

JSC Delta Bank

EXPLANATORY NOTE

**TO THE INTERIM FINANCIAL
STATEMENTS FOR THE FIRST
QUARTER OF 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 registered address of the Bank’s head office is located at 73A, Tolebi str, Almaty, Republic of Kazakhstan.

As at 30 March 2012, the Bank had 11 branches operating in the Republic of Kazakhstan.

(b) Shareholders

As at 30 March 2012 and 31 December 2011, the following shareholders owned 5% or more of the issued shares of the Bank:

Shareholder	30 March	31 December
	2012	2011
	%	%
Kulyash Sarkulova	9.9	10.6
Artykbai Samzayev	9.9	-
Galiya Saktaganova	9.8	10.5
Alma Tulebayeva	9.6	10.3
Zhanar Zholdybayeva	9.3	10.0
Zhasulan Tulepbekov	9.1	9.8
Almagul Balmagambetova	8.7	9.3
Aigul Kravchenko	8.1	8.7
Anuar Mukashov	6.9	-
Gulimjan Ahmetzhanova	6.1	6.6
Ainur Akinzhanova	6.1	6.6
Aziz Alimkulov	-	10.6
	93.5	93.0
Shareholders owning less than 5%	6.5	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

	30.03.2012 KZT'000	31.03.2011 KZT'000
Interest income		
Loans to customers	3,093,477	1,721,870
Available-for-sale financial assets	68,438	39,798
Held-to-maturity investments	33,794	34,835
Placements with banks	6,344	25
Financial instruments at fair value through profit or loss	2,668	2,680
	3,204,721	1,799,208
Interest expense		
Current accounts and deposits from customers	979,301	606,743
Subordinated debt securities issued	40,530	33,158
Due to banks	19,799	47,720
Debt securities issued	19,006	-
Amounts payable under repurchase agreements	96	1,712
Other	17,060	481
	1,075,792	689,814
	2,128,929	1,109,394

4 Fee and commission income

	30.03.2012 KZT'000	31.03.2011 KZT'000
Guarantee and letter of credit issuance	137,791	64,683
Cash operations	25,334	28,503
Transfer operations	25,237	25,694
Foreign currency exchange	5,130	8,009
Credit card and account maintenance	4,209	5,600
Other	3,313	3,172
	201,014	135,661

5 Fee and commission expense

	30.03.2012 KZT'000	31.03.2011 KZT'000
Card services	2,945	2,709
Transfer operations	2,474	3,487
Brokerage	1,174	679
Agency	434	2,266
Other	3,503	2,961
	10,530	12,102

6 Net foreign exchange income

	30.03.2012 KZT'000	31.03.2011 KZT'000
Gain on spot transactions	30,890	40,558
Gain from revaluation of financial assets and liabilities	793	1,043
	<u>31,683</u>	<u>41,601</u>

7 Impairment losses

	30.03.2012 KZT'000	31.03.2011 KZT'000
Loans to customers	1,453,211	768,734
Other assets	(76)	25,098
	<u>1,453,135</u>	<u>793,832</u>

8 Operation expenses

	30.03.2012 KZT'000	31.03.2011 KZT'000
Employee compensation	163,984	153,821
Payroll related taxes	16,458	15,459
Total employee costs	180,442	169,280
Rent	78,210	119,354
Depreciation and amortisation	31,272	36,671
Taxes other than on income	16,735	19,027
Security	12,558	11,481
Communications and information services	9,429	9,101
Insurance	7,309	663
Transportation	3,704	3,605
Advertising and marketing	1,746	16,100
Cash collection expenses	1,677	1,675
Travel expenses	1,440	993
Representative expenses	845	1,982
Repairs and maintenance	202	411
Other	14,609	19,497
	<u>360,178</u>	<u>409,840</u>

9 Cash and cash equivalents

	30.03.2012 KZT'000	31.12.2011 KZT'000
Cash on hand	321,627	227,270
Nostro account with the NBRK	5,566,927	8,489,309
Nostro account with other banks		
- rated A	527,938	1,002,297
- rated B and below	438,428	178,618
- not rated	110,266	99,889
Total cash and cash equivalents	6,965,186	9,997,383
Mandatory reserve with the NBRK	(1,769,185)	(1,773,859)
	5,196,001	8,223,524

None of the cash and cash equivalents are impaired or past due.

As at 30 March 2012 the Bank has nostro account with one bank (31 December 2011: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 30 March 2012 is KZT 5,566,927 thousand (31 December 2011: KZT 8,489,309 thousand).

10 Placements with banks

	30.03.2012 KZT'000	31.12.2011 KZT'000
Mandatory reserve with the NBRK	1,769,185	1,773,859
Placements with banks		
- rated from B to BB+	-	301,313
	1,769,185	2,075,172

None of the placements with banks are impaired or past due.

Under Kazakhstan legislation, the Bank is required to maintain certain obligatory mandatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held in either correspondent accounts with the NBRK or in physical cash, and maintained based on average monthly balances of the aggregate of deposits with the NBRK and physical cash. The use of such funds is, therefore, subject to certain restrictions and excluded from cash and cash equivalents.

11 Financial instruments at fair value through profit or loss

	30.03.2012 KZT'000	31.12.2011 KZT'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government bonds		
Bonds issued by the Ministry of Finance of the Republic of Kazakhstan	152,189	158,781
Total government bonds	152,189	158,781
Equity instruments		
JSC Kazakhtelecom	35,695	28,114
Total equity instruments	35,695	28,114
	187,884	186,895

None of the financial instruments at fair value through profit or loss are past due or impaired.

12 Loans to customers

	30.03.2012 KZT'000	31.12.2011 KZT'000
Loans to corporate customers	76,592,577	69,485,271
Loans to retail customers		
Consumer loans	423,361	414,667
Mortgage loans	359,522	382,964
JSC Damu program	268,353	253,942
Auto loans	27,449	31,783
Credit cards	37,852	24,124
Other	54,205	97,674
Total loans to retail customers	1,170,742	1,205,154
Gross loans to customers	77,763,319	70,690,425
Impairment allowance	(5,163,211)	(3,700,824)
Net loans to customers	72,600,108	66,989,601

Movements in the loan impairment allowance by classes of loans to customers for the year ended 30 March 2012 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	3,554,122	146,702	3,700,824
Net charge (recovery)	1,456,828	(3,617)	1,453,211
Recoveries	-	9,363	9,363
Effect of foreign currency translation	(185)	(2)	(187)
Balance at the end of the period	5,010,765	152,446	5,163,211

12 Loans to customers, continued

Movements in the loan impairment allowance by classes of loans to customers for the year ended 30 March 2011 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	650,362	187,472	837,834
Net charge (recovery)	885,858	(117,124)	768,734
Write-offs	(304,612)	(52,626)	(357,238)
Recoveries	12,660	237,860	250,520
Effect of foreign currency translation	30	-	30
Balance at the end of the period	1,244,298	255,582	1,499,880

(a) Credit quality of the loans to corporate customers

The following table provides information on the credit quality of the loans to corporate customers portfolio as at 30 March 2012:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
Loans to corporate customers				
Loans without individual signs of impairment	60,872,145	(1,393,937)	59,478,208	2.3
Impaired loans:				
Individually assessed	15,720,432	(3,616,828)	12,103,604	23.0
Total impaired loans	15,720,432	(3,616,828)	12,103,604	23.0
Total loans to corporate customers	76,592,577	(5,010,765)	71,581,812	6.5

12 Loans to customers, continued

(a) Credit quality of the loans to corporate customers

The following table provides information on the credit quality of the loans to corporate customers portfolio as at 31 December 2011:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
Loans to corporate customers				
Loans without individual signs of impairment	65,976,573	(2,186,171)	63,790,402	3.3
Impaired loans:				
Individually assessed	3,508,698	(1,367,951)	2,140,747	39.0
Total impaired loans	3,508,698	(1,367,951)	2,140,747	39.0
Total loans to corporate customers	69,485,271	(3,554,122)	65,931,149	5.1

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and which can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in business environment, negative changes in the borrower's markets.

The Bank estimated loan impairment for loans to corporate customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to corporate customers, management made the following key assumptions:

- the collective impairment allowance is based on historic loss rates;
- a discount of between 20% and 40% to the annually appraised value if the property pledged is sold;
- a delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral.

12 Loans to customers, continued

(a) Analysis of collateral

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral:

	30 March 2012 KZT'000	% of loan portfolio	31 December 2011 KZT'000	% of loan portfolio
Inventories	29,004,241	40.5	20,365,688	30.9
Deposits	27,416,316	38.3	33,513,188	50.8
Pledged contract receivables	7,162,593	10.0	6,735,974	10.2
Real estate	1,249,731	1.8	3,771,310	5.7
Guarantees	630,317	0.9	810,902	1.2
Motor vehicles	7,519	0.0	8,135	0.1
Other collateral	6,111,095	8.5	725,952	1.1
Total	71,581,812	100.00	65,931,149	100.00

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of collateral.

12 Loans to customers, continued

(b) Credit quality of loans to retail customers

The following table provides information on the credit quality of loans to retail customers as at 30 March 2012:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans, %
Consumer loans				
- Not past due	304,922	(26,193)	278,729	8.6
- Overdue less than 30 days	13,377	(2,617)	10,760	19.6
- Overdue 30-89 days	43,472	(24,688)	18,784	56.8
- Overdue 180-360 days	61,590	(60,259)	1,331	97.8
Total consumer loans	423,361	(113,757)	309,604	26.9
Other loans				
- Not past due	679,180	(24,450)	654,730	3.6
- Overdue less than 30 days	23,058	(1,743)	21,315	7.6
- Overdue 30-89 days	15,706	(2,755)	12,951	17.5
- Overdue 90-179 days	369	(83)	286	22.5
- Overdue 180-360 days	29,068	(9,658)	19,410	33.2
Total other loans	747,381	(38,689)	708,692	5.2
Total loans to individuals	1,170,742	(152,446)	1,018,296	13.0

The following table provides information on the credit quality of loans to retail customers as at 31 December 2011:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans, %
Consumer loans				
- Not past due	219,094	(880)	218,214	0.4
- Overdue less than 30 days	57,763	(717)	57,046	1.2
- Overdue 90-179 days	61,156	(51,223)	9,933	83.8
- Overdue 180-360 days	76,654	(65,083)	11,571	84.9
Total consumer loans	414,667	(117,903)	296,764	28.4
Other loans				
- Not past due	703,326	(4,408)	698,918	0.6
- Overdue less than 30 days	54,800	(1,722)	53,078	3.1
- Overdue 30-89 days	8,707	(2,650)	6,057	30.4
- Overdue 90-179 days	2,241	(1,897)	344	84.6
- Overdue 180-360 days	21,413	(18,122)	3,291	84.6
Total other loans	790,487	(28,799)	761,688	3.6
Total loans to individuals	1,205,154	(146,702)	1,058,452	12.2

12 Loans to customers, continued

(b) Industry and geographical analysis of the loan portfolio

Loans to customers are issued primarily to customers located within the Republic of Kazakhstan, who operate in the following economic sectors:

	30.03.2012 KZT'000	31.12.2011 KZT'000
Agriculture, forestry and timber	32,927,967	36,016,506
Trade	13,217,872	2,840,483
Manufacturing	10,893,027	14,724,365
Construction	10,716,055	10,716,378
Mining/metallurgy	4,112,283	1,123,047
Finance	3,322,750	-
Loans to individuals	1,170,742	1,205,154
Real estate	617,294	648,681
Services	595,393	3,199,596
Transport services	189,936	216,215
	<u>77,763,319</u>	<u>70,690,425</u>
Impairment allowance	(5,163,211)	(3,700,824)
	<u>72,600,108</u>	<u>66,989,601</u>

(r) Significant credit exposures

As at 30 March 2012 the Bank has 19 borrowers or groups of connected borrowers (31 December 2011: 18), whose loan balances exceed 10% of equity. The gross value of these loans as at As at 30 March 2012 is KZT 61,825,964 thousand (31 December 2011: KZT 54,608,107 thousand).

13 Available-for-sale financial assets

	30.03.2012 KZT'000	31.12.2011 KZT'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government instruments		
Bonds issued by the Ministry of Finance of the Republic of Kazakhstan	5,855,440	6,507,387
Notes of the NBRK	1,085,810	1,997,814
Total government instruments	6,941,250	8,505,201
- Corporate bonds		
JSC Kazakhstan Mortgage Company	30,923	30,310
Total corporate bonds	30,923	30,310
Equity investments		
- Corporate shares		
JSC Kazakhstan Stock Exchange	2,200	2,200
Total corporate shares	2,200	2,200
	6,974,373	8,537,711

Investments without a determinable fair value

Available-for-sale investments stated at cost comprise unquoted equity securities in JSC Kazakhstan Stock Exchange.

14 Held-to-maturity investments

	30.03.2012 KZT'000	31.12.2011 KZT'000
Held by the Bank		
- Government instruments		
Bonds issued by the Ministry of Finance of the Republic of Kazakhstan	2,093,157	2,156,380
Total government instruments	2,093,157	2,156,380
- Corporate bonds		
JSC Halyk Savings Bank of Kazakhstan	134,692	132,574
JSC Bank CenterCredit	121,286	118,533
Total corporate bonds	255,978	251,107
	2,349,135	2,407,487

15 Other assets

	30.03.2012 KZT'000	31.12.2011 KZT'000
Commission accrued	32,013	5,824
Other accounts receivable	25,711	9,569
Settlements with market maker	16,374	9,072
Total other financial assets	74,098	24,465
Prepayments	50,471	32,203
Foreclosed property	20,685	20,685
Prepayment of tax other than income tax	26,382	10,090
Materials and supplies	4,917	3,696
Total other non-financial assets	102,455	66,674
Total other assets	176,553	91,139

16 Due to banks

	30.03.2012 KZT'000	31.12.2011 KZT'000
Long-term loans received from financial organizations	594,400	675,980
Term deposits	400,414	400,414
	994,814	1,076,394

As at 30 March 2012 and 31 December 2011 the Bank does not have any lenders, whose loan balances exceed 10% of equity.

17 Current accounts and deposits from customers

	30.03.2012 KZT'000	31.12.2011 KZT'000
Current accounts and demand deposits		
- Corporate	16,581,670	14,492,595
- Retail	652,913	850,765
Term deposits		
- Corporate	44,538,175	49,413,141
- Retail	4,648,816	5,457,139
	<u>66,421,574</u>	<u>70,213,640</u>

As at 30 March 2012, the Bank has 4 customers (31 December 2011: 6 customers), whose balances exceeded 10% of equity. These balances as of 30 March 2012 are KZT 43,658,757 (31 December 2011: KZT 48,226,050 thousand).

18 Debt securities issued

	Issue date (dd/mm/yy)	Maturity date (dd/mm/yy)	Annual interest rate, %	30.03.2012 KZT'000	31.12.2011 KZT'000
Par value	18/01/2012	18/01/2017	9.5	2,000,000	-
Discount				(346)	-
Accrued interest				38,000	-
				<u>2,037,654</u>	<u>-</u>

In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Bank.

19 Subordinated debt securities issued

	30.03.2012 KZT'000	31.12.2011 KZT'000
Par value	1,320,146	1,320,146
Discount	(11,403)	(16,608)
Accrued interest	72,162	36,837
	<u>1,380,905</u>	<u>1,340,375</u>

As at 30 March 2012, subordinated debt securities comprise unsecured obligations of the Bank maturing in September 2012 and carry an annual interest rate of 7.9%. Interest rate on subordinated bonds is a floating interest rate tied up to the inflation rate, which is determined every 6 (six) months (inflation rate +2%).

In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Bank.

20 Other liabilities

	30.03.2012 KZT'000	31.12.2011 KZT'000
Deferred commissions on loans to customers	478,516	336,538
Other	953,159	22,956
Commission accrued	-	4,203
Total other financial liabilities	1,431,675	363,697
Taxes payable other than income tax	45,047	76,146
Vacation reserve	17,016	21,209
Other	27,047	13,564
Total other non-financial liabilities	89,110	110,919
Total other liabilities	1,520,785	474,616

21 Equity

(a) Issued capital

During the three months ended March 30, 2012 and the year ended December 31, 2011 the following ordinary shares were issued:

	30.03.2012 KZT'000	31.12.2011 KZT'000
Issued at KZT 1,500 per share	1,028,097	3,471,903
Total issued and outstanding share capital	1,028,097	3,471,903
Treasury shares	-	(10,828)
Increase in share capital	1,028,097	3,461,075

As at 30 March 2012, the authorized, issued and outstanding share capital comprises:

	Authorized shares	Unplaced shares	Treasury shares	Total share capital
Ordinary shares	10,000,000	-	(40,465)	9,959,535

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

	Authorized 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.

22 Book value per share

Under the listing rules of the Kazakh Stock Exchange approved by the decision of the Stock Exchange Council dated 25 August 2010, the Bank should present book value per share in its Statement of Financial Position. The calculation of book value per share as at 30 March 2012 is based on number of outstanding common shares of 9,959,535 (31 December 2011: 9,274,137) and net assets of KZT 17,315,093 (31 December 2011: 15,846,598) calculated as follows:

	30.03.2012 KZT'000	31.12.2011 KZT'000
Total assets	89,710,779	89,000,643
Intangible assets	(39,954)	(49,020)
Total liabilities	(72,355,732)	(73,105,025)
Net assets	17,315,093	15,846,598


The following table shows the book value per share calculations:


	30.03.2012 KZT'000	31.12.2011 KZT'000
Net assets	17,315,093	15,846,598
Outstanding number of participating shares at the year end	9,959,535	9,274,137
Book value per share, KZT	1,739	1,709

23 Earnings per share

The following table shows the profit for the three months ended 30 March, 2012 and 31 March, 2011 and share data used in the basic and diluted earnings per share calculations:

	30.03.2012 KZT'000	31.03.2011 KZT'000
Net profit attributable to ordinary shareholders	482,410	68,727
Weighted average number of ordinary shares for basic earnings per share	9,897,088	6,967,410
Basic and diluted earnings per share, in KZT	48,74	9,86


Mamytaliev B.D.
Acting Chairman of the Management Board


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