

## **S&P Affirms Halyk Bank's Ratings at 'BB/B' with Stable Outlook**

**Almaty, 29 November 2018** — The international rating agency S&P Global Ratings affirmed its 'BB' long-term and 'B' short-term issuer credit ratings on Kazakhstan-based Halyk Savings Bank of Kazakhstan (the "Bank"). The outlook is stable. The Kazakhstan national scale rating on the bank was affirmed at 'kzA+'.

The affirmation follows the revision of our banking industry country risk assessment (BICRA) on Kazakhstan. The agency believes that industry risk in the Kazakh banking system has increased because of a harsher competitive landscape following various actions by the government, government related-entities (GREs), and well-connected bank owners. The S&P believes the banking system has become more polarized: smaller banks are pushed out of the market, while larger players benefit from government support and ad hoc government decisions, and customers switch their funds to the larger banks.

The affirmation of the Bank ratings reflects the S&P opinion on its leading market position, strong management team, diversified business model, and ample liquidity that will allow it to withstand the increased industry risks. As of 1 October 2018, Halyk Bank accounted for about 29% of systemwide loans and 37% of total customer deposits. The S&P notes the bank's management team has demonstrated its ability to navigate the difficult operating environment by delivering solid financial performance over the economic cycle, supported by strong pricing power, a low cost of funds, and satisfactory risk-management systems and procedures.

The S&P forecasts that Halyk Bank's earnings will stay strong while it will maintain a conservative lending strategy in the next two years, which will support the bank's capital buffers. The agency forecasts that the bank's risk-adjusted capital (RAC) ratio will be around 7.6%-8.1% during the next two years, up from 7.1% at the end of 2017. The improvement will come from stabilization of credit costs at around 1% of total loans and low operating costs reflecting cost optimization efforts following the integration of Kazkommertsbank and operational synergies. The bank's lending growth will be around 3%-5% in the next two years, in the S&P's view, roughly the same as we foresee on average for the Kazakh banking sector.

The S&P considers that Halyk Bank's integration of Kazkommertsbank has progressed smoothly. Both banks' business procedures were transferred to a single technological platform once the merger was completed on July 28, 2018. We expect synchronization of business cultures over the next year. We also expect that the group will be able to benefit from synergies arising from staff and branch cost optimization and leveraging the innovative IT technologies taken from Kazkommertsbank.

The S&P agency views Halyk Bank as having high systemic importance in Kazakhstan. Therefore, the Bank's rating includes one notch of uplift in the agency's ratings on the bank above the assessment of its stand-alone credit profile. The stable outlook on Halyk Bank reflects the S&P expectation that the consolidated bank's credit profile will likely remain broadly unchanged in the next 12-18 months. The agency expects that the bank will continue to improve its asset quality indicators, gradually increasing provisioning coverage and writing off its legacy problem loans.