Joint Stock Company 'Halyk Savings Bank of Kazakhstan'

Consolidated financial results for the six months ended 30 June 2018

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 six months ended 30 June 2018.

Statement of profit or loss review

KZT mln

	2Q2018	1Q2018	Change, Q-o-Q abs	Change, Q-o-Q %
Interest income	*172,734*	*162,005*	*10,729*	*6.6%*
Interest expense	*-82,713*	*-87,617*	*4,904*	*-5.6%*
Net interest income before credit loss expense	***90,021***	**74,388**	**15,633**	***21.0%***
Fee and commission income	*28,012*	*26,374*	*1,638*	*6.2%*
Fee and commission expense	*-8,293*	*-9,680*	*1,387*	*-14.3%*
Net fee and commission income	***19,719***	**16,694**	**3,025**	***18.1%***
Insurance income(1)	*1,496*	292	1,204	*412.3%*
FX operations(2)	*-60,487*	55,425	-115,912	*-209.1%*
Gain/Loss from derivative operations and securities (3)	*74,324*	-42,546	116,870	*274.7%*
Other non-interest income	*8,210*	13,961*	-5,751	*-41.2%*
Share of net income of associates(4)	*705*	0	705	*100.0%*
Credit loss expense (5)	*-17,679*	-5,197	-12,482	*240.2%*
Recoveries of other credit loss expense(6)	*992*	1,355	-363	*-26.8%*
Operating expenses	*-64,964(7)*	-34,281*	-30,683	*89.5%*
Income tax expense	*-47,038*	-10,159	-36,879	*363.0%*
Profit from discontinued operations(8)	*7,389*	2,585	4,804	*185.8%*
Non-controlling interest in net income	*-11,433*	10,464	-21,897	*-209.3%*
Net income	**24,121**	**62,053**	***-37,932***	***-61.1%***
Net interest margin, p.a.	5.2%	4.3%		
Return on average equity, p.a.	11.4%	29.2%		
Return on average assets, p.a.	1.2%	2.9%		
Cost-to-income ratio	47.2%	28.3%		
Cost of risk on loans to customers, p.a.	1.7%	0.2%		

* Previously, expenses from sale/disposal of property and intangible assets were reflected in operating expenses. In its 6m 2018 financial statements the Bank netted income from sale of property and intangible assets from expenses associated with the sale and reflected the result in other non-interest income. Other non-interest income and operating expenses for 1Q 2018 are recalculated in the chart above accordingly.

(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;
(4) the Bank's share in net income of Altyn Bank from 25 April 2018 to 30 June 2018;
(5) total credit loss expense, including credit loss expense on loans to customers, amounts due from credit institutions, available-for-sale investment securities and other assets;
(6) provisions against letters of credit and guarantees issued;
(7) including loss from impairment of non-financial assets of KZT 30.3bn
(8) net income of Altyn Bank from 1 January 2018 to 25 April 2018.

Net income decreased to KZT 24.1bn for 2Q 2018 compared to KZT 62.1bn for 1Q 2018 mainly due to loss from impairment of non-financial assets for KZT 30.3bn, as well as Kazkommertsbank's (KKB) de-recognition of tax loss carry forward of KZT 43.3bn due to the merger into Halyk Bank. Previously, KKB recognised deferred tax asset on its books in connection with tax loss carry forward. As IFRS do not allow any transfer of the deferred tax asset to another entity, it was derecognised before KKB was merged into the Bank and reflected as an additional tax expense on P&L.

Compared with 1Q 2018, **net interest income** increased by 21.0% to KZT 90.0bn, mainly due to net positive amortisation of a discount/premium on a number of loans written off or repaid by KKB clients over 2Q 2018 compared to net negative amortisation of a discount/premium in 1Q 2018, as well as 5.6% decrease in the Bank's interest expenses. The Bank's interest expenses were lower for 2Q 2018 on the back of Eurobond repayment by KKB in May, as well as one-off interest expense in 1Q 2018 due to amortisation of a discount on perpetual bond redeemed by KKB back then. As a result of net interest income growth, **net interest margin** increased to 5.2% p.a. for 2Q 2018 compared to 4.3% p.a. for 1Q 2018.

Credit loss expense increased by 3.4x to KZT 17.7bn compared to 5.2bn in 1Q 2018 mainly due to additional provisions created by Moskommertsbank, KKB's Russian subsidiary, new provisions created by KKB on one of its corporate borrowers and additional provisions created principally on problem SME loans at KKB's branches. As a result, the **cost of risk** on loans to customers increased to 1.7% p.a. over 2Q 2018 compared to 0.2% p.a. over 1Q 2018.

Fee and commission income increased by 6.2% compared to 1Q 2018 mainly as a result of growing volumes of transactional banking.

Other non-interest income decreased by 3.1% to KZT 40.2bn for 2Q 2018 vs. KZT 43.3bn for 1Q 2018. Recoveries of credit loss expense that arise from KKB's loan repayments and which were created before the acquisition of KKB by Halyk Bank are reflected in the consolidated financial statement as other income. Due to fewer repayments of such KKB's loans in 2Q 2018 the other income was lower compared with 1Q 2018. The decrease was partially offset by increase in insurance income and net gain from financial assets and liabilities at fair value through profit or loss mostly on the back of positive revaluation of derivative and trading operations as a result of KZT depreciation in 2Q 2018.

Operating expenses (including loss from impairment of non-financial assets) increased by 89.5% mainly due to KZT 30.3bn expense related to revaluation of the Bank's property, investment assets and assets held for sale, higher salaries and benefits to employees involved in KKB integration process, as well as expenses on repair and maintenance of KKB's computer and ATM equipment.

The Bank's **cost-to-income** ratio increased to 47.2% compared to 28.3% for 1Q 2018 on the back of higher growth of operating expenses vs. operating income. **Operating income** increased by 13.4% mainly on the back of the Bank's interest income from lending activities and income from fee and commission business.

Statement of financial position review

KZT mln

				Change, YTD		Change, Q-o-Q	
	30-Jun-18	31-Mar-18	31-Dec-17	abs	%	abs	%
Total assets	**8,273,906**	**8,411,931**	**8,857,781**	**-583,875**	**-6.6%**	**-138,025**	**-1.6%**
Cash and reserves	1,851,442	1,386,943	1,891,587	-40,145	-2.1%	464,499	33.5%
Amounts due from credit institutions	76,537	86,357	87,736	-11,199	-12.8%	-9,820	-11.4%

T-bills & NBK notes	1,883,167	2,051,492	1,878,870	4,297	0.2%	- 168,325	-8.2%
Other securities & derivatives	679,343	722,279	831,531	- 152,188	-18.3%	- 42,936	-5.9%
*Gross loan portfolio**	3,591,732	3,564,346	3,568,263	*23,469*	0.7%	*27,386*	0.8%
*Stock of provisions***	- 351,758	- 338,381	- 317,161	*- 34,597*	10.9%	*- 13,377*	4.0%
Net loan portfolio	3,239,974	3,225,965	3,251,102	-11,128	-0.3%	14,009	0.4%
Assets held for sale	121,296	574,072	552,405	- 431,109	-78.0%	- 452,776	-78.9%
Other assets	422,147	364,823	364,550	57,597	15.8%	57,324	15.7%
Total liabilities	**7,384,251**	**7,464,522**	**7,923,324**	**-539,073**	**-6.8%**	**-80,270**	**-1.1%**
Total deposits, including:	6,088,847	5,756,556	6,131,750	-42,903	-0.7%	332,291	5.8%
retail deposits	*3,245,228*	*3,059,674*	*3,104,249*	*140,979*	*4.5%*	*185,554*	*6.1%*
term deposits	*2,792,407*	*2,666,681*	*2,691,886*	*100,521*	*3.7%*	*125,726*	*4.7%*
current accounts	*452,821*	*392,993*	*412,363*	*40,458*	*9.8%*	*59,828*	*15.2%*
corporate deposits	*2,843,619*	*2,696,882*	*3,027,501*	*-183,882*	*-6.1%*	*146,737*	*5.4%*
term deposits	*1,173,851*	*1,435,634*	*1,705,971*	*-532,120*	*-31.2%*	*-261,783*	*-18.2%*
current accounts	*1,669,768*	*1,261,248*	*1,321,530*	*348,238*	*26.4%*	*408,520*	*32.4%*
Debt securities	861,097	924,693	962,396	-101,299	-10.5%	-63,596	-6.9%
Amounts due to credit institutions	155,978	158,486	255,151	-99,173	-38.9%	-2,508	-1.6%
Liabilities directly associated with assets classified as held for sale	0	377,326	334,627	-334,627	-100.0%	-377,326	-100.0%
Other liabilities	278,329	247,461	239,400	38,929	16.3%	30,869	12.5%
Equity	**889,655**	**947,409**	**934,457**	**-44,802**	**-4.8%**	**-57,754**	**-6.1%**

**Including KKB net loans of KZT 780,866 million recognised by the Bank at fair value + changes in KKB gross loan portfolio from acquisition date to 30 June 2018.*

***Including changes in provisions created on KKB loan portfolio from acquisition date to 30 June 2018.*

In 2Q 2018, **total assets** decreased by 6.6% vs. YE 2017 and by 1.6% vs. 1Q 2018, mainly due to the sale of 60% in Altyn Bank on 24 April 2018, followed by deconsolidation of its assets and liabilities from the Bank's balance sheet.

Compared with 1Q 2018, **loans to customers** increased by 0.8% on a gross basis and 0.4% on a net basis, mainly due to 7.0% consumer loan growth over the quarter. The increase in loan growth was partially offset by 1.0% decline in corporate loan portfolio due to write-off and repayment of problem indebtedness of Kazkommertbank's clients.

The aggregate Halyk Bank and KKB's **90-day NPL ratio** was 12.3% compared to 12.7% as at the end of 1Q 2018. The decrease compared to 1Q 2018 was mainly due to restructuring of a large-ticket corporate loans in the Bank's portfolio and write-off of SME and retail bad indebtedness.

Allowances for loan impairment increased by 4.0% compared to 1Q 2018, mainly as a result of additional provisions created against impaired loans in KKB's portfolio and positive revaluation of provisions created on FX-denominated part of a loan portfolio.

Deposits of legal entities and individuals increased by 5.4% and 6.1%, respectively, compared to 1Q 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 second quarter. As at 30 June 2018, the share of corporate KZT deposits in total corporate deposits was 53.3% compared to 54.2% as at 31 March 2018 and 48.3% as at YE 2017, whereas the share of retail KZT deposits in total retail deposits was 44.5% compared to 42.7% as at 31 March 2018 and 40.7% as at YE 2017.

Amounts due to credit institutions decreased by 1.6% due to partial withdrawal of funds from LORO correspondent accounts during 2Q 2018 in the ordinary course of business. As at 30 June 2018, 79.0% of the Bank's obligations to financial institutions was 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 decreased by 6.9% vs. 1Q 2018, mainly due to repayment on 11 May 2018 at maturity of USD 300mln Eurobond by KKB bearing a coupon rate of 8.5%p.a. Eurobond repayment was made in full out of KKB's own funds. 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
Issued by Halyk Bank			
Eurobond	USD 500 mln	7.25% p.a.	January 2021
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
Issued by KKB			
Eurobond	USD 750 mln	5.5% p.a.	December 2022
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
Subordinated coupon bonds	KZT 10 bn	Inflation indexed (currently 8.0 %p.a.)	November 2018

Compared with 1Q 2018 total equity decreased by 6.1% due to dividend payment for FY 2017 and net loss recognised by KKB for 2Q 2018, as a result of additional tax expense in June 2018. The decrease in capital was partially offset by net profit earned by the Bank during 2Q 2018.

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

	01.07.2018	01.04.2018	01.01.2018	01.10.2017	01.07.2017
Capital adequacy ratios, unconsolidated:					
			Halyk Bank		
K1-1	20.6%	21.7%	21.5%	20.2%	22.1%
K1-2	20.6%	21.7%	21.5%	20.2%	22.1%
K2	20.6%	21.6%	21.4%	20.1%	22.1%
			KKB, from period of ownership		
K1-1	20.8%	21.3%	18.0%	13.1%	
K1-2	20.8%	21.3%	19.9%	15.0%	
K2	28.6%	28.9%	26.9%	10.3%	
Capital adequacy ratios, consolidated:					
CET	17.2%	18.1%	16.9%	15.4%	21.6%
Tier 1 capital	17.2%	18.1%	16.9%	15.8%	21.6%
Tier 2 capital	19.1%	20.0%	18.9%	17.8%	21.6%

* *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 condensed interim consolidated financial information for the six months ended 30 June 2018, including the notes attached thereto, are available on Halyk Bank's website: https://halykbank.kz/investoram/ifrs_reports2.

A 1H/2Q 2018 results webcast will be hosted at 2:00 p.m. GMT/9:00 a.m. EST on Wednesday, 22 August 2018: http://halyk220818-live.audio-webcast.com

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 8,273.9 billion as at 30 June 2018, Halyk Bank is Kazakhstan's leading lender. The Bank has the largest customer base and broadest branch network in Kazakhstan, with 667 branches and outlets (including 197 branches and outlets of Kazkommertsbank) 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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