credit institutions increased by 36.6% vs. YE 2019 mainly due to increase in loans under REPO agreements attracted to provide current cash flows in KZT within the Bank's operating activities. As at 31 March 2020, 91.4% 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 9.9% compared to YE 2019 as a result of revaluation of FX denominated debt securities due to KZT depreciation versus US dollar during 1Q 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 179.5 mln	3.0% p.a.	April 2022

As at the end of 1Q 2020, total equity increased by 4% compared with the YE 2019.

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

	31-Mar-20	31-Dec-19	30-Sep-19	30-Jun-19	31-Mar-19
Capital adequacy ratios, unconsolidated:					
Halyk Bank					
k1-1	22.5%	21.3%	21.4%	19.7%	20.4%
k1-2	22.5%	21.3%	21.4%	19.7%	20.4%
k2	24.4%	23.1%	23.4%	21.5%	22.3%
Capital adequacy ratios, consolidated:					
CET 1	20.6%	20.6%	20.0%	18.3%	19.5%
Tier 1 capital	20.6%	20.6%	20.0%	18.3%	19.5%
Total capital	21.9%	21.9%	23.4%	19.6%	20.9%

** 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 three months ended 31 March 2020, including the notes attached thereto, are available on Halyk Bank's website: http://halykbank.com/financial-results

A 1Q 2020 results webcast will be hosted at 2:00 p.m. London time/9:00 a.m. EST on Monday, 1 June 2020: https://webcasts.eqs.com/halykbank20200601

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 10,034.3 bn as at 31 March 2019, Halyk Bank is Kazakhstan's leading lender. The Bank has the largest customer base and broadest branch network in Kazakhstan, with 625 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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