

JSC Delta Bank

EXPLANATORY NOTE

**TO THE FINANCIAL
STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2012**

1 Background

(a) Organisation 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 24 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, Tolebi street, Almaty, Republic of Kazakhstan.

As at 31 December 2012, the Bank had 11 branches operating in the Republic of Kazakhstan.

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

(b) Shareholders

As at 31 December 2012 and 2011, the following shareholders owned 5% or more of the issued voting shares of the Bank:

Shareholder	31 December 2012	31 December 2011
	%	%
Samzayev Artykbay	16.8	-
Sarkulova Kulaysh	9.9	10.6
Saktaganova Galiya	9.8	10.5
Tulebayeva Alma	9.6	10.3
Zholdybayeva Zhanar	9.3	10.0
Tulepbekov Zhasulan	9.2	9.8
Balmagambetova Almagul	8.7	9.3
Kravchenko Aigul	8.1	8.7
Akhmetzhanova Gulimzhan	6.1	6.6
Akinzhanova Ainur	6.1	6.6
Alimkulov Aziz	-	10.6
	93.6	93.0
Shareholders owning less than 5%	6.4	7.0
	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.

(B) 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

	2012 KZT'000	2011 KZT'000
Interest income		
Loans to customers	13,495,528	7,805,900
Available-for-sale financial assets	299,887	207,713
Held-to-maturity investments	122,200	135,575
Placements with banks and other financial institutions	21,477	1,535
Financial instruments at fair value through profit or loss	10,731	10,672
	13,949,823	8,161,395
Interest expense		
Current accounts and deposits from customers	(4,286,759)	(2,742,257)
Debt securities issued	(180,742)	-
Subordinated debt securities issued	(103,210)	(150,161)
Due to banks and other financial institutions	(56,413)	(121,129)
Amounts payable under repurchase agreements	(7,813)	(21,844)
	(4,634,937)	(3,035,391)
	9,314,886	5,126,004

4 Fee and commission income

	2012 KZT'000	2011 KZT'000
Guarantee and letter of credit issuance	864,616	377,506
Cash operations	139,785	136,676
Transfer operations	124,066	139,414
Foreign currency exchange	22,793	28,052
Credit card and account maintenance	18,907	23,120
Other	17,717	11,612
	1,187,884	716,380

5 Fee and commission expense

	2012 KZT'000	2011 KZT'000
Card services	12,468	16,460
Transfer operations	12,135	13,847
Brokerage	6,980	3,972
Agency	434	12,204
Other	10,295	2,698
	42,312	49,181

6 Net foreign exchange income

	2012 KZT'000	2011 KZT'000
Dealing, net	133,326	123,520
Translation differences, net	(6,318)	3,713
	127,008	127,233

7 Impairment losses

	2012 KZT'000	2011 KZT'000
Loans to customers	6,547,152	3,076,083
Other assets	5,423	(4,869)
	6,552,575	3,071,214

8 General administrative expenses

	2012 KZT'000	2011 KZT'000
Employee compensation	875,714	701,656
Payroll related taxes	84,481	68,151
Total employee costs	960,195	769,807
Occupancy	409,919	502,116
Depreciation and amortisation	125,432	140,464
Taxes other than on income	74,861	99,138
Security	54,121	46,203
Communications and information services	41,382	36,681
Insurance	38,396	60,273
Advertising and marketing	32,035	78,751
Professional services	17,362	51,240
Transportation	16,283	15,439
Travel expenses	15,504	12,529
Representative expenses	14,180	13,380
Repairs and maintenance	12,240	42,636
Membership fee	10,589	13,386
Cash collection expenses	7,489	7,522
Other	84,327	57,828
	1,914,315	1,947,393

9 Cash and cash equivalents

	2012 KZT'000	2011 KZT'000
Cash on hand	381,371	227,270
Nostro account with the NBRK	6,593,937	8,489,309
Nostro account with other banks		
- rated A	1,321,207	1,002,297
- rated from BBB+ to BBB-	184,482	132,581
- rated from BB+ to BB-	31,910	39,950
- rated below B+	5,560	6,087
- not rated	111,903	99,889
Total cash and cash equivalents	8,630,370	9,997,383
Mandatory reserve with the NBRK	(2,511,165)	(1,773,859)
	6,119,205	8,223,524

As at 31 December 2012 the Bank had one bank (31 December 2011: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 is KZT 6,593,937 thousand (31 December 2011: KZT 8,489,309 thousand).

10 Financial instruments at fair value through profit or loss

	2012 KZT'000	2011 KZT'000
<i>Held by the Bank</i>		
Debt instruments		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	157,519	158,781
Equity instruments		
JSC Kazakhtelecom	19,148	28,114
	176,667	186,895

11 Loans to customers

	2012 KZT'000	2011 KZT'000
Loans to corporate customers	111,225,131	69,154,470
Loans to retail customers		
Consumer loans	286,946	412,693
Other retail loans	621,950	786,724
Total loans to retail customers	908,896	1,199,417
Gross loans to customers	112,134,027	70,353,887
Impairment allowance	(10,344,571)	(3,700,824)
Net loans to customers	101,789,456	66,653,063

12 Available for-sale financial assets

	2012 KZT'000	2011 KZT'000
<i>Held by the Bank</i>		
Debt instruments		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	7,351,315	6,507,387
Notes of the National bank of the Republic of Kazakhstan	2,094,870	1,997,814
Corporate bonds rated B+	-	30,310
	9,446,185	8,535,511
Equity instruments		
JSC Kazakhstan Stock Exchange	2,200	2,200
	2,200	2,200
	9,448,385	8,537,711
<i>Pledged under repurchase agreements</i>		
Debt instruments		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	8,000,002	-
Total pledged under repurchase agreements	8,000,002	-
	17,448,387	8,537,711

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

	2012 KZT'000	2011 KZT'000
<i>Held by the Bank</i>		
Debt instruments		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	180,064	2,156,380
Bonds of JSC Halyk Savings Bank of Kazakhstan	-	132,574
Bonds of JSC Bank CenterCredit	-	118,533
	180,064	2,407,487
<i>Pledged under repurchase agreements</i>		
Debt instruments		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	2,000,001	-
	2,000,001	-
	2,180,065	2,407,487

14 Other assets

	2012 KZT'000	2011 KZT'000
Commission accrued	44,401	5,824
Settlements for professional services	17,317	9,072
Other accounts receivable	7,588	9,569
Impairment allowance	(1,531)	-
Total other financial assets	67,775	24,465
Non-current assets held-for-sale	146,089	20,685
Prepayments	54,832	32,203
Current tax asset	47,243	10,090
Materials and supplies	3,974	3,696
Total other non-financial assets	252,138	66,674
Total other assets	319,913	91,139

15 Current accounts and deposits from customers

	2012 KZT'000	2011 KZT'000
Current accounts and demand deposits		
- Corporate	18,426,924	14,492,595
- Retail	903,388	850,765
Term deposits		
- Corporate	79,872,507	49,413,141
- Retail	8,762,608	5,457,139
	107,965,427	70,213,640

16 Debt securities issued

During the year ended 31 December 2012, the Bank placed bonds with the nominal value of KZT 3,000,000 thousand which bear coupon rate of 9.5% p.a. and mature in January 2017.

17 Other liabilities

	2012 KZT'000	2011 KZT'000
Other	15,493	22,956
Commission accrued	5,076	4,203
Total other financial liabilities	20,569	27,159
Taxes payable other than income tax	117,494	76,146
Vacation reserve	34,536	21,209
Other	13,072	13,564
Total other non-financial liabilities	165,102	110,919
Total other liabilities	185,671	138,078

18 Equity

Issued capital

Movement in share capital during the year ended 31 December 2012 and 2011 was as follows:

	2012 KZT'000	2012 Number of shares	2011 KZT'000	2011 Number of shares
Share capital at the beginning of the year	14,434,172	9,274,137	10,973,097	6,967,410
Issued at KZT 1,500 per share	1,028,097	685,398	3,471,903	2,314,602
Acquisition of treasury shares	(1,289)	(938)	(10,828)	(7,875)
Share capital at the end of the year	15,460,980	9,958,597	14,434,172	9,274,137

As at 31 December 2012, the authorised, issued and outstanding share capital comprises:

	Authorised shares	Unplaced shares	Treasury shares	Total share capital
Ordinary shares	40,000,000	(30,000,000)	(41,403)	9,958,597

As at 31 December 2011, the authorised, issued and outstanding share capital comprises:

	Authorised shares	Unplaced shares	Treasury shares	Total share capital
Ordinary shares	10,000,000	(685,398)	(40,465)	9,274,137

The holders of ordinary 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.

19 Book value per 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 at 31 December 2012 is based on number of outstanding common shares of 9,958,597 (31 December 2011: 9,274,137) and net assets of KZT 18,661,532 thousand (31 December 2011: KZT 15,846,598 thousand) calculated as follows:

	2012 KZT'000	2011 KZT'000
Total assets	140,890,822	88,664,105
Intangible assets	(27,537)	(49,020)
Total liabilities	(122,201,753)	(72,768,487)
Net assets	18,661,532	15,846,598

The following table shows the book value per share calculations as at 31 December 2012 and 2011:

	2012 KZT'000	2011 KZT'000
Net assets	18,661,532	15,846,598
Outstanding number of participating shares at the year end	9,958,597	9,274,137
Book value per share, KZT	1,874	1,709

20 Earnings per share

The calculation of basic earnings per share as at 31 December 2012 is based on the net profit attributable to ordinary shareholders of KZT 1,780,311 thousand (2011: KZT 793,328 thousand), and a weighted average number of ordinary shares outstanding of 9,943,831 (2011: 6,978,171) calculated as follows:

	2012	2011
Issued ordinary shares at the beginning of the year	9,274,137	6,967,410
Effect of shares issued/repurchased during the year	669,694	10,761
Weighted average number of ordinary shares	9,943,831	6,978,171

The following table shows the profit for the year and share data used in the basic and diluted earnings per share calculations:

	2012 KZT'000	2011 KZT'000
Net profit attributable to ordinary shareholders	1,780,311	793,328
Weighted average number of ordinary shares for basic and diluted earnings per share	9,943,831	6,978,171
Basic and diluted earnings per share, in KZT	179	114

There are no potentially dilutive shares for the year ended 31 December 2012 (2011: nil).

Samzayev N.A.
Chairman of the Management Board



Kainarbekova G.K.
Deputy Chairperson of the
Management Board –
Chief Accountant