

JSC Delta Bank

EXPLANATORY NOTE

**TO THE INTERIM FINANCIAL
STATEMENT FOR THE FOURTH
QUARTER OF 2016**

1 Background

(a) Organization and operations

JSC Delta Bank (the “Bank”) is a joint stock company, which was incorporated in the Republic of Kazakhstan in 1993.

The activities of the Bank are regulated by the National Bank of the Republic of Kazakhstan (the “NBRK”). The Bank operates under banking licence №213, dated of 24th of October 2007.

The principal activities of the Bank are commercial/banking activity, lending and issuing guarantees, cash and settlements operations with securities and foreign exchange.

The Bank is the member of the Kazakhstan Deposit Insurance Fund (the “KDIF”).

The Bank’s registered office is: 73A, Tole bi street, Almaty, Republic of Kazakhstan.

As of 31st of December 2016, the Bank has 11 branches operating in the Republic of Kazakhstan.

Bonds and common shares issued by the Bank are listed on the Kazakhstan Stock Exchange.

(b) Shareholders

As of 31st of December 2016 and 31st of December 2015, the following shareholders owned 5% or more of the issued voting shares of the Bank:

	31 December 2016 %	31 December 2015 %
Shareholder		
Samzayev Artykbay	21.0	24.5
Tulepbekov Zhasulan	9.9	9.4
Sarkulova Kulaysh	9.9	9.2
Dzholdybayeva Zhanar	9.8	9.3
Saktaganova Galiya	9.8	8.9
Akhmetzhanova Gulimzhan	9.8	5.5
Balmagambetova Almagul	9.7	9.7
Suleimenov Aidos	-	5.7
LLP "Agroopttorg-07"	-	5.6
Kravchenko Aigul	-	5.4
	79.9	93.2
Shareholders owning less than 5%	20.1	6.8
	100.0	100.0

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value and land, buildings and vehicles are at revalued amounts.

(c) Functional and presentation currency

The functional currency of the Bank is the Kazakhstan Tenge (“KZT”) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The KZT is also the presentation currency for the purposes of these financial statements.

Financial information presented in KZT is rounded to the nearest thousand.

3 Net interest income

	31.12.2016 KZT'000	31.12.2015 KZT'000
Interest income		
Loans to customers	52,177,684	37,444,664
Held-to-maturity investments	2,144,961	59,777
Available-for-sale financial assets	955,668	2,150,884
Financial instruments at fair value through profit or loss	495,846	120,864
Placements with banks and other financial institutions	457,277	-
	56,231,436	39,817,577
Interest expense		
Current accounts and deposits from customers	(16,016,492)	(10,272,562)
Due to banks and other financial institutions	(5,771,062)	(2,859,639)
Debt securities issued	(2,464,367)	(2,500,963)
Amounts payable under repurchase agreements	(1,413,947)	(2,654,660)
Financial instruments at fair value with changes through profit and loss for the period	(522,231)	(117,678)
Other	-	(10,333)
	(26,188,099)	(18,415,835)
	30,043,337	21,401,742

4 Fee and commission income

	31.12.2016 KZT'000	31.12.2015 KZT'000
Guarantee and letter of credit issuance	1,416,717	615,795
Transfer operations	240,437	199,487
Cash operations	200,987	168,357
Foreign currency exchange	166,516	81,602

Explanatory Notes to the Interim Financial Statements for the 4Q 2016

	31.12.2016 KZT'000	31.12.2015 KZT'000
Credit card and account maintenance	58,016	48,914
Other	33,180	39,239
	2,115,853	1,153,394

5 Fee and commission expense

	31.12.2016 KZT'000	31.12.2015 KZT'000
Card services	58,907	24,661
Transfer operations	48,717	43,664
Guarantee services	46,319	30,659
Brokerage	9,687	10,023
Other	64,117	62,002
	227,747	171,009

6 Net foreign exchange income

	31.12.2016 KZT'000	31.12.2015 KZT'000
Dealing, net	491,914	681,932
Translation differences, net	208,430	2,489,584
	700,344	3,171,516

7 Impairment losses

	31.12.2016 KZT'000	31.12.2015 KZT'000
Loans to customers	(25,717,707)	(15,287,714)
Other assets	(504,034)	(39,082)
	(26,221,741)	(15,326,796)

8 General administrative expenses

	31.12.2016 KZT'000	31.12.2015 KZT'000
Employee compensation	1,386,598	1,272,883
Payroll related taxes	134,383	122,287
Total employee costs	1,520,981	1,395,170
Occupancy	467,993	444,978
Depreciation and amortisation	233,145	285,744
Taxes other than on income	176,735	131,814
Advertising and marketing	159,417	154,275
Communications and information services	88,628	60,914
Professional services	87,756	64,837
Security	74,003	72,499
Insurance	52,429	54,022

Explanatory Notes to the Interim Financial Statements for the 4Q 2016

	31.12.2016 KZT'000	31.12.2015 KZT'000
Travel expenses	37,879	29,071
Transportation	34,205	29,201
Membership fee	18,568	14,442
Repairs and maintenance	10,937	10,316
Cash collection expenses	10,084	9,900
Representative expenses	2,802	4,023
Other	228,253	166,927
	3,203,815	2,928,133

9 Cash and cash equivalents

	31.12.2016 KZT'000	31.12.2015 KZT'000
Cash on hand	1,854,179	1,232,120
Nostro account with the NBRK	1,878,141	1,837,657
Nostro account with other banks		
- rated A	1,613,050	1,883,394
- rated from BBB+ to BBB-	330,527	2,480,054
- rated from BB+ to BB-	289,312	536,930
- rated lower than B+	59,483	1,553,982
- not rated	68,144	285,472
Total Nostro accounts with other banks	2,360,516	6,739,832
Cash equivalents		
- Term deposits with other banks rated B-	-	3,747,133
- Reverse repurchase agreements	-	1,000,000
Total cash equivalents	-	4,747,133
Total cash and cash equivalents	6,092,836	14,556,742

The above table is based on the credit ratings assigned by Standard & Poor's or other agencies converted into Standard & Poor's scale. None of cash and cash equivalents are impaired or past due.

10 Financial instruments at fair value through profit or loss for the period

10 Financial instruments at fair value through profit or loss for the period

	31.12.2016 KZT'000	31.12.2015 KZT'000
Held by the Bank		
ASSETS		
Equity instruments		
Corporate shares	21,443	13,771
Derivatives		
Cross-currency interest rate swap	6,294,711	4,981,077
	<u>6,316,154</u>	<u>4,994,848</u>
LIABILITIES		
Derivatives		
Cross-currency interest rate swap	5,612,077	4,750,620
	<u>5,612,077</u>	<u>4,750,620</u>

Financial instruments at fair value with movements in value are reflected within profit or loss, and it is not overdue or impaired.

11 Loans to customers

	31.12.2016 KZT'000	31.12.2015 KZT'000
Loans to corporate customers	<u>410,187,961</u>	<u>370,726,140</u>
Loans to retail customers		
Consumer loans	519,830	1,038,349
Other retail loans	1,206,707	1,277,688
Total loans to retail customers	<u>1,726,536</u>	<u>2,316,037</u>
Gross loans to customers before deduction of provision for impairment	411,914,498	373,042,177
Provision for impairment	(68,655,333)	(43,508,185)
Net loans to customers after deduction of provision for impairment	<u>343,259,165</u>	<u>329,533,992</u>

12 Available-for-sale financial assets

	31.12.2016 KZT'000	31.12.2015 KZT'000
<i>Held by the Bank</i>		
Debt instruments		
Bonds of Sovereign Wealth Fund Samruk-Kazyna JSC	6,285,304	5,966,757
Discount notes of the National Bank of the Republic of Kazakhstan	3,449,274	-
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	1,682,415	1,613,347
	11,416,993	7,580,104
Equity instruments		
JSC Kazakhstan Stock Exchange	2,200	2,200
	2,200	2,200
	11,419,193	7,582,304

Investments without a determinable fair value

Available-for-sale investments stated at cost comprise non-quoted ordinary equity shares of JSC Kazakhstan Stock Exchange of KZT 2,200 thousand, the fair value of which cannot be reliably determined. There is no market for this investment and there have not been any recent transactions that provide evidence of the current fair value.

13 Held-to-maturity investments

	31.12.2016 KZT'000	31.12.2015 KZT'000
<i>Held by the Bank</i>		
Debt instruments		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	6,942,221	34,619,394
	6,942,221	34,619,394
<i>Pledged under repurchase agreements</i>		
Debt instruments		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	22,588,662	-
	22,588,662	-
	29,530,883	34,619,394

14 Due to banks and other financial institutions

	31.12.2016 KZT'000	31.12.2015 KZT'000
Long-term loans received from the government-owned financial organisations	85,032,922	93,997,890
Amounts payable under repurchase agreements	22,598,000	-
Short-term deposits received from the government-owned financial organisations	20,085,907	2,007,778

	31.12.2016 KZT'000	31.12.2015 KZT'000
Other	23	
	<u>145,842,746</u>	<u>132,719,532</u>

15 Current accounts and deposits from customers

	31.12.2016 KZT'000	31.12.2015 KZT'000
Current accounts and demand deposits		
- Corporate	26,006,495	25,185,215
- Retail	441,834	1,040,497
Term deposits		
- Corporate	129,392,197	146,285,042
- Retail	799,950	9,936,880
	<u>156,640,476</u>	<u>182,447,634</u>

16 Debt securities issued

	31.12.2016 KZT'000	31.12.2015 KZT'000
Nominal	29,037,710	29,042,000
Discount	(468,660)	(557,478)
Accrued interest	554,248	554,432
	<u>29,123,298</u>	<u>29,038,954</u>

The summary of bond issues as of 31st of December 2016 and 31st of December 2015 is presented below:

			Carrying amount	
	Maturity	Coupon rate	31.12.2016 KZT'000	31.12.2015 KZT'000
KZT denominated bonds of the first issue *	18.01.2017	9.5%	10,305,402	10,274,589
KZT denominated bonds of the second issue *	27.05.2023	7.5%	18,817,896	18,764,365
			<u>29,123,298</u>	<u>29,038,954</u>

* Quoted on KASE

17 Equity

Movement in share capital during twelve months ended on 31st of December 2016 and the year ended 31st of December 2015 was as follows (ordinary stock):

Explanatory Notes to the Interim Financial Statements for the 4Q 2016

	31.12.2016	31.12.2016	31.12.2015	31.12.2015
	KZT'000	Number of shares	KZT'000	Number of shares
Share capital at the beginning of the year	30,459,970	19,957,893	20,460,08	13,291,313
Issued at KZT 1,500 per share	5,025,000	3,350,000	10,000,001	6,666,667
Acquisition of treasury shares	(209)	(152)	(119)	(87)
Share capital at the end of the year	35,484,761	23,307,741	30,459,970	19,957,893

As of 31st of December 2016, the authorized, issued and outstanding share capital comprises:

	Authorized shares	Unplaced shares	Treasury shares	Total share capital
Ordinary shares	40,000,000	(16,650,333)	(41,926)	23,307,741

As of 31 December 2015, the authorized, issued and outstanding share capital comprises:

	Authorized shares	Unplaced shares	Treasury shares	Total share capital
Ordinary shares	40,000,000	(20,000,333)	(41,774)	19,957,893

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

18 Book value per one share

Under the listing rules of the Kazakh Stock Exchange the Bank is required to present book value per share in its statement of financial position. The calculation of book value per share as of 30th of September 2016 is based on number of outstanding common shares of 23,307,741 (31st of December 2015: 19,957,893) and net assets of KZT 60,948,236 thousand (31st of December 2015: KZT 47,967,717 thousand) calculated as follows:

	31.12.2016 KZT'000	31.12.2015 KZT'000
Total assets	409,440,007	398,030,513
Intangible assets	(394,512)	(377,894)
Total liabilities	(352,359,300)	(349,684,902)
Net assets	56,686,195	47,967,717

The following table shows the book value per share calculations as of 31st of December 2016 and 31st of December 2015:


	31.12.2016 KZT'000	31.12.2015 KZT'000
Net assets	56,686,195	47,967,717
Outstanding number of participating shares at the year end	23,307,741	19,957,893

	31.12.2016 KZT'000	31.12.2015 KZT'000
Book value per share, KZT	<u>2,432</u>	<u>2,403</u>


19 Earnings per share

The following table shows the profit for the twelve months ended 31st of December 2016 and 2015 and share data used in the basic and diluted earnings per share calculations:

	31.12.2016 KZT'000	31.12.2015 KZT'000
Net profit attributable to ordinary shareholders	<u>3,322,667</u>	<u>6,295,823</u>
Weighted average number of ordinary shares for basic earnings per share	<u>23,103,177</u>	<u>15,551,717</u>
Basic and diluted earnings per share, in KZT	<u>144</u>	<u>405</u>



Nurbol Samzayev
Chairman of the Management Board



Galiya Kainarbekova
Deputy Chairperson - Chief
accountant