«HALYK FINANCE»
АКЦИОНЕРЛІК ҚОҒАМЫ

SUBSIDIARY OF HALYK BANK KAZAKHSTAN
HALYK FINANCE
ДОЧЕРНЯЯ ОРГАНИЗАЦИЯ НАРОДНОГО БАНКА КАЗАХСТАНА

АКЦИОНЕРНОЕ ОБЩЕСТВО
«HALYK FINANCE»

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АО «Казахстанская фондовая биржа»

Во исполнение п/п 7 таб. 6 пр.4.1 Листинговых правил, утвержденных решением Совета директоров АО «Казахстанская фондовая биржа» (протокол от 27 апреля 2017 года № 15) АО «Halyk Finance» (далее – Общество) доводит до сведения АО «Казахстанская фондовая биржа», а также всех заинтересованных лиц следующую информацию:

Международное рейтинговое агентство Fitch Ratings подтвердило ранее присвоенные АО «Halyk Finance» долгосрочные рейтинги дефолта эмитента («РДЭ») в иностранной и национальной валюте на уровне «ВВ», прогноз «Позитивный». Агентство Fitch Ratings также подтвердило краткосрочные РДЭ АО «Halyk Finance» в иностранной и национальной валюте на уровне «В» и рейтинг поддержки на уровне «3».

Пресс-релиз агентства Fitch Ratings от 10 декабря 2018 года прилагается.

С уважением,

И.о. Председателя Правления **Темирханов М.Р.**

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FitchRatings

Fitch Affirms 6 Kazakh Financial Institutions; Downgrades ATF's & Centercredit's VRs

Fitch Ratings-Moscow/London-10 December 2018: Fitch Ratings has affirmed the Long-Term Issuer Default Ratings (IDRs) of Subsidiary Bank Sberbank of Russia (SBK) at 'BB+' and JSC Halyk Bank (Halyk) and JSC Halyk Finance at 'BB' (HF). The Outlooks are Positive. Fitch has also affirmed the IDRs of ForteBank (Forte), ATF Bank JSC (ATF) and Bank Centercredit (BCC) at 'B' with the Stable Outlooks. The agency has downgraded the Viability Ratings (VRs) of ATF and BCC to 'ccc' from 'b'.

A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS - IDRS, NATIONAL LONG-TERM RATINGS, SUPPORT RATINGS (SBK, HALYK, HF)
SBK's 'BB+' Long-Term Foreign- and Local-Currency IDRs and '3' Support Rating (SR) are driven by the potential support that SBK may receive from its 100% shareholder, Sberbank of Russia (SBR; BBB-/Positive), in case of need. The Positive Outlook on SBK mirrors that on the parent. We assess SBR's propensity to support SBK as high, reflecting the CIS region's strategic importance to SBR, the high level of integration between the parent and its subsidiary, common branding, and possible reputational risks for the parent in case of a subsidiary default. However, we rate SBK one notch below its parent due to the cross-border nature of the parent-subsidiary relationship, the fact that we do not view SBK as a core subsidiary and SBK's considerable management independence. The overall probability of support is considered moderate, as indicated by the SR.

Halyk's ratings are driven by its standalone financial strength, reflected in its VR. There have been no material changes since Fitch's last review of the bank (see 'Fitch Revises Halyk's Outlook to Positive; Withdraws KKB's Ratings on Merger Completion', dated 2 August 2018 at www.fitchratings.com) and we have affirmed the bank's ratings.

HF is a wholly-owned core subsidiary of Halyk and its IDRs are equalised with the ratings of its parent to reflect this. The Positive Outlook on HF mirrors that on the parent. Fitch believes Halyk has a high propensity to support HF given ownership, integration, common branding, and significant negative reputational implications for Halyk in case of a subsidiary default. HF is small relative to its parent (representing below 0.5% of Halyk's total assets at end-1Q18) and its balance sheet is healthy, which limits the cost of any potential support in our view.

National Ratings reflect issuers' creditworthiness relative to other credits in Kazakhstan.

KEY RATING DRIVERS
IDRS, NATIONAL LONG-TERM RATINGS, SUPPORT RATINGS, SUPPORT RATING FLOORS (FORTE, BCC, ATF, HALYK)
The IDRs of Forte, BCC and ATF are driven by our view that there is a limited probability these banks would receive support from the Kazakhstan sovereign (BBB/Stable), in case of need. Fitch has

reassessed the Kazakh authorities' propensity to provide extraordinary capital support to medium-sized privately-owned banks because of an improved track record of state support to the banking sector in 2017-2018. This revised view is based on the following:

i) A substantial buy-out of problem assets of KZT2.4 trillion (over 50% of total assets) from Kazkommertsbank prior to its acquisition by Halyk in 2H17.
ii) Moderate capital support in the form of cheap subordinated debt (partly booked as equity due to fair value gains) provided by the National Bank of Kazakhstan (NBK) to four medium-sized banks (with market shares of 4%-9%), including ATF and BCC, in 4Q17. The amount of provided capital ranged from 5% to 13% of banks' risk-weighted assets.
iii) Significant support to the second-largest bank in the country, Tsesnabank (9% of sector assets at end-3Q18), in 3Q18, which included KZT200 billion (10% of total liabilities at end-2Q18) of liquidity support from the NBK and a transfer of KZT450 billion of its loans (24% of gross loans at end-2Q18) to the state-owned Problem Assets Fund at book value.

However, we view the probability of state support as still limited, given the Kazakh authorities' mixed record of banking sector support in the past and the absence of clear statements regarding future state support for the banking sector.

Forte, BCC and ATF control deposit market shares of approximately 6%-7% and this corresponds to at least moderate systemic importance. In addition, the banks' liability structure, with a significant share of funding from state-related entities, could also positively influence the state's propensity to provide support.

Accordingly, we have revised the Support Rating Floors (SRFs) of Forte, BCC and ATF to 'B' from 'No Floor', and upgraded their SRs to '4' from '5'. The IDRs of ATF and BCC are now support-driven, while Forte's IDR is driven by both state support and its intrinsic credit strength, as expressed by its VR of 'b'. Fitch has also revised Halyk's SRF to 'B+' from 'B', one notch above the medium-sized banks, due to Halyk's higher systemic importance.

VRS (ALL BANKS)
Halyk's VR is the highest in Kazakhstan. It is the country's largest deposit-taker by far, controlling a market share of approximately 35%. Its VR reflects its dominant market position and reasonable risk appetite and management, strong performance, solid capital and good liquidity buffers relative to peers. On the negative side, Halyk's ratings continue to reflect a still high amount of legacy impaired loans.

The downgrade of BCC's and ATF's VRs to 'ccc' from 'b' reflects a persistently high volume of net impaired loans and non-core assets that could require both banks to absorb additional impairment losses. In Fitch's view, resolving these risks would most likely require external capital support and/or the potential bail-in of junior creditors, as pre-impairment profitability for both banks remains weak and core capital buffers are insufficient to absorb high potential losses.

Volumes of potentially problem assets at BCC and ATF are largely unchanged compared with previous reviews. However, we believe that the NBK is exercising heightened regulatory scrutiny of the banking sector in conjunction with its efforts to address sector asset quality problems. Regulatory forbearance for impaired loans recognition appears to be diminishing and it is increasingly likely that the NBK will force these banks to address their problems in the foreseeable future, in Fitch's view.

The affirmation of SBK's and Forte's VRs reflects limited changes in their credit profiles compared with the previous rating reviews. The VRs continue to capture their weak asset quality and exposure to Kazakhstan's highly cyclical and structurally weak economic environment. SBK's asset quality risks are lower than Forte's and this is the main driver of the former's one-notch higher VR.

VR (HALYK)
At end-3Q18, Halyk's impaired loans (defined as Stage 3 loans under IFRS 9) comprised 17.6% of gross loans and POCI loans added a further 3.1%. Stage 3 and POCI loans were reserved at a moderate 47%. However, downside asset quality risks are limited, in our view. This is because the quality of Halyk's largest loans is reasonable and impaired loans that were acquired as a result of the merger with Kazkommertsbank in 2018 and consolidated on net basis are deeply provisioned.

At end-3Q18, Halyk's net stage 3 and POCI loans were equivalent to 41% of Fitch core capital (FCC) while investment property and foreclosed assets added a further 20%. The Positive Outlook on Halyk's ratings reflects Fitch's expectation that unreserved impaired loans and other problem assets relative to FCC will gradually reduce as strong earnings retention continues to boost loss absorption capacity.

Halyk's capital adequacy can withstand moderate shocks, in our view. The FCC ratio reached 19.9% at end-3Q18. Capitalisation is supported by robust performance, which is likely to be sustainable in our view, and moderate asset growth. Halyk's liquidity buffer is solid, with liquid assets covering a substantial 57% of total liabilities at end-3Q18. The bank is largely funded by customer deposits.

VR (SBK)
SBK's VR reflects its weak asset quality and only moderate capital buffer. Impaired loans stood at 11% of gross loans at end-1H18 but were 1.3x covered by total loan loss allowances (LLA). Stage 2 loans were a moderate 10%. We believe that additional asset quality risks for SBK are only moderate, given deep provisioning of impaired loans.

SBK's FCC ratio was 12% at end-1H18. Our assessment is that capital is still vulnerable to even moderate shocks, given the risks associated with Kazakhstan's operating environment. SBK plans moderate asset growth and this is unlikely to exceed SBK's profit retention, in our view. SBK's net income has historically been volatile, impacted by loan impairment charges, but we expect performance to stabilise given currently reasonable loan loss cover.

The bank's funding profile remains solid, as expressed by SBK's low 87% ratio of gross loans to deposits. Liquid assets covered a high 40% of liabilities at end-1H18. SBK is predominantly funded by customer deposits. These are stable but highly concentrated with the largest depositors being state-related, as is common in Kazakhstan.

VR (FORTE)
Forte's VR is driven by its high legacy asset quality risks. Impaired loans were a high 27% of gross loans at end-3Q18 while Stage 2 loans were a further 5%. Impaired loans were 37% covered with total LLA. Positively, Forte's impaired loans portfolio is highly granular and most impaired loans are adequately collateralised, largely by residential real estate, which we regard as a relatively more liquid asset class in the country. Foreclosed assets and investment property were equivalent to 36% of FCC at end-3Q18, which we regard as an additional drag on Forte's capital adequacy.

Net impaired loans, stage 2 loans and foreclosed assets combined were equivalent to around 1.3x of end-3Q18 FCC, which is higher than at SBK, justifying the one-notch lower VR. These stocks should moderately decrease due to gradual recoveries and Forte's participation in a state mortgage refinancing programme.

The bank's FCC ratio was 15% at end-3Q18 but the bank's capitalisation is still vulnerable to even moderate shocks. Performance has been improving in recent years due to more efficient collection of accrued interest and higher operational efficiency.

Forte was 71% customer deposit funded at end-3Q18, while wholesale debt (25% of total liabilities) substantially increased when Samruk Kazyna swapped a KZT220 billion long-term deposit for senior bonds in 3Q18. Forte's contractual wholesale funding repayment schedule is comfortable, with most repayments not due until 2024. The bank benefits from a solid liquidity buffer covering 37% of customer deposits at end-3Q18.

VRS (BCC, ATF)

The VRs of BCC and ATF are driven by weak asset quality and loss absorption capacity. At end-1H18 BCC's and ATF's impaired loans equaled 31% and 22% of gross loans, respectively, and were 37% and 88%, respectively, covered by total LLA. Banks' exposures to stage 2 loans were also substantial, at 11.5% (BCC) and 27% (ATF) of gross loans, and these may require the banks to incur additional impairment losses.

Accordingly, net impaired loans were a substantial 1.9x (BCC) and 0.3x (ATF) FCC and stage 2 loans added a further 1.1x (BCC) and 3.4x (ATF) FCC. In addition, the on-balance sheet exposure to investment property, repossessed collateral and other non-core items equaled 0.7x (BCC) and 0.9x (ATF) FCC.

In Fitch's view, both banks' earnings may not be sufficient to absorb potential additional impairment losses related to the above-mentioned problem assets, and a material improvement of their performance is unlikely in the near term.

The banks' core capitalisation is weak, as expressed by low FCC ratios of 8.4% (BCC) and 6.9% (ATF) at end-1H18. Substantial problem assets materially exceed core capital buffers. Positively, junior debt buffers, including perpetual and subordinated debt, were significant and equaled 8.6% (BCC) and 12.9% (ATF) of risk-weighted assets at end-1H18. However, the contractual terms of these debt instruments do not envisage loss absorption triggers, and we believe that they may absorb losses only after the banks become non-viable.

Both banks are funded with relatively stable, although highly concentrated, customer deposits equaling around 80% of total liabilities at end-1H18. At end-1H18, contractual repayments of wholesale funding for the rest of 2018 and 2019 were limited to 5% (BCC) and 3% (ATF) of total liabilities. Liquidity buffers equaled a reasonable 27% (BCC) and 34% (ATF) of total liabilities at end-1H18.

DEBT RATINGS

Senior unsecured debt ratings are aligned with Long-Term IDRs and Banks' National Long-Term Ratings, reflecting average recovery prospects in case of default.

SBK's subordinated debt is notched down once from its Long-Term IDR and National Long-Term Rating, reflecting Fitch's view that support from SBR would likely be available for subordinated debtholders to cover the related non-performance risk.

The dated subordinated debt issues of ATF and BCC are notched down twice from the banks' VRs to reflect potential loss severity. The downgrade of the Recovery Rating on these debt issues to 'RR6' from 'RR5' reflects poor recovery prospects in case of default due to very thin layers of junior-debt relative to sizeable asset quality problems at both banks and low recovery expectations in Kazakhstan.

The perpetual debt ratings of BCC and ATF are rated three notches below their VRs, reflecting their deeper subordination, compared to subordinated debt.

SBK's debt ratings relate to bonds issued prior to 1 August 2014.

RATING SENSITIVITIES
IDRS, NATIONAL RATINGS, DEBT RATINGS, SUPPORT RATINGs, SUPPORT RATING FLOORS
The support-driven IDRs of ATF and BCC, and SRFs of Halyk and Forte, are sensitive to changes in our assessment of sovereign support for Kazakhstan's banking sector. An extended record of timely and sufficient capital support to privately-owned banks may result in moderate upside potential for the SRFs of these banks, and hence for the IDRs of ATF, BCC and Forte.

Conversely, evidence of weaker support and/or significant delays in addressing asset quality and capital problems in the sector, resulting in medium-sized private banks' insolvency or failure, could result in downgrades of SRFs, and of the IDRs of ATF and BCC.

The support-driven IDRs of SBK and HF are sensitive to changes in the ability of their parents to provide support.

National Ratings are sensitive to a change in creditworthiness relative to other Kazakh issuers.

Halyk's IDRs are sensitive to changes in its VR.

VRS
The VRs of the five banks are primarily sensitive to changes in asset quality and capital adequacy.

Fitch may upgrade the VRs of Halyk, SBK and Forte if the amount of net impaired loans, net stage 2 loans and other problem assets relative to FCC materially reduces, either due to recoveries, or due to deeper provisioning. This is more likely to be the case for Halyk, as reflected by the Positive Outlook on its ratings. Conversely, renewed asset quality pressure leading to a material increase in problem assets, may result in negative rating actions on these three banks.

The VRs of ATF and BCC may be downgraded if the likelihood of failure increases. Upside potential for the banks' VRs is limited given the extent of their asset quality problems.

The rating actions are as follows:

Halyk Bank of Kazakhstan
Long-Term Foreign- and Local-Currency IDRs: affirmed at 'BB'; Outlooks Positive
Short-Term Foreign- and Local-Currency IDRs: affirmed at 'B'
Viability Rating: affirmed at 'bb'
Support Rating: affirmed at '4'
Support Rating Floor: revised to 'B+' from 'B'
Senior unsecured debt: affirmed at 'BB'

JSC Halyk Finance
Long-Term Foreign- and Local-Currency IDRs: affirmed at 'BB'; Outlooks Positive
Short-Term Foreign- and Local-Currency IDRs: affirmed at 'B'
Support Rating: affirmed at '3'

Subsidiary Bank Sberbank of Russia, JSC
Long-Term Foreign- and Local-Currency IDRs: affirmed at 'BB+'; Outlooks Positive
Short-Term IDR: affirmed at 'B'

National Long-Term Rating: affirmed at 'AA-(kaz)'; Outlook Positive
Viability Rating: affirmed at 'b+'
Support Rating: affirmed at '3'
Senior unsecured debt: affirmed at 'BB+'/'AA-(kaz)'
Subordinated debt: affirmed at 'BB'/'A+(kaz)'

ATF Bank JSC
Long-Term Foreign- and Local-Currency IDRs: affirmed at 'B'; Outlooks Stable
Short-Term IDR: affirmed at 'B'
National Long-Term Rating: affirmed at 'BB+(kaz)'; Outlook Stable
Viability Rating: downgraded to 'ccc' from 'b'
Support Rating: upgraded to '4' from '5'
Support Rating Floor: revised to 'B' from 'No Floor'
Senior unsecured debt: affirmed at 'B'/'BB+(kaz)'; Recovery Rating 'RR4'
Dated subordinated debt: downgraded to 'CC'/'CCC(kaz)' from 'B-'/'BB(kaz)'; Recovery Rating changed to 'RR6' from 'RR5'
Perpetual debt: downgraded to 'C' from 'CCC'; Recovery Rating 'RR6'

Bank Centercredit
Long-Term Foreign- and Local-Currency IDRs: affirmed at 'B'; Outlooks Stable
Short-Term IDR: affirmed at 'B'
National Long-Term Rating: affirmed at 'BB+(kaz)'; Outlook Stable
Viability Rating: downgraded to 'ccc' from 'b'
Support Rating: upgraded to '4' from '5'
Support Rating Floor: revised to 'B' from 'No Floor'
Senior unsecured debt: affirmed at 'B'/'BB+(kaz)'; Recovery Rating 'RR4'
Dated subordinated debt: downgraded to 'CC'/'CCC(kaz)' from 'B-'/'BB(kaz)'; Recovery Rating changed to 'RR6' from 'RR5'
Perpetual debt: downgraded to 'C' from 'CCC'; Recovery Rating 'RR6'

ForteBank
Long-Term Foreign- and Local-Currency IDRs: affirmed at 'B', Outlooks Stable
Short-Term Foreign-Currency IDR: affirmed at 'B'
National Long-Term Rating: affirmed at 'BB+(kaz)'; Outlook Stable
Viability Rating: affirmed at 'b'
Support Rating: upgraded to '4' from '5'
Support Rating Floor: revised to 'B' from 'No Floor'
Senior unsecured debt: affirmed at 'B'/'BB+(kaz)'; Recovery Rating 'RR4'

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