

Joint Stock Company 'Halyk Savings Bank of Kazakhstan'

Consolidated financial results for the three months ended 31 March 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 three months ended 31 March 2018.

Statement of profit or loss review

	1Q 2018	4Q 2017	Change, abs	Q-o-Q, %
<i>Interest income</i>	162,005	167,276	-5,271	-3.2%
<i>Interest expense</i>	-87,617	-85,569	-2,048	2.4%
Net interest income before credit loss expense	74,388	81,707	-7,319	-9.0%
<i>Fee and commission income</i>	26,374	28,760	-2,386	-8.3%
<i>Fee and commission expense</i>	-9,680	-10,703	1,023	-9.6%
Net fee and commission income	16,694	18,057	-1,363	-7.5%
Insurance income ⁽¹⁾	292	2,933	-2,641	-90.0%
FX operations ⁽²⁾	55,425	43,216	12,209	28.3%
Loss from derivative operations and securities ⁽³⁾	-42,546	-27,877	-14,669	52.6%
Other non-interest income	15,764	14,179	1,585	11.2%
Credit loss expense ⁽⁴⁾	-5,197	-43,149	37,952	-88.0%
Recoveries of other credit loss expense ⁽⁵⁾	1,355	1,275	80	6.3%
Operating expenses	-36,084	-46,216 ⁽⁶⁾	10,132	-21.9%
Income tax expense	-10,159	-8,167	-1,992	24.4%
Profit from discontinued operations	2,585	2,134	451	21.1%
Non-controlling interest in net income	-10,464	-51	-10,413	205.2x
Net income	62,053	38,041	24,012	63.1%
Net interest margin, p.a.	4.3%	4.9%		
Return on average equity, p.a.	29.2%	18.0%		
Return on average assets, p.a.	2.9%	1.8%		
Cost-to-income ratio	29.3%	33.5%		
Cost of risk on loans to customers, p.a.	0.2%	4.8%		

(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 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) 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;

(5) provisions against letters of credit and guarantees issued

(6) Including impairment loss of assets held for sale

Compared with 4Q 2017, **net interest income** decreased by 9.0% to KZT 74.4bn, mainly due to decline in interest rates on loans to customers, amortisation of a discount on perpetual bond redeemed by Kazkommertsbank in 1Q 2018 and reclassification of Kazkommertsbank interest income from amortisation of discount on receivables into other income due to IFRS 9.

Net interest margin decreased to 4.3% p.a. for 1Q 2018 compared to 4.9% p.a. for 4Q 2017, mainly on

the back of lower net interest margin of Kazkommertsbank.

Credit loss expense decreased by 88.0% mainly due to repayment of problem indebtedness by some of Kazkommertsbank's clients in 1Q 2018 and one-off additional provisions on created on impaired loans of Kazkommertsbank and its Russian subsidiary in 4Q 2017. As a result, the **cost of risk** on loans to customers decreased to 0.2% p.a. over the reporting period compared to 4.8% p.a. for 4Q 2017.

Fee and commission income decreased by 8.3% compared to 4Q 2017 mainly on the back of seasonal effect.

Other non-interest income decreased by 10.2% to KZT 43.3bn for 1Q 2018 vs. KZT 48.2bn for 4Q 2017. This decrease was mainly attributable to net loss from financial assets and liabilities at fair value through profit or loss mostly on the back of revaluation loss on derivative and trading operations on the back of KZT appreciation in 1Q 2018. The decrease was partially offset by a net gain on foreign exchange operations, mainly as a result of a positive revaluation of a short USD position on the balance sheet due to KZT appreciation in 1Q 2018.

Operating expenses decreased by 21.9% mainly due to higher one-off expenses on charity, impairment assets held for sale, amortisation and penalties as a result of KKB tax audit in 4Q 2017, as well as expenses on taxes, other than income tax.

The Bank's **cost-to-income** ratio decreased to 29.3% compared to 33.5% for 4Q 2017 on the back of lower operating expenses. **Operating income** decreased by 10.7% mainly due to negative revaluation of derivative instruments in 1Q 2018 and lower net interest income earned in 1Q 2018 compared to 4Q 2018.

Statement of financial position review

	31-Mar-18	31-Dec-17	Change, abs	Change YTD, %
Total assets	8,411,931	8,857,781	-445,850	-5.0%
Cash and reserves	1,386,943	1,891,587	-504,644	-26.7%
Amounts due from credit institutions	86,357	87,736	-1,379	-1.6%
T-bills & NBK notes	2,051,492	1,878,870	172,622	9.2%
Other securities & derivatives	722,279	831,531	-109,252	-13.1%
<i>Gross loan portfolio*</i>	3,564,346	3,568,263	-3,917	-0.1%
<i>Stock of provisions **</i>	-338,381	-317,161	-21,220	6.7%
Net loan portfolio	3,225,965	3,251,102	-25,138	-0.8%
Assets held for sale	574,072	552,405	21,667	3.9%
Other assets	364,823	364,550	273	0.1%
Total liabilities	7,464,522	7,923,324	-458,803	-5.8%
Total deposits, including:	5,756,556	6,131,750	-375,194	-6.1%
<i>retail deposits</i>	3,059,674	3,104,249	-44,575	-1.4%
<i>term deposits</i>	2,666,681	2,691,886	-25,205	-0.9%
<i>current accounts</i>	392,993	412,363	-19,370	-4.7%
<i>corporate deposits</i>	2,696,882	3,027,501	-330,619	-10.9%
<i>term deposits</i>	1,435,634	1,705,971	-270,337	-15.8%
<i>current accounts</i>	1,261,248	1,321,530	-60,282	-4.6%
Debt securities	924,693	962,396	-37,703	-3.9%
Amounts due to credit institutions	158,486	255,151	-96,665	-37.9%
Liabilities directly associated with assets classified as held for sale	377,326	334,627	42,699	12.8%

Other liabilities	247,461	239,400	8,060	3.4%
Equity	947,409	934,457	12,952	1.4%

**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 31 March 2018.*

***Including changes in provisions created on KKB loan portfolio from acquisition date to 31 March 2018.*

In 1Q 2018, **total assets** decreased by 5.0% vs. YE 2017, mainly due to partial withdrawal of funds by the Bank's customers, maturity of REPO transactions and the decrease in balance value of FX denominated assets due to KZT appreciation versus US dollar during 1Q 2018.

Compared with YE 2017, **loans to customers** remained almost flat on a gross basis and decreased by 0.8% on a net basis due to loan repayments exceeding new loan issues in Kazkommertsbank portfolio, additional provisions created as a result of IFRS 9 and the decrease in balance value of FX loans due to KZT appreciation versus US dollar during 1Q 2018.

The aggregate Halyk Bank and KKB's **90-day NPL ratio** was 12.7% compared to 12.1% as at YE 2017. The increase was due to indebtedness of some previously impaired large-ticket corporate borrowers of the Bank and Kazkommertsbank becoming overdue by more than 90 days.

Allowances for loan impairment increased by 6.7% compared to YE 2017, mainly as a result of additional provisions created against impaired loans in the Bank's and Kazkommertsbank's portfolio due to introduction of IFRS 9.

Deposits of legal entities and individuals decreased by 10.9% and 1.4%, respectively, compared to YE 2017, mainly due to partial withdrawal of funds by the Bank's customers to finance their ongoing needs. As at 31 March 2018, the share of corporate KZT deposits in total corporate deposits was 54.2% compared to 48.3% as at YE 2017, whereas the share of retail KZT deposits in total retail deposits was 42.7% compared to 40.7% as at YE 2017.

Amounts due to credit institutions decreased by 37.9% vs. YE 2017 mainly due to maturity of the Bank's REPO transactions with the Kazakhstan Stock Exchange in 1Q 2018. As at 31 March 2018, 77.6% 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 3.9% vs. YE 2017, mainly due to redemption of USD 100 million perpetual subordinated international bond bearing a coupon rate of USD Libor + 6.1905% by Kazkommertsbank on 9 February 2018. On 11 May 2018, Kazkommertsbank repaid at maturity its USD 300mln Eurobond bearing a coupon rate of 8.5%p.a. Both the redemption of perpetual bond and the repayment of Eurobond were made in full out of Kazkommertsbank'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
<i>Issued by Halyk Bank</i>			
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 Kazkommertsbank**

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

**Excluding debt securities of Kazkommertsbank's Russian subsidiary for RUB 52.6million.*

Compared with YE 2017 total equity increased by 1.4% mainly due to net profit earned by the Bank during 1Q 2018. The increase in capital was partially offset by additional reserves created by the Bank in connection with IFRS 9 introduced starting from 1 January 2018 and redemption of Kazkommertsbank's own shares during the reporting period.

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

	01.04.2018	01.01.2018	01.10.2017	01.07.2017
<i>Capital adequacy ratios, unconsolidated:</i>				
Halyk Bank				
K1-1	21.7%	21.5%	20.2%	22.1%
K1-2	21.7%	21.5%	20.2%	22.1%
K2	21.6%	21.4%	20.1%	22.1%
Kazkommertsbank				
K1-1	21.3%	18.0%	13.1%	
K1-2	21.3%	19.9%	15.0%	
K2	28.9%	26.9%	10.3%	
<i>Capital adequacy ratios, consolidated:</i>				
CET	18.1%	16.9%	15.4%	21.6%
Tier 1 capital	18.1%	16.9%	15.8%	21.6%
Tier 2 capital	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 three months ended 31 March 2018, including the notes attached thereto, are available on Halyk Bank's website:

https://halykbank.kz/investoram/ifrs_reports2.

A 1Q 2018 results webcast will be hosted at 2:00 p.m. GMT/9:00 a.m. EST on Monday, 21 May 2018:

<http://www.audio-webcast.com/cgi-bin/visitors.ssp?fn=visitor&id=5615>

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.

With total assets of KZT 8,411.9 billion as at 31 March 2018, Halyk Bank is Kazakhstan’s leading lender. The Bank has the largest customer base and broadest branch network in Kazakhstan, with 688 branches and outlets (including 206 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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