

BANKS' VACCINATION

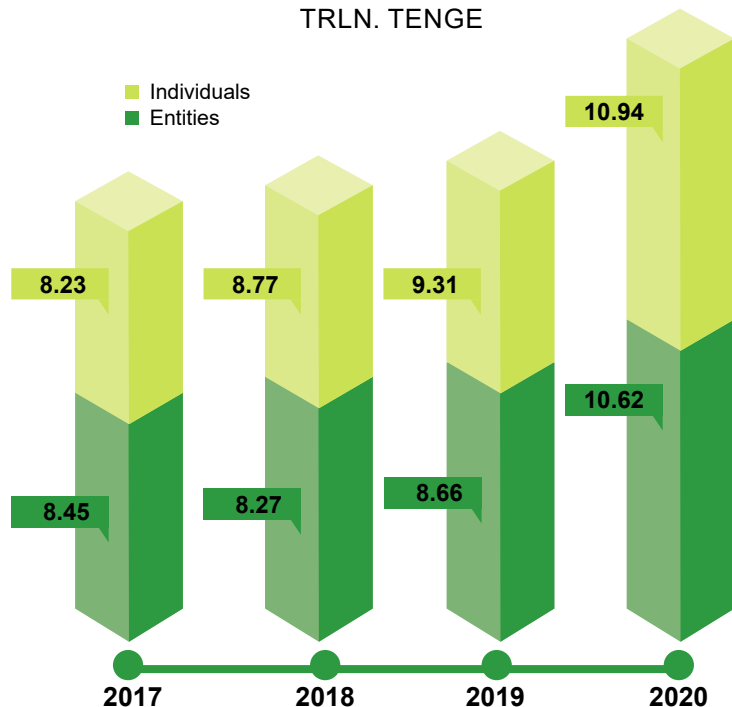
Consolidation was a necessary measure to support banks' activity during the pandemic.

The Covid-19 pandemic has had an adverse effect on both the global economy in general and the banking sector in particular. Nevertheless, it is expected that banks will bolster their resilience and restructure lending terms for borrowers most affected by the pandemic.

S&P rating agency analysts predict a recovery of Kazakhstan's banking sector in 2021. It is expected that the loan portfolio of STBs will increase by 8-10% in nominal terms due to the pension reform and government support programs. In addition, on March 5, 2021, S&P Global Ratings put Kazakhstan's rating at "BBB-/ A-3" with a "stable" outlook. By the end of 2020, 18 out of 26 second-tier banks had ratings from international rating agencies.

As of 2015, the regulator has done significant work to clean up the banking system from risky players. S&P Global Ratings expects this trend to continue in the upcoming two years. That is, small and medium-sized banks that failed to create reserves should be ready for mergers and acquisitions of their assets in view of the growth of non-performing loans in the future.

GROWTH DYNAMICS OF ENTITY AND INDIVIDUAL DEPOSITS OF STBS FROM 2017 TO 2020, TRLN. TENGE



Source: National Bank of Republic of Kazakhstan

A significant event at the end of last year was the merger of a number of banks. On December 29, 2020 First Heartland Jusan Bank acquired 99.88% of voting shares of ATFBank. However, due to the fact that this rating is based on the data of the National Bank as of January 1, 2021, the merged banks are presented separately in the analysis. The volume of assets after the merger of Jusan Bank and ATFBank ensures that First Heartland Jusan Bank will be among the top three banks in Kazakhstan in terms of total assets.

On December 30, 2020 ForteBank announced the completion of a deal on the sale of 100% of the common shares of Kasa Nova Bank to Freedom Finance investment company. The transaction amounted to KZT17.2 billion, later it was announced that the institution's name was changed to Bank Freedom Finance Kazakhstan.

At the beginning of 2021 two more banks left the market. It became known about the deprivation of a license from February 11, 2021 Asia Credit Bank, which was given the opportunity until December 25, 2020 to take measures to improve its financial situation. Asia Credit Bank's capital deficit was about 19 billion tenge.

The banking sector was represented by 26 second-tier banks, including 11 second-tier banks with foreign participation. At the beginning of June, the banking sector was represented by 25 banks, due to the departure of AsiaCredit Bank.

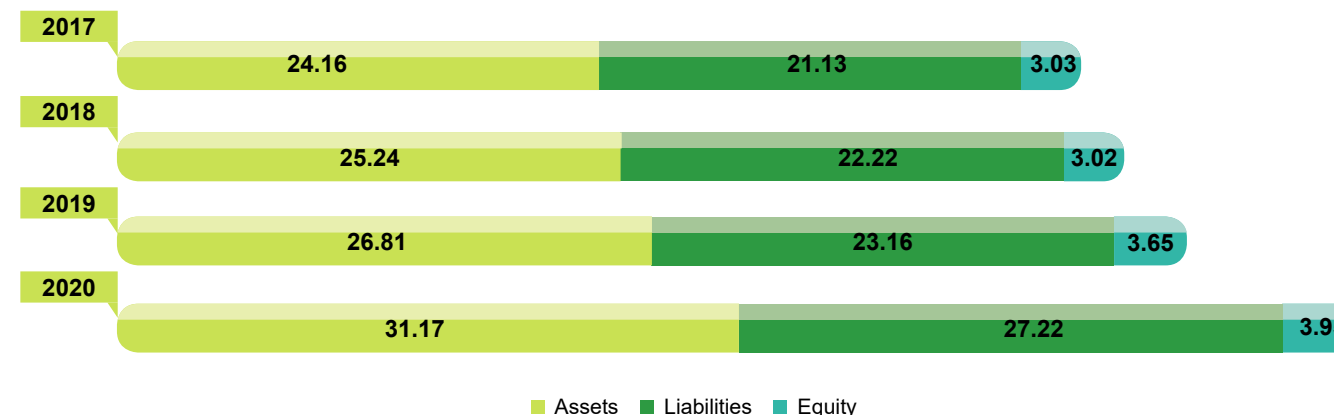
ASSETS

By the beginning of 2021, the total assets of the banking sector increased by 16%, or 4.4 trln KZT, over the prior year and amounted to 31.2 trln KZT. The leader in terms of assets, as well as in 2019, is Halyk Bank with assets of 9.97 trln KZT, which makes up 32% of all assets of second-tier banks.

According to the breakdown, 19 banks out of 26 or (or 73% of banks) showed an increase in assets as of January 1, 2021. A significant increase in assets was recorded by "Al Hilal" Islamic Bank – 56% and SB "KZI BANK" – 55% respectively.

The banking sector for the period from 2017 to 2020 shows a positive dynamic of growth in assets and liabilities, despite the reduction in the number of players. Consolidation of the sector occurs due to the weak ability of banks to generate capital from domestic sources and the lack of available funds available for bank recapitalization, as well as problems associated with the deterioration of asset quality and insufficient capital reserves. But in general, M&A deals contribute to the process of recovery of the banking system within

GROWTH DYNAMICS OF ASSETS, LIABILITIES AND EQUITY OF STBS FROM 2017 TO 2020, TRLN. TENGE



Source: National Bank of Republic of Kazakhstan

the framework of improving their reliability and stability of second-tier banks.

NET INCOME

Net profit from operating activities of the entire banking sector in 2020 amounted to 726.1 bln. KZT. The best profitability indicators were demonstrated by Halyk Bank (318.4bln KZT), Kaspi Bank (231.5 bln KZT), SB Sberbank Kazakhstan (60.5 bln KZT), ForteBank (53.2 bln. KZT) and Citibank Kazakhstan (50.8 bln. KZT).

The prominence of Halyk Bank undoubtedly stands out against other second-tier banks, as it ranks first in various indicators, not only in terms of net income position. World rating agencies also confirm the bank's growth with high ratings: Fitch Ratings (BBB-), Moody's (Baa3), Standard and Poor's (BB).

Four out of 26 banks (ATFBank, Nurbank, Capital Bank Kazakhstan, AsiaCredit Bank) recorded a negative income over expenses.

ROA & ROE

Kaspi Bank (9.3%), Home Credit Bank (6.3%) and Citibank Kazakhstan (5.9%) had the highest ROA. Four out of 26 banks have negative ROA, including AsiaCreditBank, which left the market, and ATF Bank, which was acquired by Jusan Bank.

Kaspi Bank (91.2%), Citibank Kazakhstan (35.8%) and Home Credit Bank (30.3%) showed the highest capital turnover. DB Sberbank Kazakhstan dropped out of the top three for the ROE indicator compared to 2019. Its indicator in 2020 was 23% versus 33% for 2019.

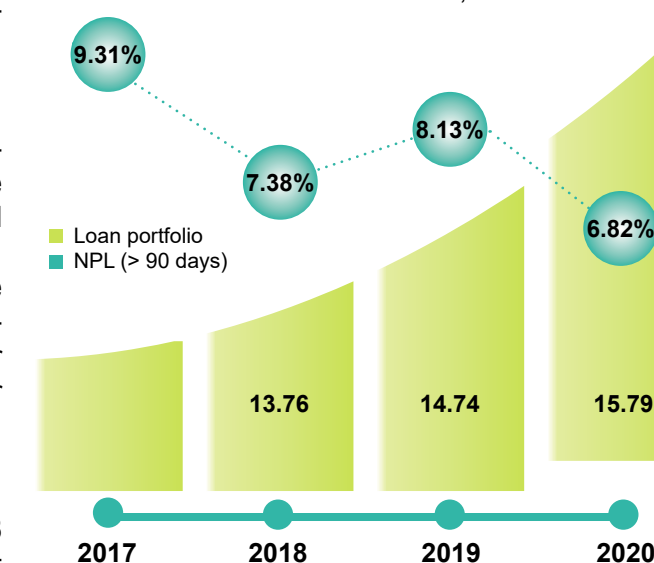
LOANS

Loans of all second-tier banks for 2020 amounted to 15.8 trln KZT, which is 7.1% higher than in 2019. The largest

increase was demonstrated by Halyk Bank – 639.9 bln KZT, Sberbank – 348.3 bln KZT, Otbasy Bank – 300.4 bln KZT. ATF Bank saw the maximum decrease in the volume of loans (by 356.9 bln KZT) due to its acquisition by Jusan Bank. Halyk Bank still retains its position as one of the leaders in terms of the volume of issued loans at 4.9 trln KZT, which accounts for 31% of the total loan portfolio.

The dynamics of the loan portfolio shows an increase from 13.6 trln KZT to 15.8 trln KZT for 2017-2020, reflecting the growing trend of loans to the population. As you know, significant deferrals on retail

DYNAMICS OF THE LOAN PORTFOLIO GROWTH AND CHANGES IN NPL (>90 DAYS) OF STBS FROM 2017 TO 2020, TRLN. TENGE



Source: National Bank of Republic of Kazakhstan

loans were granted in 2020 to support the population, this also affected the rate of problem loans over 90 days reducing it to 6.8% at the end of 2020.

In percentage terms, the largest increase in the loan portfolio was demonstrated by Islamic Bank “Al Hilal” – the increase amounted to 67% or 9.4 bln KZT. Loans with overdue payments over 90 days on the principal debt and accrued interest (NPL), according to the National Bank, amounted to 1.1 trln KZT, which is lower than the previous result by 121.7 bln KZT or 10%. At that, three banks have no loans with overdue payments over 90 days. The biggest growth of NPLs (over 90 days) was demonstrated by Sberbank (27.3 bln KZT), ForteBank (14.7 bln KZT) and AsiaCredit Bank (14.1 bln KZT). The total overdue loans of these banks amounted to 178.7 bln KZT, which equals 17% of all NPL (over 90 days).

CAPITAL

The total amount of the sector’s equity capital amounted to 3.95 trln KZT. It’s worth noting that only 11 out of 26 banks have this indicator higher than 100 bln KZT. The highest growth of capital in the sector was 31% and belongs to Alfa-Bank. Five banks showed a decline in capital, with Nurbank showing the largest decrease at 41%.

DEPOSITS

According to the National Bank at the beginning of 2021 customer deposits in the STBs amounted to 21.6 trln KZT, up 20% from 2019.

Over the period of 2017 –2020 a stable growth of deposits of individuals and legal entities is noticeable, which indicates an active placement of deposits and interest in bank deposits among Kazakhstans and the corporate sector.

The volume of deposits in national currency as of the beginning of January 2021 amounted to 13.2 trillion tenge and in foreign currency to 8.3 trln KZT.

The deposits of legal entities in national currency amounted to 6.5 trln KZT and 4.1 trln KZT or 38.6% in foreign currency as of the beginning of 2021.

Individual deposits in national currency amounted to 6.7 trln KZT and 4.2 trln KZT in foreign currency, or 38.6%.

As a result, as of January 1, 2021 about 61% of customer deposits were in national currency, according to the deposit structure of second-tier banks.

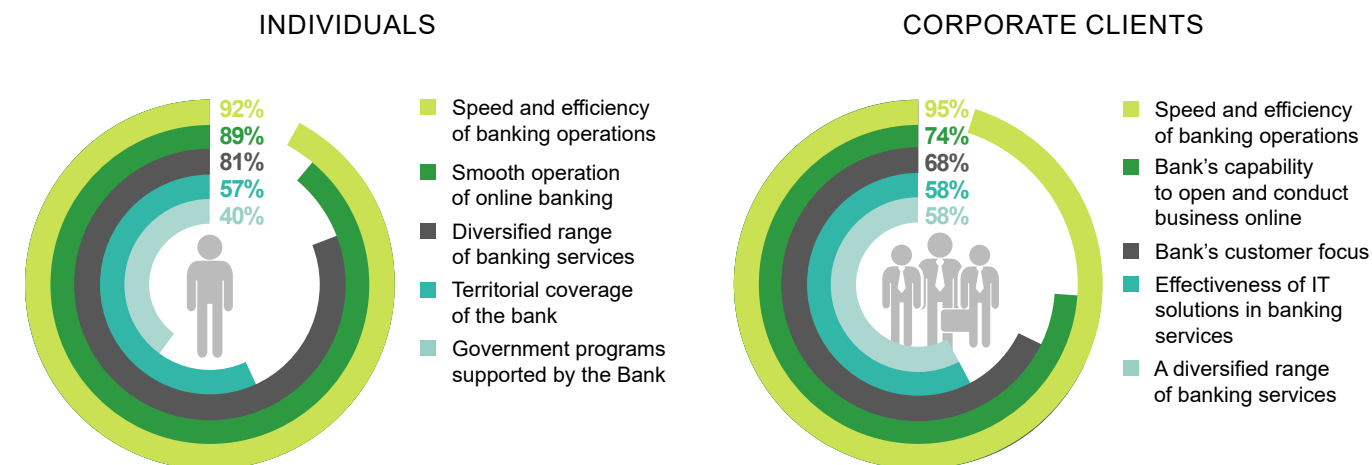
The leader in terms of deposits was Halyk Bank, which accounted for about 34% of the total deposits, or 7.3 trln KZT. The bank showed a deposit inflow of 14% in 2020. The four leading banks in terms of deposits are; Halyk Bank, SB Sberbank Kazakhstan, Kaspi Bank and ForteBank with more than 1 trln KZT in deposits in each bank. These banks accounted for around 13.2 trln KZT, or 61% of total deposits. In general, Halyk Bank had a significant positive inflow on deposits in 2020 – 917.3 bln KZT, Kaspi Bank – 620.4bln KZT, SB Sberbank Kazakhstan – 563.8bln. KZT.

As of the beginning of 2021, SB Sberbank of Kazakhstan is the leader in terms of deposits among banks with foreign participation with the amount of 2.2 trln KZT or 10% of the total amount of deposits of the whole banking sector.

UNIVERSAL SERVICE PROVIDERS

Statistics in recent years show that the banking sector has begun to move away from its traditional perception of a bank as a purely financial institution and more toward a universal provider of various types of services. This transition is also noticeable due to the development of mobile

KEY CONSIDERATIONS FOR CHOOSING A BANK



Source: Baker Tilly analysis based on a social survey

banking. Based on the results of these changes, Baker Tilly conducted a survey, the purpose of which was to identify the factors that are most important for clients in the process of selecting a bank. The survey was focused on individual clients as well as on the owners of the companies. About 200 respondents were interviewed for this survey.

CUSTOMER EXPERIENCE

With increased competition, rising customer expectations have become an integral part of every industry, including banking and financial institutions. That’s why many banking providers have to keep up with new trends in order to serve their customers promptly.

Customer experience in banking is an important aspect of every strategic approach to customer satisfaction.

When asked what indicators or factors play the biggest role in choosing a bank, 52.6% of businesses and 40.7% of individuals said customer experience is important (speed and efficiency of the bank, availability of a diversified set of banking services, etc.).

While 59.3% of individuals and 47.4% of legal entities noted the importance of banks’ financial metrics, such as asset size, ROA, ROE, and deposit volume.

According to the results, 81.4% of individuals use the mobile app daily, while ATMs are used only once a month and mostly to withdraw wages in order to avoid transfer fees. Moreover, 88.9% of individuals said that the usability and interface of the mobile application are very important, and only 51.8% of individuals think it’s important to have a wide network of ATMs. Individuals also do not consider bank-sponsored programs necessary, and only 40.2% of respondents consider bank participation in government programs important. On the other hand, 80.8% of people consider important for the bank such services as cashback, availability of QR-payments and P2P-transfers.

And finally, when asked about the importance of process automation, speed and efficiency of bank’s work, 92% of respondents – individuals consider this criterion as one of the most important.

Usability and online interface of the bank application are the most important features for business representatives in 95% of cases.

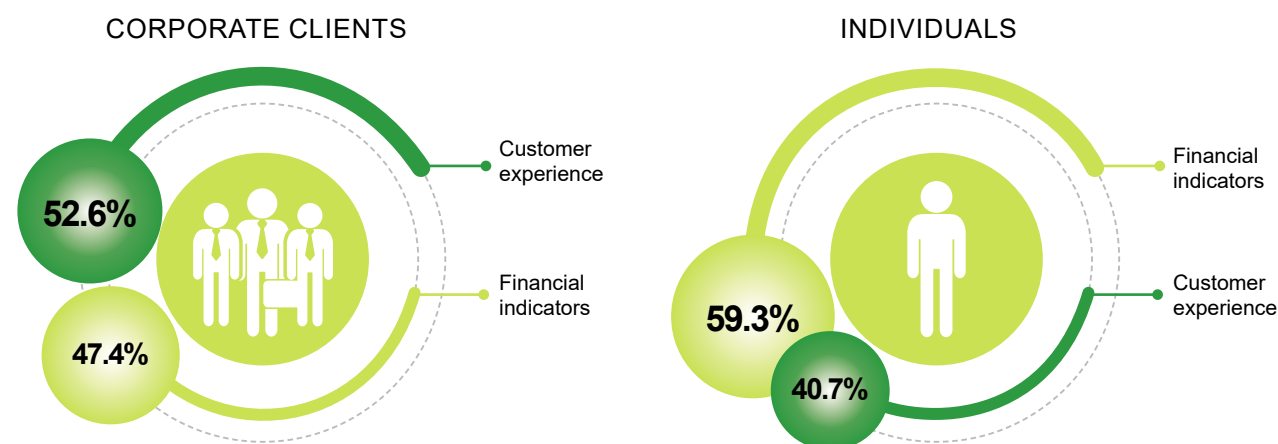
And as a result, customers really care about availability of online services and ease of use of these features. That’s why the fintech market has been booming in recent years and is starting to integrate into the banking ecosystem. In the near future, a bank that does not have a full-fledged mobile application filled with a variety of functions and an online store will find it difficult to grasp the development vector that the banking industry is steadily moving along.

Having considerable experience in consulting and valuation services and being fully capable of acting as an external consultant, the Baker Tilly team is pleased to provide its services in the preparation of marketing analyses, market analyses, conducting market research, and feasibility studies for the attraction of financing. Our company is an accredited consultant by the Development Bank of Kazakhstan for external assessment in such industries as chemical industry, production of construction materials, warehousing, logistics and cargo transportation, as well as agriculture and food industry.

Baker Tilly ranks among the top-10 international networks and service companies in audit, consulting, financial consulting, risk management, accounting, and taxation. Baker Tilly operates in 146 countries, among our clients are companies operating in various industries, mostly in financial, insurance, professional scientific and technical activities, manufacturing, development business, as well as wholesale and retail trade.

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CUSTOMER EXPERIENCE VS FINANCIAL INDICATORS



Source: Baker Tilly analysis based on a social survey