

ANNUAL REPORT **2016**

KAZAKHSTAN DEPOSIT
INSURANCE FUND

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List of abbreviations

Agent Bank	A deposit insurance system member bank commissioned to process payouts to depositors pursuant to the agency services agreement with KDIF
ULE	Union of legal entities
APRC	Asia Pacific Regional Committee of the IADI
Compliance verification measures	The measures taken to verify compliance of the member banks' insured deposits databases against the KDIF requirements
Core Principles	The IADI Core Principles for the Effective Deposit Insurance Systems
Deposit Insurance Law	Law of the Republic of Kazakhstan "On compulsory insurance of deposits placed with second-tier banks in the Republic of Kazakhstan"
DIS	Deposit insurance system
EARC	Eurasia Regional Committee of the IADI
IADI	International Association of Deposit Insurers
KDIF	Kazakhstan Deposit Insurance Fund
Member Bank	A second tier bank handling operations in the Republic of Kazakhstan being a member of the deposit insurance system
National Bank, NBK	National Bank of Kazakhstan
Tax Code	Code of the Republic of Kazakhstan "On taxes and other obligatory payments to the budget"

Message from the Chairman



Dear colleagues and partners!
The past year has been full of events influencing both the operations of Kazakhstan Deposit Insurance Fund and the banking sector of the Republic of Kazakhstan.

During the reporting year, the aggregate depositor base of individuals increased by 14.9% accounting for 7.9 trillion tenge. In consequence of the package of measures taken by the Government of the Republic of Kazakhstan and the National Bank in 2015 dedicated to de-dollarization of the Kazakhstani economy, an increase in national currency deposits of individuals against decrease of foreign currency deposits was observed – over the reporting year, increase in national currency deposits amounted to 108.2% while foreign currency deposits decreasing by 9.7%, or –527.7 billion tenge. Upon that, by the end of the year, the market share of retail deposits in national currency amounted to 38% against 21% the same period past year, foreign currency deposits market share comprising 62% compared to 79% the same period past year.

As of September, 2016 the KDIF's claim to the liquidation commission of JSC "Nauryz Bank Kazakhstan" was settled in full amount. In this regard, KDIF's mandate as a member of the creditor committee of the bank was discontinued.

Therewith, as of end of the year, the liquidation commission of JSC "Valut Tranzit Bank" has settled 51.31% of the KDIF's claim associated with reimbursing eligible bank depositors, which comprises 9.418 billion tenge. KDIF is represented by Chairman and Deputy Chairman at the liquidation commission, and the Chairman of the Creditor Committee of JSC "Valut Tranzit Bank". During the reporting year the KDIF's representatives took part in 12 meetings of the creditor committee.

During the reporting year KDIF was actively involved in various tasks dedicated to legislation development conducted under supervision of the National Bank, particularly generating suggestions for the National Bank of Kazakhstan to consider in regard to participation of KDIF in the processes of problem bank resolution, considering the problem issues of JSC "Valut Tranzit Bank", which is under forced liquidation, further enhancement of procedures related to selection of agent bank to process payouts to depositors of a deposit insurance system member bank in forced liquidation, as well as elaborating suggestions in regard to providing KDIF with access to

the data comprising banking secrecy that are essential for KDIF to fulfill its duties.

In September, 2016 KDIF proposed draft amendments and additions to the Rules governing the determination and establishment of the order of payment in regard to compulsory regular, additional and extraordinary member bank premiums. The amendments were intended to establish the limitations for arranging of bank product promotion actions, lotteries, prize drawings, and distribution of money and in-kind prizes and benefits by the deposit insurance system member banks or their agents with a view to moderate the practice of excessive use of such benefits and distributions and evasion of the requirements in regard to the maximum recommended interest rate on deposits.

Apart of that, at the end of the reporting year amendments and additions into the KDIF internal governing documents were approved by resolution of the KDIF Board of Directors. According to these, starting from 1 January, 2017, the maximum recommended interest rates on retail bank deposits established by the KDIF Board of Directors shall deem effective interest rate instead of nominal interest rate.

December 26, 2016 the National Bank of Kazakhstan terminated the banking license of JSC "Kazinvestbank" due to the fact of consistent misperformance of duties related to payment and funds transfer obligations. KDIF is actively involved in the respective bank insolvency resolution processes: the Fund is represented in temporary administration of the bank by 4 employees fulfilling check-up of the bank's insured depositors register to assess the perspective of handling purchase and assumption transaction, and processing reconciliation of the depositors' dossier. Should such resolution method be rendered futile, after the respective court judgment having been passed, KDIF shall reimburse approximately 8 thousand of the bank depositors

holding bank deposits, card or bank accounts with the bank within the established maximum coverage limit.

During 2016, KDIF submitted quarterly reports on financial risk mitigation and the executive summary of the stress tests conducted by KDIF for consideration of the Board of Directors. Apart of that, KDIF has enhanced monitoring over information security, at the same time intensifying the effort associated with development of the internal guidelines and procedures.

In regard to the financial performance, KDIF's special reserve for payouts comprised 395.2 billion tenge as reported as of the end of 2016 (net of 70% authorized capital), 205.5 billion tenge (approximately 52%) thereof being accumulated via collecting compulsory regular premiums of the deposit insurance system member banks. Over a year KDIF reported total revenue in the amount of 15.5 billion tenge. Present value of the KDIF assets increased by 59.5 billion tenge, or 11%. The liquidation commissions of two banks in the process of forced liquidation settled their liabilities to KDIF in the total amount of 10.2 billion tenge.

In the coming year KDIF will remain dedicated to further development of the legal basis and the IT infrastructure to enhance the payout processes and fulfillment of the agent bank's tasks. KDIF will also introduce brand-new analytics tools, the Retail Deposit Market Index and the Retail Deposit Portal, an integrated database on retail deposits developed for the banks' depositors. KDIF will also remain dedicated to strong cooperation with National Bank of Kazakhstan, the deposit insurance system member banks, Financial Institutions' Association of Kazakhstan, and International Association of Deposit Insurers and foreign business associates thereof.

Kind regards,
Bakyt Kogulov
Chairman,

Kazakhstan Deposit Insurance Fund

Organization at a glance

Kazakhstan Deposit Insurance Fund was established in 1999 pursuant to Resolution of the National Bank of Kazakhstan No. 393 dated 15 November, 1999 according to the initiative suggested by President Nursultan Nazarbayev with a view to maintaining stability of the Kazakhstani finan-

cial system after the financial crisis of 1998 burst in the Russian Federation. KDIF is established in the form of joint stock company, the sole founding institution and shareholder being the National Bank of Kazakhstan. Since KDIF is a non-profit entity, dividends are not accrued or distributed.

The Mission

To be an efficient party in safeguarding stability of financial system and protecting rights and lawful interests of depositors of second-tier banks in the Republic of Kazakhstan.

Vision

- to comply with the Core Principles for Effective Deposit Insurance Systems,
- to fulfill the Mission applying global best practice.

Strategic objectives

- operational capacity to exercise the functions, and advanced business processes,
- high level of public awareness of deposit insurance system,
- strengthened partner relations.

The key functions in accordance with the legislation governing deposit insurance

- to reimburse the insured depositors in the event of forced liquidation of a deposit insurance system member bank,
- to accumulate funds in special reserve for payouts,
- to represent itself in temporary administration during the period of conservation of a member bank or following termination of a member bank's license for handling banking operations,
- to represent itself in the liquidation commission and creditor committee of a DIS member bank in forced liquidation,
- to appoint the agent bank on the basis of competitive bidding procedure,
- to maintain the deposit insurance system member banks register,
- to ensure proprietary assets investment management operations.

The key principles of operation

- compulsory basis of membership for any bank licensed to accept deposits of general public, to open and maintain current and savings bank accounts,
 - transparency of deposit insurance system,
 - mitigation of risks associated with operation of deposit insurance system,
 - accumulation of special reserve for payouts on ex-ante basis.
-

Deposit insurance coverage

Any deposit, current or card account pertaining to a physical person or individual entrepreneur placed with a second-tier bank in the Republic of Kazakhstan (including subsidiary banks established in the Republic of Kazakhstan to represent foreign banks) shall be subject to deposit insurance excluding for non-interest bearing demand deposits placed with Islamic banks.

Insured deposits shall be subject to reimbursement in national currency solely. The amount of reimbursement shall be calculated as deposit balance net of accrued interest (which does not apply to compound interest) within the limits as follows:

- deposits in national currency: 10 million tenge per depositor per bank,
- deposits in foreign currency: 5 million tenge per depositor per bank (in equivalent amount calculated at exchange rate as of the date of respective court ruling coming into force).

Should a depositor have multiple insured deposits with the same member bank which are different in type and currency, KDIF shall reimburse such depositor within the total coverage limit of 10 million tenge.

Developments in deposit insurance system during 2016

Changes in the deposit insurance system membership

According to the Deposit Insurance Law, any second-tier bank licensed by the National Bank of Kazakhstan to accept deposits, open and maintain bank accounts of general public shall be a member of deposit insurance system.

Within the reporting year, deposit insurance member bank certificates of JSC "Citibank Kazakhstan", JSC "Kazkommertsbank" and JSC "Tsesnabank" were re-issued.

In addition, in 2016 following state re-registration:

- January 2016, JSC "BankPozitiv Kazakhstan (Apoalim B.M. Bank SB)" was re-named as "EU Bank (Subsidiary Bank of JSC "Eurasian Bank")",
- March 2016, JSC "PNB-Kazakhstan SB" was re-named as JSC "Tengri Bank",
- July 2016, JSC "RBS (KAZAKHSTAN) SB" was re-named as JSC "Bank ExpoCredit".

In each of the cases, pursuant to article 14 of the Deposit Insurance Law, KDIF issued the updated deposit insurance membership certificates to each bank.

Apart of that, the following banks exited the deposit insurance system in 2016:

- "EU Bank (Subsidiary Bank of JSC "Eurasian Bank")" – following voluntary termination of license for acceptance of deposits, opening and maintaining bank accounts of general public;
- JSC "Kazinvestbank" – following termination of general banking license by the National Bank of Kazakhstan on December 26, 2016.

Therefore, as of December 31, 2016, 32 banks out of total 33 second-tier banks licensed for operation in the Republic of Kazakhstan are members of deposit insurance system (excluding for JSC "Al Hilal" Islamic Bank").

Developments in the differential premium system

In 2016, draft amendments and additions to the methodology for calculation of differential premium rate were introduced building upon the results of outcomes of work accomplished by working group composed of representatives of the DIS member banks, National Bank of Kazakhstan and KDIF. The respective amendments and additions were introduced to the Rules for determination and establishing the order of payment of compulsory regular, additional and extraordinary premiums of member banks approved by the KDIF Board of Directors (Minutes No. 32 dated October 30, 2016).

The draft amendments and additions into the Rules were revised and approved by the Working Group members, the KDIF Advisory Council and the KDIF

Board of Directors Committee for Strategic Planning, Internal Audit, Human Resources, Remuneration and Social Issues. The amendments and additions to the Rules were approved by the KDIF Board of Directors Resolution dated June 28, 2016 (Minutes No.4) and came into effect from June 1, 2016.

In addition to that, with a view to set reasonable limitations to the facts of excessive or inappropriate use of marketing promotions via prize drawings and implicit evasion of the requirements in regard to the maximum interest rate, in September 2016, KDIF introduced draft amendments and additions to the Rules implying limitations to be implemented in regard to arranging of promotion actions, lotteries, prize drawings, and distribution of money and in-kind prizes and

benefits by the deposit insurance system member banks or their agents. The draft amendments were approved by the KDIF Board of Directors Resolution dated October 5, 2016 (Minutes No. 6). From then on, in the event of detection by KDIF of the event of distribution by a member bank or its business partners of money or in-kind prizes to a depositor or a third party via consent of the depositor, as well as the event of arranging a lottery, raffle, or distribution of such prizes, then such member bank shall be assigned Group "S" classification for the reporting period of such marketing events taking place pursuant to the procedure of calculation of the Q4 quantitative indicator in the differential premium system.

Risk management

- Risk Management Committee acts under the Board of Directors. Two Committee Meetings were held during 2016.
- A position of risk manager is provided by the KDIF staffing plan; KDIF also has Internal Audit Service, which is fully functional.
- KDIF has implemented regular managerial reporting practice. As such, quarterly financial risk management reports and the stress-test accomplishment results were submitted for consideration of the Board of Directors during 2016.

During the reporting year, the following advancements to the risk management system were introduced:

Alongside with that, in the end of 2016, amendments and additions to the internal governing documents were approved by the KDIF Board of Directors Resolution. According to these, starting from January 1, 2017 maximum interest rates on general public deposits as approved by the KDIF Board of Directors and recommended for the member banks shall be attributed to as effective rates rather than nominal rates.

It is expected that these amendments and additions are going to increase the effectiveness of retail deposit market regulation and provide for fair competition among the second-tier banks.

- control over information security in the KDIF operations was enhanced,
- effort in the field of advancement of internal governing documents was intensified,
- a revised version of the Risk Management Administration Guidelines was developed and approved,
- Risk Assessment Guidelines were developed and approved,
- Information Security Risk Assessment Guidelines KDIF was developed and approved.

Retail deposit market overview

The current legislation provides for compulsory membership in deposit insurance system for any bank licensed to accept deposits, open and maintain bank accounts of general public, excluding for Islamic banks.

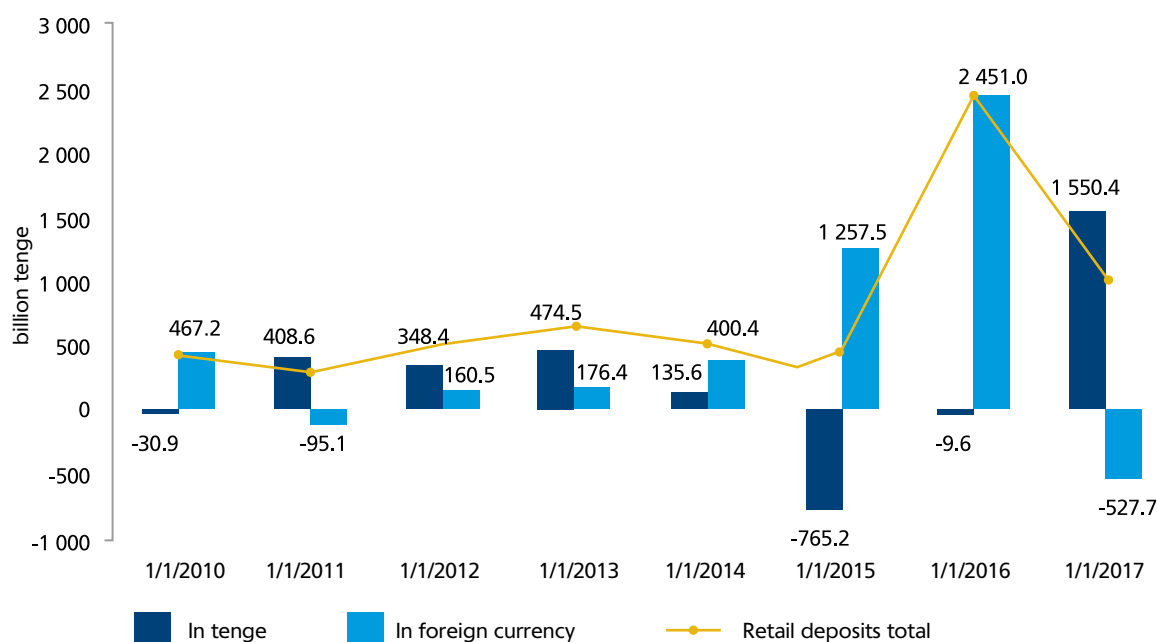
As of January 1, 2017, 32 banks were members of deposit insurance system, excluding for JSC "Al Hilal" Islamic Bank". During the 3 quarter of the reporting year, "EU Bank (Subsidiary Bank of JSC "Eurasian Bank")" discontinued its membership following voluntary termination of banking license in the process of voluntary reorganization and further accession by JSC "Eurasian Bank". Apart of that, by Resolution of the Management Board of National Bank of Kazakhstan dated December 26, 2017, general banking license of JSC "Kazinvestbank" was terminated. In this regard, this bank exited the deposit insurance system.

As of January 1, 2017 aggregate deposit balances of general public placed with the deposit insurance system member banks amounted to 7.9 trillion

tenge. Herewith, the aggregate deposit balances of general public gained 1 trillion tenge, or 14.9%, since the beginning of year. Herewith, during the reporting year increase in national currency deposits of general public opposite to decrease in foreign currency deposits was observed – retail deposits in foreign currency gained 108.2%, or 1,550.4 billion tenge, while foreign currency deposits decreased by 9.7%, or – 527.7 billion tenge. As of end of the year, market share of national currency deposits composed 38% (compared to 21% the same period of the past year), while market share of foreign currency deposits composed 62% (compared to 79% market share as reported the same period of the past year, respectively).

At the year-end 2016, the top-five banks in terms of retail deposits were JSC "Halyk Bank of Kazakhstan" (with a 20.7% market share in retail deposits and 215.8 billion tenge (+15.2%) year-to-year gain in retail deposit balance), JSC "Kazkommertzbank" (with a 17.6%

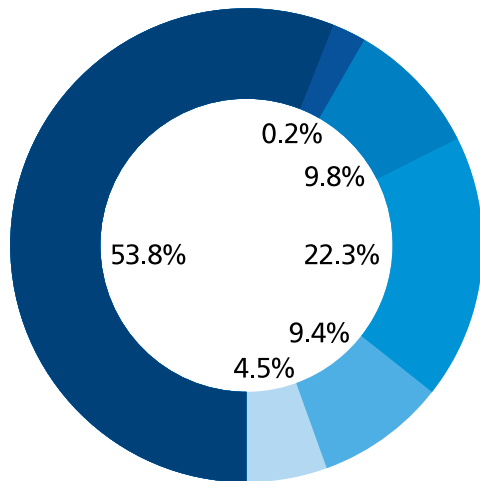
Timeline of developments in retail deposit market



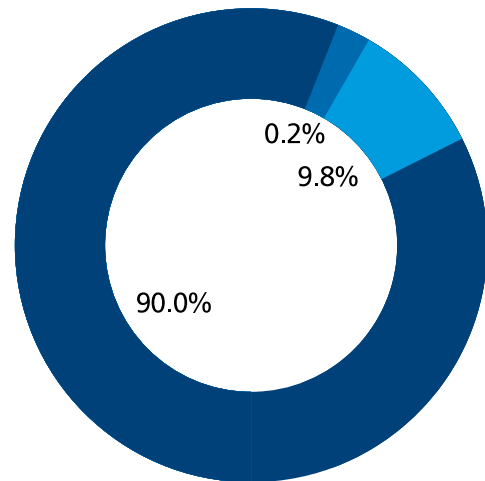
market share, and 36.4 billion tenge (-2.5%) loss in retail deposit balance), JSC "Kaspi Bank" (with 9.3% market share, and 89.5 billion tenge (13.8%) gain in retail deposit balance), JSC "Tsesnabank" (with a mar-

ket share of 8.6%, and 174.3 billion tenge (+34.5%) gain in retail deposits), JSC SB "Sberbank of Russia" (with a market share 7.9%, and 131.0 billion tenge (26.5%) gain in retail deposits).

Insured deposits by categories



- Term and escrow retail deposits under 5 million tenge
- Term and escrow retail deposits 5 – 10 million tenge
- Term and escrow retail deposits 10 – 15 million tenge
- Term and escrow retail deposits over 15 million tenge
- Demand deposits
- Current bank accounts and cards



- Term and escrow deposits
- Demand deposits
- Current bank accounts and cards

According to the reporting data provided by the deposit insurance system member banks, as of January 1, 2017 term and escrow accounts take the largest share of 90.0% in the retail deposits total amounting to 7.1 trillion tenge and gaining 13.1%, or 821.0 billion tenge. These are followed by the current bank accounts and cards balances with a share of 9.8% in the retail deposit total and year-to-year gain of 201.9 billion tenge. Escrow deposits balance comprise 0.2% share demonstrating year-to-year gain of 253.2 million tenge.

Increase in retail deposits is mainly determined by an approximately five-fold gain of 574.5 billion tenge in large term deposits in national currency. At the same time, large term deposits over 15 million tenge demonstrated a gain of 289.5 billion tenge, or 7.3%, against decrease of the same bank accounts in foreign currency by 285.0 billion tenge. Term deposits under 5 million tenge demonstrated a gain of 388.1 billion tenge, or 28.2%, while term deposits falling within the range of 5 to 10 million tenge gained 98.2 billion tenge, or 15.2%, and the same of 10 to 15 million tenge gained 45.2 million tenge, or 14.6%, respectively.

Corporate governance

National Bank is the founding institution, the sole shareholder, and the higher governing body of KDIF.

According to the Corporate Charter of KDIF, Deputy Governor of the National Bank Mr. Galimzhan Pirmatov is empowered to take all decisions falling within the purview of the Sole Shareholder's competence.

As of December 31, KDIF Board of Directors was comprised of 3 members, including Independent Director and the KDIF Chairman. Oleg Smolyakov, Deputy Governor of National Bank of Kazakhstan, is Chairman of the KDIF Board of Directors.

KDIF Board of Directors as of December 31, 2016

Oleg Smolyakov,
Deputy Governor of National Bank of Kazakhstan,
Chairman of the KDIF Board of Directors

Bakyt Kogulov,
KDIF Chairman

Magzhan Auezov,
Chairman of the ULE Association of Financiers
of Kazakhstan

As of December 31, 2016, Committee for Strategic Planning, Risk Management and Internal Audit, Human Resources, Remuneration and Social Issues acts under the Board of Directors.

During 2016, 12 meetings of KDIF Board of Directors took place, including two in-person meetings and and ten meetings by absentee voting.

Accomplishments of the KDIF Board of Directors in 2016

- Amendments and additions to the Board of Directors Committees Statutes was approved.
- Maximum recommended interest rates for newly accepted bank deposits were ratified (two times).
- Rules of Board of Directors Resolutions Disclosure were ratified.
- Amendments and additions into the Contract of Adhesion ratified by Resolution of the Board of Directors (Minutes No. 32 dated 30 October, 2006) were adopted.
- Amendments and additions into the Rules governing the determination and establishment of the order of payment in regard to compulsory regular, additional and extraordinary member bank premiums ratified by the Board of Directors Resolution (Minutes No. 32 dated 30 October, 2006) were adopted.
- A new KDIF logo and brand book were adopted.
- Target reserve ratio for 2017 was established.
- Amendments into KDIF's Investment Management Policy and Investment Management Strategy were adopted.
- KDIF Risk Management Administration Rules, KDIF Risk Assessment Guidelines, and Information Security Risk Assessment Guidelines were adopted.
- Amendments and additions into KDIF internal documents with a view of transition to governing the annual effective interest rates on individuals' deposits recommended for the member banks for adoption were ratified.
- Guidelines for drafting, approval and use of funds of the KDIF Business Plan (Annual Budget) were ratified.

- Amendments and additions to KDIF Employees Rewarding Rules were ratified.
- Amendments and additions to KDIF Employees Remuneration Rules were ratified.

KDIF Advisory Council

KDIF Advisory Council is a collegial consultative body within the KDIF organizational structure representing the interests of the DIS member banks, and compounded by these banks' representatives.

The main objectives of the KDIF's Advisory Council are:

- to consider and develop the proposals regarding the major directions of improving the mandatory deposit insurance system of the Republic of Kazakhstan from the DIS member banks' standpoint,
- to make preliminary review and analysis of the draft amendments to the Contract of Adhesion, Rules governing the determination of, and establishment of the order of payment in regard to compulsory regular, additional and extraordinary member bank premiums, and other KDIF acts,

- Adjustment to KDIF Development Plan for 2012 – 2016 with regard to 2016, and KDIF Execution Report for the period of 2012 – 2016 was approved.
- KDIF development guidelines for the period of 2017 – 2019 were approved.

- to make proposals to eliminate any ambiguities, discrepancies and contradictions that may arise while the DIS member banks fulfill their obligations under the Contract of Adhesion,

- to make recommendations to prevent possible cases of the DIS member banks not fulfilling their obligations to the KDIF under the Contract of adhesion, including payment of premiums and fines.

Members of the KDIF Advisory Council shall be elected annually at the general meeting of the deposit insurance system member banks.

Chairman of the KDIF's Advisory Council is elected annually from among its members. In 2016, a representative of JSC "Halyk Bank of Kazakhstan" served as the Chairman of the KDIF Advisory Council.

Composition of the KDIF Advisory Council in 2016

Ms. Meruert Karjanova,
Chairperson of the KDIF Advisory Council, Head of Retail Banking and Agency Services, JSC "Halyk Bank of Kazakhstan"

Ms. Tatyana Belova,
Head of Retail Banking Business Development Department, JSC "ForteBank"

Ms. Irina Stepanova,
Managing Director, JSC "Bank RBK"

Mr. Gossare Bertrand Jean-Emmanuel,
Managing Director, Head of Retail Banking Strategy Department, JSC "Eurasian Bank"

Mr. Yerzhan Assylbek,
Planning and Finance Department Director, JSC "Bank CenterCredit"

Mr. Nurlan Zhagiparov,
Managing Director, JSC "Kazkommertsbank"

Madina Abdullina,
Managing Director, JSC "Tsesnabank"

Aleksey Akimov,
Deputy Chairman of the Board, Retail Banking Business, "Sberbank" JSC SB

Sergey Kovalenko,
Executive Director, JSC "ATF Bank"

Andrey Dyu,
Retail Banking Department Director, JSC "AsiaCredit Bank"

Observers

Perizat Abdreshova,
Head of Analysis and Modeling Section, Economic Analysis and Planning Department, JSC "Kaspi Bank"

Daniyar Arinov,
Financial Department Director, JSC "Delta Bank"

KDIF Advisory Council Y2016 activities results

In 2016, five in-person meetings of the KDIF's Advisory Council were held. Among others, the following key issues were discussed therein:

1. amendments and additions to the Rules governing the determination and establishment of the order of payment in regard to compulsory regular, additional and extraordinary member bank premiums regarding the definition of "newly accepted deposit" term,
2. amendments and additions to the Contract of Adhesion regarding bringing the provisions thereof into compliance with the current practices in KDIF's measures designed to verify compliance of relevant DIS databases on automated accounting of insured deposits with the KDIF's standard requirements established by the Contract of Adhesion,
3. consideration by KDIF of the Advisory Council member banks propositions regarding the revision of the maximum recommended annual interest rates for deposits in national currency down to 12%, and retaining the same rate for the newly accepted foreign currency deposits at the level of 2%,
4. specification of failure rate on percentage basis against the aggregate member bank deposit base be-

ing revealed by KDIF in the course of KDIF's measures designed to verify compliance of relevant DIS databases on automated accounting of insured deposits with the KDIF's standard requirements established by the Contract of Adhesion.

KDIF Board of Directors took into consideration the opinion of the Advisory Council's members while considering all issues on its agenda.

In 2016, a working group dedicated to enhancement of guidance for calculating the differential member banks' premium rate functioned under the KDIF Advisory Council. The working group comprised the representatives of the National Bank, KDIF, and the DIS member banks. Draft amendments and additions into the Rules governing the determination of, and establishment of the order of payment in regard to compulsory regular, additional and extraordinary member bank premiums regarding the methods of specification and differentiation of premiums were introduced in the course of the working group activities. The draft amendment and additions were submitted for consideration and approval to the KDIF Advisory Council.



Member banks' differential premium system

Differential premium system for the member banks' compulsory calendar premiums was implemented in 2007.

The current differential premium system is characterized by a combined approach to risk assessment: the cumulative quantitative indicators account for 70% of the maximum possible total score, while cumulative qualitative indicators accounting for the remaining 30%. The advantage of combining quantitative and qualitative indicators is that their combination represents the most efficient and comprehensive approach to the assessment of the member banks' risk profile, and uses a wide range of available data.

The total cumulative score for each DIS member bank is determined on a quarterly basis based on calculating these indicators. Depending on the assigned value of the cumulative total score, a DIS member bank is allocated into one of the classification groups, each having its own corresponding differential mandatory premium rate. Thus, the higher the level of financial instability and risk pertaining to the banking operations is, the higher differential premium rate it shall be assigned.

KDIF constantly develops its guidelines for calculating differential premium rates taking into account suggestions and recommendations of the DIS member banks, as well as the developments in the state of the domestic banking sector, banking legislation and the reporting forms approved by the regulatory authority.

During the reporting year, building on the results of activities of the dedicated working group for making amendments and additions into the guidelines for calculating the DIS member banks' differential premium rates, which comprised the representatives of the DIS member banks, the National Bank, and KDIF, draft amendments and additions were introduced to the Rules governing the determination and establishment of the order of payment in regard to compulsory regular, additional and extraordinary member bank premiums ratified by the KDIF Board of Directors (Minutes No. 32 dated 30/10/2016). Particularly, the amendments and additions were introduced into:

- the capital adequacy indicators, regarding the threshold value following the shift in requirements of the National Bank applied to the capital adequacy indicators,
- the asset quality indicators, particularly A-1 and A-2 indicators were adjusted based on the non-paying loans (NPL), as well as the A-3 indicator formula was adjusted so that to account the assets on the net basis,
- the asset concentration indicators were adjusted in part of the A1-1 indicator (loan concentration in one economic sector constituting over 50% of shareholders' equity),
- within the performance group of indicators, namely in part of the data sources for calculation of net income so that currently the net income is calculated as a difference between the classes of revenues and costs,
- the E-3 and E-4 indicators in part of exclusion of accounts recording the interest yields and interest expense related to earning commission on nostro accounts, the threshold values being amended alongside,
- within the liquidity indicators, the L2 indicator being amended to the actual value according to the member bank's current liquidity indicator retrieved from the prudential requirements compliance report,
- qualitative indicator Q3 (ratings assigned by the international rating agencies), Fitch Ratings Agency rating scale being brought into compliance with the actual rating scale,
- management quality indicators, approach to calculation of Q5-2 indicator being adjusted so that absence of facts of matching the assessment criteria of negative impact of change of chairman of the management board and (or) chairman of the board of directors, and (or) changes in the composition of management board and (or) board of directors constituting a ratio of one third over twelve consecutive months preceding the reporting quarter after the event of changes in composition of the management board or the board of directors.

The criteria of negative impact for the member bank shall be:

- negative shift of rating assigned by one or several international rating agencies,
- decline in shareholders' equity of the member bank below the average negative shift in shareholders' equity among the member banks,
- decline in retained earnings of the member bank below the average negative shift in retained earnings among the member banks,
- decline in member bank's current liquidity indicators k-4, k4-1, k4-2, k4-3 below the average negative shift in the current liquidity indicators k-4, k4-1, k4-2, k4-3 among the member banks,
- increase in the level of NPL above the average increase in the NPL level on the market.

The proposed amendments were reviewed and approved by the working group members, the KDIF Advisory Council, and the KDIF Board of Directors

Committee for Strategic Planning, Internal Audit, Human Resources, Remuneration and Social Issues. The amendments were ratified by Resolution of the KDIF Board of Directors on 28 June, 2016 (Minutes No. 4) and came into effect starting from 1 June, 2016.

In 2017, adjustments of the "BATA" Information System is scheduled with due regard to the indicated amendments.

In accordance with the system for calculation of differential mandatory calendar premium rates "BATA", which is based on the key financial indicators and includes 6 classification groups with corresponding quarterly premium rates, within the reporting period:

- 10 member banks improved their positions being transferred to the classification groups with lower quarterly premium rates,
- the positions of 8 member banks deteriorated, the member banks being transferred to the classification groups with higher quarterly premium rates,
- 14 member banks retained their positions.

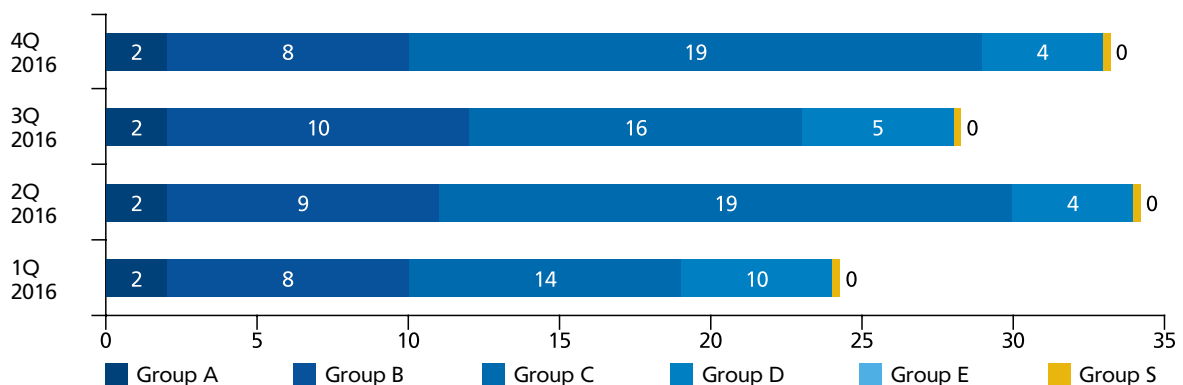
Differential premium rates of the compulsory calendar premiums

Classification Group	A	B	C	D	E	S
The differential premium rate attributed to the DIS member bank (as a percentage share of the total amount of individuals deposits placed with the member bank)	0.04	0.08	0.11	0.19	0.38	0.5

At the end of the 4th quarter of 2016 the DIS member banks distributed among the classification groups of the "BATA" Differential Premium System as follows: total proportion of the classification group "A" composed 6.1% (2 member banks), total proportion of the

group "B" reached 24.2% (8 banks), the share of the group "C" totaled 57.6% (19 banks), the proportion of the classification group "D" equaled to 12.1% (4 banks), while share of the classification groups «E» and «S» both composed 0%.

Allocation of the DIS member banks as per classification groups of the KDIF's differential premium system



Special reserve for payouts

The KDIF's special reserve fund, which is accumulated on an ex ante basis, serves for paying deposit insurance coverage to the depositors of the DIS member bank being under forced liquidation, as well as covering the difference between the amounts of a problem bank's assets and liabilities transferred to a "healthy" bank under the P&A transaction.

However, in the event of deficit of the special reserve for paying out the full amount of deposit coverage to all the forcibly liquidated bank's insured depositors, the national legislation provides for a number of ex-post back-up funding measures for replenishing the KDIF's special reserve fund, such as: levying additional premiums from the DIS member banks, taking a loan from the National Bank of Kazakhstan in the amount as necessary to cover the special reserve fund's deficit, as well as additional capitalization of KDIF by its Sole Shareholder, the National Bank of Kazakhstan, by means of replenishing its authorized capital. In accordance with the Law "On Mandatory Deposit Insurance" a share of up to 70% of the latter may be expensed for reimbursing depositors of a bank under forced liquidation.

Pursuant to the current legislation, the KDIF's special reserve fund for payouts is accumulated from the following constituent elements:

- expenses of KDIF limited to 70% of its authorized capital,
- DIS member banks premiums;
- penalties and fines imposed against the DIS member banks for non-fulfillment or inadequate fulfillment of their obligations under the Contract of Adhesion,

- recoveries from the forcibly liquidated member bank's liquidation estate to reimburse the claim of KDIF associated with reimbursing depositors,
- investment income associated with allocation of the special reserve assets,
- investment income associated with allocation of KDIF proprietary assets reduced by the amounts of expenses and contributions under the terms of the KDIF's Charter.

As of December 31, 2016, the total amount of the KDIF special reserve for payouts composed 395.2 billion tenge (net of the authorized capital).

Compared to the beginning of the reporting period, the DIS member banks premiums have performed growth in the amount of 35.4 billion tenge, up to the level of 205.5 billion tenge as of the end of 2016.

The KDIF net income to replenish the special reserve for payouts increased by 75.7 billion tenge over the reporting year. Its share in the structure of the KDIF's special reserve amounted to 34.7% at the end of the reporting year, compared to 22.8% at the year-end 2015. The amounts of recoveries received from the liquidation commissions of JSC "Nauryz Bank Kazakhstan" and JSC "Valut-Tranzit Bank" associated with the claim of KDIF for reimbursing these banks' insured depositors increased by 697.6 million tenge, and amounted to 10.2 billion tenge as of 31 December, 2016.

By resolution of the KDIF Sole Shareholder ratified in December 2016, KDIF special reserve for payouts was replenished by 13.4 billion tenge at the expense of KDIF. In 2016 the National Bank of Kazakhstan increased the balance of the KDIF authorized capital by 10% up to 204.4 billion tenge.

Inclusive of the maximum amount of the KDIF authorized capital which shall be attributed to depositor reimbursement in the event of the KDIF special reserve deficit (i.e. 70% of the KDIF authorized capital),

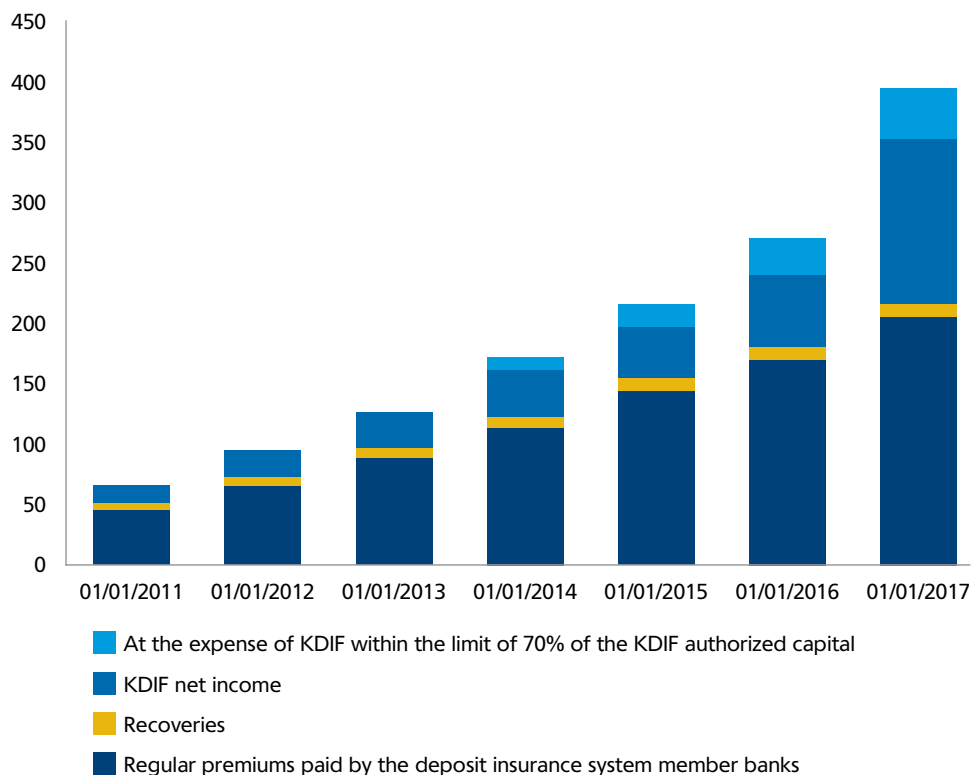
the aggregate amount of the KDIF special reserve for payouts constituted 502.9 billion tenge as of the end of 2016.

Methodology for determining the target reserve ratio

In accordance with Law of the Republic of Kazakhstan "On Mandatory Insurance of Deposits Placed with Second-Tier Banks of the Republic of Kazakhstan", the target reserve ratio shall compose no less than 5% of the total amount of insured deposits placed with the DIS member banks.

In accordance with the dedicated methodology for determining and establishing the target reserve ratio and amount ratified by Resolution of the KDIF Board of Directors (Minutes No. 6 dated 25 December, 2014)

all necessary calculations to establish the forecast value of the target reserve ratio and amount for 2017 were completed during 2016, and the issue was submitted for approval of the KDIF Board of Directors. The target reserve ratio for 2017 was established at the level of 6.3% by Resolution the KDIF Board of Directors No. 6 dated 5 October, 2016. The actual reserve ratio for 2016 net of 70% of the KDIF authorized capital constituted 5.0%, while the same inclusive of 70% of the KDIF authorized capital constituting 6.4%, which exceeds the target reserve ratio by 0.1%.



Investment management

The inherent nature of the KDIF asset investment management strategy shall be defined as conservative. KDIF adheres to three major principles in investment management: to safeguard the Fund's assets, to mitigate the risk of financial loss, and to increase returns on investment.

Trust management of the KDIF assets is carried out by the National Bank of Kazakhstan, and the corresponding relationships between KDIF and the National Bank are regulated under the dedicated trust management contract.

The KDIF Investment Management Policy is ratified by Resolution of KDIF Board of Directors No. 5 dated November 27, 2014, and intended to set forth the terms and conditions in regard to investment management with a view of achieving the planned yield, minimizing the risk of financial loss, and maintaining liquidity.

From January 1, 2014 KDIF has been maintaining separate accounting for its special reserve assets and proprietary assets:

- investment portfolio of the KDIF proprietary assets, at the expense of funds of the KDIF authorized capital;
- investment portfolio of the special reserve assets.

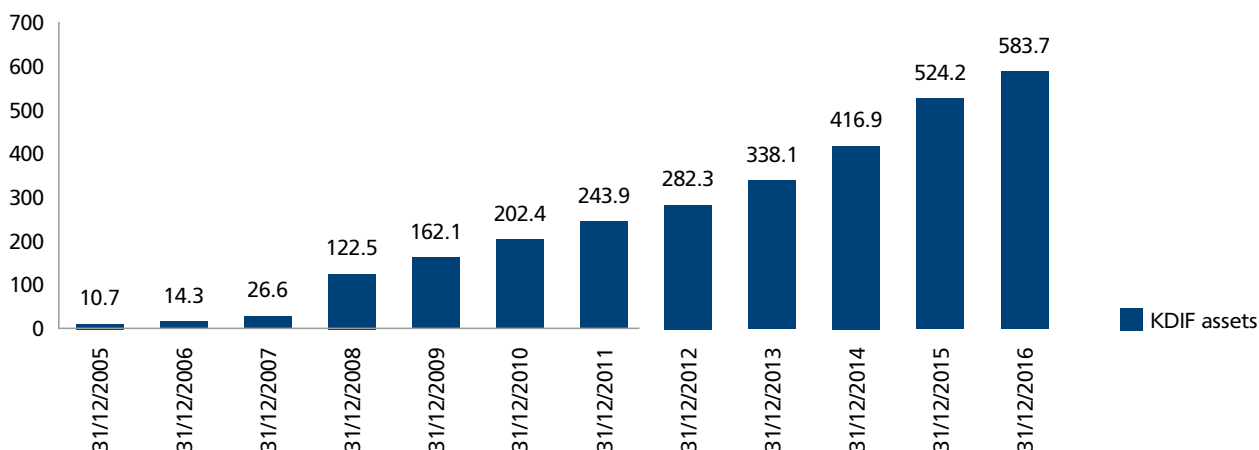
The investment portfolio of the KDIF proprietary assets is composed by financial instruments traded on the domestic stock exchange and denominated in national currency. The assets of KDIF special reserve shall be

denominated both in tenge and foreign currency, and shall be invested within the following allocations:

1. financial instruments denominated in foreign currency: within the minimum share of 25% and the maximum share of 45% of the special reserve assets value,
2. financial instruments denominated in national currency: within the minimum share of 55% and the maximum share of 75% of the special reserve portfolio asset value.

In October, 2016 bonds issued by international financial organizations holding a minimum credit rating "A-" were added into the scope of financial instruments approved for investment by KDIF. In this regard, the trustee allocated a part of the KDIF assets in the amount of 68 billion tenge into Eurobonds denominated in national currency, interest rate being attached to the inflation level in the Republic of Kazakhstan. The Eurobonds are issued by European Bank for Reconstruction and Development.

At the end of the reporting period the total value of the the KDIF assets amounted to 583.7 billion tenge performing an increase of 11.4% (59.5 billion tenge) compared to the same period last year. Following appreciation of national currency against the US dollar during the reporting year, no currency revaluation gain was reported, whereas the share of investment income associated with securities denominated in



national currency accounted for 59.3%, while the same share associated with securities denominated in foreign currency accounted for 2.5%. Furthermore, during 2016, a significant share of KDIF assets was allocated on deposits placed with the National Bank of Kazakhstan. Share of income associated with these allocations in the layout of the KDIF investment income accounted for 38.2%.

Financial instruments approved for KDIF to allocate proprietary assets and the special reserve assets in national currency are as follows:

- government securities of the Republic of Kazakhstan,
- repurchase agreement transactions, which are dealt both on stock exchange and OTC (Government securities of the Republic of Kazakhstan shall be solely accepted as provision for such transactions),
- deposits allocated with the National Bank of Kazakhstan,
- bonds of International financial organizations holding a minimum credit rating "A-",
- securities issued by the national managing holdings and national companies of Kazakhstan (within the limit of 30% of the total proprietary assets portfolio, and up to 10% of the proprietary assets portfolio per one issuer).

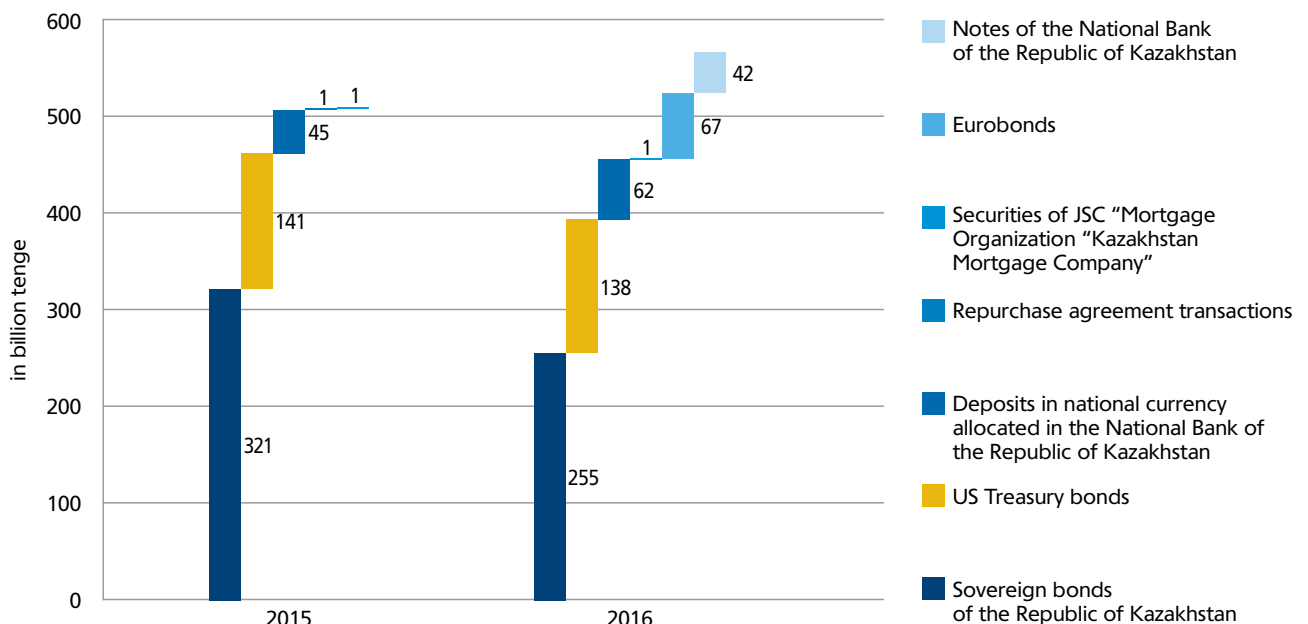
Financial instruments approved for KDIF to allocate the assets of special reserve in foreign currency are as follows:

- US government securities with term to maturity up to 5 years (70 to 100 per cent of the KDIF special reserve assets portfolio),
- sovereign bonds and debt securities of international financial institutions,
- securities of non-governmental issuers with a minimum credit rating of "A" / "A2" (within the limit of 30% of the special reserve assets portfolio and 10% per one issuer),
- money deposits (with maximum term of maturity of 1 year) allocated with non-resident banks holding a credit rating no lower than "A+" / "A1"

At the end of the reporting period the total value of the KDIF investment assets amounted to 567.3 billion tenge (97% of the total amount of the KDIF assets), including the special reserve portfolio in the amount of 382.2 billion tenge, and the proprietary assets portfolio in the amount of 185.1 billion tenge. At the year-end, the KDIF investment income totaled 30.7 billion tenge, including the income associated with special reserve portfolio comprising 15.4 billion tenge, and income associated with the proprietary assets portfolio comprising 15.3 billion tenge. The aggregate value of the KDIF's investment portfolio generated from financial instruments increased by 95.6 billion tenge (or by 20%).

KDIF Board of Directors may review and adjust its investment strategy depending on the developments in the foreign exchange market, the banking sector, fluctuations in the yield of specific financial instruments, and other factors.

Composition of the KDIF portfolio per financial instruments category as of December 31, 2016



Organization of the payouts processes

Conduct of measures to verify compliance of the member banks' insured deposits databases against the KDIF requirements

The core objective for KDIF in the process of conducting compliance verification measures is to assess compliance of quality of record-keeping associated with insured deposits database by the member banks, as well as appropriate conduct of provisions of the Contract of Adhesion to confirm preparedness of a member bank to retrieve the data on insured deposits at any time within the established terms.

During the reporting year, KDIF accomplished the compliance verification measures in 6 member banks, including scheduled measures being accomplished in one member bank, extraordinary measures being accomplished in 3 member banks, and repeated measures being accomplished in two member banks.

Compliance verification measures are conducted with the use of "SaIT Inspect" Information System, which was an ad-hoc product for KDIF to automate the compliance verification processes. According

to the results, incompliances were revealed in five member banks in part of filling in personal data of the bank clients, aggregation of the clients' accounts, and incorrect settlement of the coverage amount. After having completed the compliance verification measures, KDIF was taking control of elimination of breaches via submission to KDIF of member bank's action plan on monthly basis in complex with monthly reports of execution.

In order to maintain the member banks' insured depositor registers in accurate state, KDIF continued its effort to ensure that "SaIT Inspect" Information System is installed in the member banks for self-facilitated testing. As of 1 January, 2017, the Information System was installed in 23 member banks out of total of 32 at their request (exclusive of JSC "Zaman Bank" due to transfer of the bank into Islamic bank). Meanwhile, explanatory work associated with technical issues of use of the Information System is underway with 9 member banks.

Reimbursement of insured depositors

During the reporting year, KDIF continued to reimburse the depositors of two banks in forced

liquidation: JSC "Nauryz Bank Kazakhstan" and JSC "Valut-Tranzit Bank".

Payouts of the deposit coverage to insured depositors of banks in forced liquidation as of 31 December, 2016

Name of the bank in forced liquidation	Amount of the KDIF obligations to the insured depositors	Payouts of the deposit coverage	The remaining obligations amount
	million tenge	million tenge	million tenge
JSC "Nauryz Bank Kazakhstan"	772.04	679.5	92.4
JSC "Valut-Tranzit Bank"	18,354.3	17,859.2	495.08

In August, 2016, KDIF completed the additional payouts to the insured depositors of JSC "Valut-Tranzit Bank" via JSC "Bank CenterCredit" serving as agent bank. In order to protect the lawful rights and interests of the insured depositors of the bank in forced liquidation, the National Bank of Kazakhstan, by order of the Head of the Presidential Administration, has convened a special working group designed to consider the problem issues with close participation of the Kazakhstani government agencies' representatives where all the problems related to the bank's liquidation process and potential efficient solutions were discussed. In November, 2016, KDIF and the agent bank signed the final reconciliation act on the reimbursement amount paid out to the eligible depositors. After the expiration date of the agency services agreement, KDIF conducted payouts to the depositors by its own means. During the period from 10 August to 31 December KDIF conducted payouts to 15 depositors in total amount of 11.72 million tenge.

The National Bank of Kazakhstan was also engaged in the process of reimbursement of the eligible

depositors of JSC "Valut-Tranzit Bank". Particularly, with a view of prompt and efficient conduct of payouts, a widespread awareness-raising campaign engaging the community and the depositors of JSC "Valut-Tranzit Bank" was conducted in cooperation with the National Bank. During the whole period, both KDIF and regional branches of the National Bank of Kazakhstan called press conferences, press briefings, engaged in interviews for local and republic-wide TV channels. Furthermore, the information was released in regional, municipal and republic-wide periodicals. Following the results of the awareness-raising effort among the community and the depositors of JSC "Valut-Tranzit Bank", as of January 1, 2017, KDIF has conducted payouts in the amount of 3 981.41 million tenge (93%) out of the total obligations amount.

Conduct of payouts to the eligible depositors of JSC "Valut-Tranzit Bank" gave KDIF the opportunity to enhance its internal regulatory acts governing the payouts procedure.

Operations of the liquidation commissions of forcibly liquidated banks

In 2016 the processes of forced liquidation of JSC “Nauryz Bank Kazakhstan” and JSC “Valut-Tranzit Bank” were underway.

JSC “Nauryz Bank Kazakhstan”

Court ruling on forced liquidation of JSC “Nauryz Bank Kazakhstan” was released on 16 November, 2005. During the reporting year, the liquidation commission of JSC “Nauryz Bank Kazakhstan” redeemed the KDIF’s claim associated with reimbursement of the eligible depositors in the amount of 772 million tenge (third succession order of the bank creditor register in compliance with Law of the Republic of Kazakhstan “On banks and banking activity in the Republic of Kazakhstan”).

JSC “Valut-Tranzit Bank”

Forced liquidation process of “Valut-Tranzit Bank” started in March 2007. Initial KDIF’s claims to the bank amounted to 14.014 billion tenge.

From 10 August, 2015, and up to 31 December, 2016 under the Law of the Republic of Kazakhstan “On amendments and addenda to several legal acts of the Republic of Kazakhstan on strengthening protection of property rights, ensuring protection of contractual obligations and toughening responsibility for their violation”, additional deposit insurance coverage payouts started to be made to the failed bank’s eligible depositors holding money deposits over 700 thousand tenge comprising 4.252 billion tenge in total.

By the end of the reporting year, total amount of the KDIF’s claim toward the failed bank’s liquidation commission on the amounts of reimbursement made to insured depositors of “Valut-Tranzit Bank” JSC, including any adjustment, composed 18.354 billion tenge.

With regard to full redemption of the KDIF claim towards the liquidation commission in September, 2016, in compliance with Article 5 of the Deposit Insurance Law, KDIF discontinued its operations in the creditor committee of JSC “Nauryz Bank Kazakhstan”. The remaining claim of KDIF under 8th succession order comprise 5.9 million tenge.

As of December 31, 2016, 51.31% of KDIF claim toward the failed bank’s liquidation commission were recovered in aggregate amount of 9.418 billion tenge.

The representatives of KDIF were appointed as deputy chairman of the failed bank’s liquidation commission and deputy chairman of its creditor committee.

The bank’s forced liquidation process was complicated by problems faced while collecting the bank’s accounts receivable by judicial order and in enforcement proceeding. Missing hard copies of contracts signed by JSC “Valut-Tranzit Bank” and its counterparties on real estate transactions, as well as difficulties in collecting assets owned by entities allegedly affiliated to the bank and recognized as sham companies by the court, deficiency or complete absence of the liquidation estate’s assets required for the full debt redemption, low market value of collateral and other borrower’s property determined

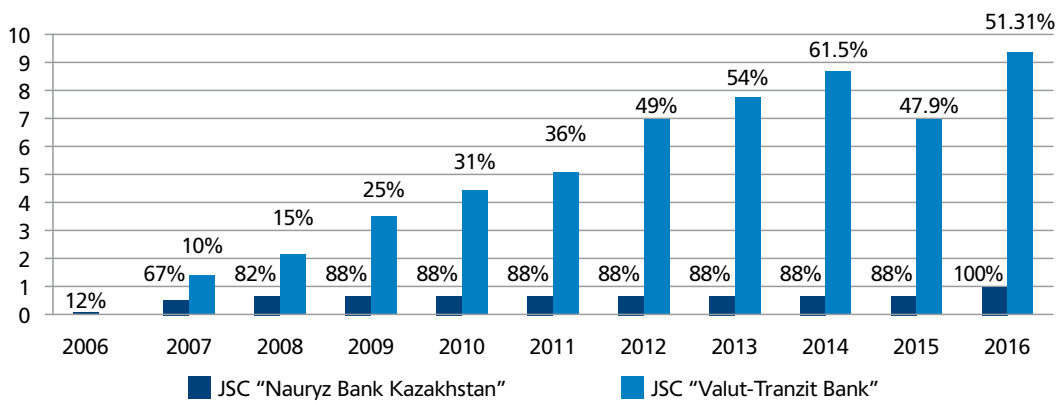
during the assets' assessment procedure, and lengthy non-enforcement of judicial acts by state bailiffs were among the major challenges faced during the above process.

During the reporting year, the representatives of KDIF took part in 12 meeting of the creditor committee of JSC "Valut-Tranzit Bank".

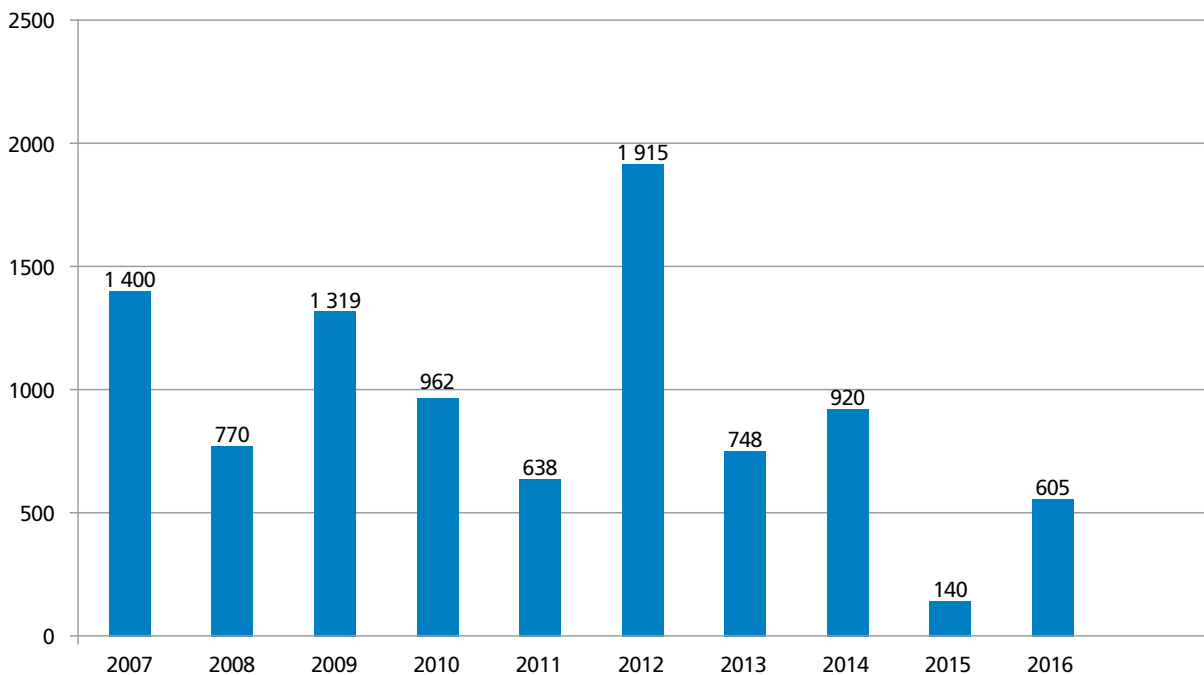
KDIF also holds a claim under the 8th succession order towards the bank in the amount of 28.1 million tenge.

In 2016, the claim of KDIF towards the liquidation commission of JSC "Valut-Tranzit Bank" under 3rd succession order was redeemed in total amount of 605 million tenge.

Changes in the recoveries amounts from the liquidation commissions



Settlement of the KDIF claim by the liquidation commission of JSC "Valut-Tranzit Bank" (in million tenge)



Development of the risk management system

The major objective for the KDIF risk management system is to ensure effective fulfillment of its tasks associated with timely, correct and complete payout of deposit insurance coverage to the forcibly liquidated bank's insured depositors, to accumulate special reserve for payouts, and to contribute to maintaining financial system's stability in accordance with the legislative requirements by minimizing negative implications of the KDIF's potential risk events.

The risk management system in KDIF applies an integrated approach to continuous and recurrent process of obtaining prompt and objective information on the risks that both have occurred and may occur, the process of determining the level or degree of their respective impact on current operations of KDIF, preparation and of regular managerial reports on risks, development and taking specific measures aimed at mitigating risks, coordinating KDIF's structural units as per their risk management operations, as well as automation and improvement of the KDIF's risk management procedures.

Due to the fact that accumulation of a sufficient special reserve for payouts upon the occurrence of a special triggering event (i.e. enactment of a court's ruling on the failed bank's forced liquidation) is one of the major KDIF's functions under the national legislation, assessment of the risks' significance levels, in particular, those of the financial risk, the most crucial for the KDIF's operations, is based on implementing best international practices in the relevant risk management areas. Regular preparation of quarterly reports on financial risk for the KDIF Board of Directors provides for continuous awareness of the Board of Directors about the existing financial risks faced in KDIF operations.

Furthermore, the KDIF's risk management system also provides for continuous monitoring of its compliance and reputational risks based on analysis of the external legal framework and information environment, as well as for appropriate measures aimed at managing these risks, including their prompt counteraction and mitigation. In 2016, reports on developments in compliance and reputational risks attributed to the KDIF operations, as well as an action plan on their mitigation were submitted for the consideration and approval of the KDIF Board of Directors.

Effective fulfillment of all essential tasks associated with the KDIF operations requires ongoing enhancement of its risk management system. Accordingly, in 2016, revised version of KDIF Risk Management Administration Rules was approved with a view of international recommendations for development of the financial institutions' risk management. Furthermore, the KDIF Risk Assessment Guidelines, and Information Security Risk Assessment Guidelines were developed and approved.

The primary purpose of the Risk Manager and Internal Audit Service structural units within the KDIF organizational structure is development of the risk management system in KDIF which is based on three pillars of protection against potential risks:

1. risk management at the level of KDIF structural units,
2. risk management by the independent structural unit of the Risk Manager (reporting directly to the KDIF's Board of Directors), and
3. independent assessment of efficiency of the KDIF's risk management system by Internal Audit Service, which is also directly accountable to the KDIF's Board of Directors.

With a view of efficient conduct of risk management operations, Risk Management Committee functions within the KDIF's Board of Directors. The independent member of the KDIF Board of Directors is Chairman of the KDIF's Risk Management Committee. Chairmanship of an independent member of the KDIF's Board of Directors on the Risk Management Committee enables the KDIF Board of Directors to be adequately informed about the real situation in the KDIF risk management system, as well as provides for prompt actions of the KDIF's executive body in the risk management sphere. Two meetings of the Risk Management Committee were held in 2016, where KDIF risk management reports were examined and discussed. As a result, recommendations were made to the KDIF's Board of Directors in regard to the risk management procedures. In its turn, the KDIF Board of Directors takes into account current KDIF exposure to its financial and other inherent risks, as well as the recommendations of the KDIF's Risk Management Committee when making its managerial decisions.

Public awareness

While KDIF proclaims that its core mission consists in contributing to maintenance of the Kazakhstani financial system's stability and engaging in processes related to protecting rights and lawful interests of depositors in the event of forced liquidation of a DIS member bank, then one of the priority directions in KDIF operations shall be providing for adequate public awareness of protection of bank deposits of individuals, the coverage limits, and terms and conditions of reimbursing depositors.

The rebranding

Announcement of rebranding on 1 July, 2016, became the most important event on the KDIF agenda during the year. On 1 June, 2016, KDIF introduced the renewed logo and "Deposit Guarantee" stamp. The core idea conveyed in the new logo was compliance of KDIF with the international standards and best practice confirmed by two awards in the IADI nominations for Deposit Insurance Organization of the Year, back in 2013 and 2015.

The semantical and concise style of the renewed logo which is free of heavy graphical elements and

In 2016, KDIF both optimized its public awareness strategy and introduced the new communication media, including a renewed logo and the uniform symbol of protection of bank deposits – the uniform "Deposit Guarantee" stamp, which is designed for further use in marketing and promo materials on banks' deposit products and services. After the new logo and the uniform stamp had been ratified, it became possible to optimize the activities under an array of directions and communication channels.

reproduced in one core color is supposed to be a benchmark standard in International practice.

In the visual part, the renewed logo comprises two elements – the "KDIF" abbreviation and the expanded text element containing full organization name in Kazakh and Russian languages. The text element is designed to be represented in motion, and depending on the media parameters may be used both in horizontal and vertical layout against the abbreviation. It is also allowed to use abbreviation alone free of the text element. In the primary version the logo is

KDIF ҚАЗАҚСТАННЫҢ ДЕПОЗИТТЕРГЕ
КЕПІЛДІК БЕРУ ҚОРЫ
КАЗАХСТАНСКИЙ ФОНД
ГАРАНТИРОВАНИЯ ДЕПОЗИТОВ

KDIF
ҚАЗАҚСТАННЫҢ ДЕПОЗИТТЕРГЕ
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KDIF ҚАЗАҚСТАННЫҢ ДЕПОЗИТТЕРГЕ
КЕПІЛДІК БЕРУ ҚОРЫ
KAZAKHSTAN DEPOSIT
INSURANCE FUND

KDIF
ҚАЗАҚСТАННЫҢ ДЕПОЗИТТЕРГЕ
КЕПІЛДІК БЕРУ ҚОРЫ
KAZAKHSTAN DEPOSIT
INSURANCE FUND

designed in Kazakh and Russian languages, while the auxiliary version uses Kazakh and English languages. The graphical element is reproduced in deep blue color, which according to the heraldry traditions represents dignity, devotion, and fidelity.

In the course of the rebranding campaign, KDIF distributed official letters among all member banks. Staff introductory presentation was held to explain the new corporate identity and the way the new logo

Renovation of the official web site

On September 30, 2016 KDIF introduced the renewed version of its official website. The web site is designed according to the technology of adaptable layout, which enables the PC and smartphone users view and navigate across the web site in a comfortable manner. Tentative navigation is adjusted according to the website users' behavior statistics. Furthermore, the website provides for an array of direct communication means, including request for phone call, online request and the instant communication tool Jivosite.

Communication with the banks' clients in bank offices

After the new logo and corporate identity had been ratified, KDIF printed and distributed a pressrun of information booklets covering the issues of deposit insurance in Kazakh and Russian languages across the member banks. A total of 3 million copies were distributed across the branches and bank offices in proportion to the depositor base of each bank. Later on, in December 2016, large banks which have a multitude of bank offices across the country were offered a total of 1 000 of point-of-sale stands "Deposit Insurance System Member Bank".

In November 2016, KDIF employees conducted sampled check-up of presence and the remaining balance of the booklets in the bank offices providing banking operations for individual depositors as per city area and the DIS member banks. Furthermore, in the course of conducting these check-up the banks' personnel was interviewed to review the adequacy and accuracy of knowledge on deposit insurance.

Communication in social media

In January, 2016, KDIF conducted a social media campaign in support of an important event, namely winning the IADI Deposit Insurance Organization Award for Achievements in Banking Resolutions and

is attached to the organization's inherent values and objectives. Immediately after the new logo had been introduced, KDIF announced the new logo to the representatives of the working group which functions since 2014 and comprises heads of marketing and public relations representing KDIF Advisory Council member banks. All materials for public use and the brandbook are published on the KDIF's official website on the Office of Public Affairs page.

100% of the web site content was transferred to the new platform, however the most important introduction became the online deposit insurance coverage calculation tool enabling estimation of the latter even for the users who are completely unaware of the deposit insurance terms and conditions. In order to promote the new website, KDIF held awareness campaigns on Facebook with full support of the deposit insurance system member banks. In 2017, after development of new modules, KDIF schedules widespread promotion campaign of the renewed web site.

Furthermore, considering the fact of absence of KDIF branches elsewhere across the country, at special request of KDIF the National Bank assigned its branches to conduct similar check-ups on presence of the KDIF booklets and awareness of the banks' managers of deposit insurance system. In course of this cooperation KDIF held an obligation to coordinate the effort and to facilitate the work of the National Bank of Kazakhstan branches in the course of execution.

In November, 2016, KDIF made official announcement towards the DIS member banks executive bodies regarding the need for further activities associated with awareness raising of the managers and call center specialists in banks. The explanatory seminars and presentations are scheduled for the period from January to April, 2017.

Payouts. The social media campaign was supported by the public relations and social media marketing offices of large DIS member banks and embraced the audience of banks' subscribers in Facebook and

Vkontakte. The total coverage of the social media campaign accounted for 100 thousand subscribers. Later on, in February, 2016, the KDIF's new video was promoted on the official pages of the large member banks – the neat and easy for understanding video in running time versions of 15 seconds, 30 seconds and 2 minutes on the example of mother squirrel and her little children covers the most demanded questions on deposit insurance. Later on, in July, after adjustment of the logo used in the video, KDIF repeatedly offered the 2-minute version of the video for promotion to the dedicated offices of the DIS member banks. Furthermore, the marketing offices of most banks

Public relations

Since the beginning of 2016, KDIF made 10 press releases and information circulars on an array of events, including changes in the order of service of JSC "Valut-Tranzit Bank" depositors, changes in composition of the KDIF Board of Directors, the decisions regarding the maximum recommended interest rates on retail deposits, and the terms and conditions of upcoming reimbursement of the depositors of JSC "Kazinvestbank".

Four articles were published in popular regional newspapers, as well as such periodicals as "Vremya", "Caravan", "Aikyn", and "Egemen Kazakhstan".

In October, KDIF conducted an online conference "All you need to know about protection of your deposit" on the Zakon.kz web portal. The questions were answered by the KDIF Chairman. Over 5 days of active Q&A session the online conference page gathered 25 thousand visitors. Later on, in December, interview with the KDIF Chairman was published on the same web portal.

During the year, the KDIF Chairman, the executive officers and the specialists of KDIF were giving comments to such TV channels as "Khabar", "Khabar-24", "ON TV" regarding the future work with depositors of JSC "Valut-Tranzit Bank" and the course of payout processes via JSC "Bank CenterCredit" serving as the agent bank and, later on, by the means of KDIF. In December, 2016, an

demand that the 30-second version of the video should be shown on TV monitors in the bank offices.

Apart of the above, on 22 April, 2016, the Q&A session "One hour spent with Kazakhstan Deposit Insurance Fund" was conducted on the official page of JSC "Halyk Bank of Kazakhstan" on Facebook. KDIF Deputy Chairmen Kuanyshbek Abzhanov and Olzhas Dauletberdiyev, specialist of KDIF Legal Department, as well as Retail Products and Agency Services Department Director representing JSC "Halyk Bank of Kazakhstan" were answering the questions of the bank's subscribers.

array of TV channels such as "Channel One Eurasia", "Channel 31", "Almaty", "Astana", "KTK", "Khabar", "Khabar-24" "Atameken Business Channel" released news coverages regarding the further perspectives for the depositors of JSC "Kazinvestbank" conveyed with comments by Deputy Director of the Banking Supervision Department of the National Bank of Kazakhstan, KDIF Deputy Chairman, and KDIF Research and Public Affairs Department Director.

Furthermore, in September and October, the KDIF employees conducted a series of educational lectures for students in economics and finance attending few higher education institutions located in Almaty, including Kainar University, Turan University, Caspian University, L.B. Goncharov Kazakh Automobile Road Academy, Academy of Labor and Social Affairs. The sessions dedicated to the Kazakhstani deposit insurance system aroused the students' interest of the indicated institutions. The total audience of the lectures comprised 150 students.

During the reporting year KDIF received 4 200 phone calls on the toll-free 8 8000 80 10 20. The most frequently asked questions of depositors were regarding the deposit insurance protection of certain banking products and coverage thereof in national and foreign currency, terms and conditions of reimbursement of depositors, and the requirements to the evidence documents necessary to claim reimbursement in the agent bank office.

Methodological assignments

Fulfillment of the goals, objectives and functions of the deposit insurance system in Kazakhstan shall be governed by Constitution of the Republic of Kazakhstan, Civil Code of the Republic of Kazakhstan, and normative legal acts of the National Bank of the Republic of Kazakhstan and resolutions of the Sole Shareholder and the Board of Directors. In this regard, KDIF is actively involved in development of the legal basis in regard to the deposit insurance system.

Since 2008, KDIF in cooperation with the Government of the Republic of Kazakhstan and the financial regulator were taking effort towards tax redemption of investment income received onto the special reserve assets. KDIF repeatedly invoked discussion of the indicated issue with involvement of the relevant units of the Ministry of Finance of the Republic of Kazakhstan, Ministry of National Economy of the Republic of Kazakhstan and the National Bank of Kazakhstan. KDIF was also taking part in the working group meetings dedicated to putting forward the amendments into the Tax Code of the Republic of Kazakhstan, while the indicated issue was also discussed during the meetings with the deputies of Mazhilis and Senate of the Parliament of the Republic of Kazakhstan. As a result of the effort that had been conducted, the relevant amendments were introduced into the tax Code of the Republic of Kazakhstan. Simultaneously, a respective amendment was introduced into the Deposit Insurance Law in part of segregation of assets of the special reserve for payouts and the proprietary assets.

Therefore, according to the subparagraph 16) paragraph 99 of the Tax Code of the Republic of Kazakhstan, investment income of KDIF associated with special reserve assets and allocated therein to replenish the special reserve fund, shall be excluded from the aggregate annual income in part of the tax base evaluation (effective from January 01, 2014). However, this novelty in the Tax Code did not exempt the income associated with allocation of the special reserve assets into money deposits with second tier banks paid at source.

In this regard, during 2016 the KDIF employees conducted auxiliary work towards setting forth the

amendments and additions into the Tax Code via sending a respective request to the National Bank of Kazakhstan. In the regular course of business, the project amendments and additions to the Tax Code were completed, which translated into enclosing the respective amendments and additions into subparagraph 16) paragraph 99 of the revised version of the Tax Code, which provides for redemption of income in the form of interest in arrears applied to the DIS member banks for non-fulfillment or improper fulfillment of the obligations arising from the Contract of Adhesion from the aggregate annual income of KDIF.

Furthermore, paragraph 2 of the clause 143 of the Tax Code was updated with the ultimate version as follows: "interest paid to the deposit insurance organization shall be exempt from taxation paid at source". On November 30, 2016 the President signed Law of the Republic of Kazakhstan "On making amendments and addenda to certain legislative acts of the Republic of Kazakhstan regarding the issues of tax and customs administration" (effective from January 1, 2017). In 2016, all the proposed amendments regarding exemption of practice of imposing interest in arrears towards the DIS member banks for non-fulfillment or inappropriate fulfillment of their respective obligations according the Contract of Adhesion and the exemption of interest income being subject to taxation at source were adopted. Therefore, the indicated amendments into the Tax Code have led to elimination of discrepancies between the clauses 99 and 143 thereof, as well as growth in the KDIF income associated with special reserve for payouts later on, in 2017.

During the reporting year, KDIF conducted significant methodological effort both in the field of development of internal rules and guidelines of KDIF, and generating the proposals regarding amendments and additions to be made into the normative legal acts of the Republic of Kazakhstan and the normative documents of the Republic of Kazakhstan.

With a view of preparation of proposals regarding further enhancement of national legislation, KDIF employees explored the best practice and international experience in bank resolution and liquidation, namely:

- recommendations made by International Monetary Fund, International Bank for Reconstruction and Development, and World Bank in part of bail-in and resolution of problem banks,
- European Union Directive 2014/59/EU regarding bail-in and regulations of credit organizations and investment management companies dated 15/05/2014,
- recommendations made by Financial Stability Board “Key Attributes of Effective Resolution Regimes for Financial Institutions” (October, 2011),
- “Second Thematic Review on Resolution Regimes” Peer Review Report (dated 18/03/2016),
- Resolutions Handbook, Federal Deposit Insurance Corporation (December, 2014),
- experience and practices in bank resolution of such jurisdictions as the USA, Turkey, Russia, Ukraine, as well as involvement of the Federal Deposit Insurance Corporation, the USA, Savings Deposit Insurance Fund of Turkey, Deposit Insurance Agency of Russia, and Deposit Guarantee Fund of Ukraine in the indicated processes.

The proposals set forth by KDIF regarding certain issues being subject to discussion of the abovementioned working group were submitted to the National Bank of Kazakhstan in the form of comparison tables. Preparation of the relevant draft amendments and additions to legislation shall be the result of this effort.

KDIF was also taking part in methodological work conducted by the National Bank of Kazakhstan. Particularly, the following actions were taken:

- propositions to the draft resolution of Board of the National Bank “On establishment of rules of applying (establishing) the conservation regime in regard to the second-tier banks, conducting purchase-and-assumption transaction at the stage of conservation and approval by the regulatory authority of the indicated transaction and the types of assets and liabilities subject to transfer”,
- propositions to the draft resolution of Board of the National Bank “On establishment of administration rules in regard to the bridge bank, conduct of transactions subject to certain terms and conditions, and conduct of purchase-and-assumption transaction in regard to the bank subject to conservation regime to the bridge bank, and transfer of assets and liabilities to the acquiring bank, as well as the types of assets and liabilities subject to transfer to the bridge bank”,
- participation in development of draft amendments and additions to Resolution of Board of Agency for Control and Supervision of the Financial Market and Financial Organizations No. 216 dated September

23, 2006 “On ratification of the application form of a second-tier bank in regard to entering the deposit insurance system”.

Furthermore, in the course of enhancing the deposit insurance system, KDIF was involved in the work under supervision of the National Bank of Kazakhstan, in particular:

- discussion of problem issues of JSC “Valut-Tranzit Bank”,
- enhancement of procedures related to selection of agent bank to handle payouts to depositors of a bank under forced liquidation,
- effort towards resolution of issue of entitling KDIF with access to data constituting banking secrecy as for fulfillment of the organization’s inherent tasks.

Moreover, the KDIF employees were taking part in discussions in the course of preparation of proposals for assessment of viability and the capability of introducing irrevocable certificates and development of deposit certificates market at the grounds of Financiers’ Association of Kazakhstan.

Alongside with the above, by Resolution of the KDIF Board of Directors dated May 11, 2016 (Minutes No. 2) amendments and additions to the Contract of Adhesion were approved in part of delivery by the member banks of data on deposit agreements terms and conditions according to the template established by Attachment 1-1 to the Contract of Adhesion via electronic means (the FASTI) within the deadline of no later than 5th business day of the month following the reporting quarter (effective from January 1, 2017).

Regarding further enhancement of the methodological grounds of KDIF, the following tasks were fulfilled:

- Rules of Sole Shareholder Resolutions Disclosure were ratified, including amendments and additions (Resolutions of the Sole Shareholder dated March 29, 2016 and September 29, 2016, respectively),
- Rules of Board of Directors Resolutions Disclosure were ratified (Resolution of the Board of Directors No. 2 dated May 11, 2016),
- amendments to the KDIF Investment Management Policy and Investment Management Strategy in part of expansion of the scope of financial instruments approved for investment via adding securities issued by International finance organizations (Resolution of the Board of Directors No. 6 dated October 5, 2016), the relevant amendments being made into the Trust Investment Management Agreement No. 11NB dated January 13, 2015 signed between KDIF and the National Bank of Kazakhstan via signing Addendum No. 4/717NB dated October 25, 2016,

- Board of Directors Statute was ratified (Resolution of the Board of Directors No. 6 dated October 5, 2016),
- amendments and additions into KDIF Employees Rewarding Rules and Employees Remuneration Rules were ratified (Resolution of the Board of Directors No. 11 dated December 14, 2016),
- Guidelines for drafting, approval and use of funds of the KDIF Business Plan (Annual Budget) were ratified (Resolution of the Board of Directors No. 11 dated December 14, 2016),
- work in regard to enhancing the internal processes was accomplished,
- KDIF Records Management Guidelines were ratified (Resolution of the KDIF Chairman No. 1/1 dated January 5, 2016),
- amendments and additions into Guidelines for Material Preparation for the Board of Director Meetings were ratified (Resolution of KDIF Chairman No. 8 dated 15/02/2016),
- amendments and additions to Directive for keeping personal data files, KDIF Employees Personal Data Treatment Guidelines, Labor Order Administration Guidelines are ratified (Resolution of KDIF Chairman No. 8 dated 15/02/2016),
- Clean Desk and Clear Screen Policy is ratified (Resolution of KDIF Chairman No. 79 dated 25/07/2016),

- Accident Prevention and Labor Safety Directive was ratified (Resolution of KDIF Chairman No. 22/08/2016),

- KDIF Public Awareness Raising Activities Conduct Directive governing public communications related to deposit insurance was ratified (Resolution of KDIF Chairman No. 115 dated 03/11/2016),

During 4th quarter, 2016, with a view of determining and assessment of risks associated with KDIF's functions in regard to deposit insurance coverage payouts in the event of revocation of banking license of one the major banks, in compliance with the KDIF Chairman Resolution No. 109 dated October 17, 2016, KDIF conducted a stress-test via the method of simulation of the DIS member banks. According to the results of stress-test, after possible risks and omissions in the current procedures had been identified, action plans aimed at mitigating the identified risks were suggested.

Furthermore, by the end of the reporting period, KDIF prepared the report of execution of Strategic Development Plan for 2014 – 2016, as well as the report of fulfillment of KDIF organizational units' plan of action. Moreover, KDIF Action Plan for 2017 and the Development Directives for 2017 – 2019 were elaborated.

International Cooperation

The KDIF has been an active member of the International Association of Deposit Insurers (IADI, the Association) since 2003. The Association (IADI) was founded in 2002, and currently represents 83 deposit insurers from 78 jurisdictions. KDIF is represented in two of the Association's regional committees: Asia-Pacific Regional Committee (APRC) and Eurasia Regional Committee (EARC), and two standing committees: Research and Guidance Committee, and Data and Survey Committee. The KDIF is closely involved in many activities and research carried out by the Association within the framework of its membership in IADI. Furthermore, KDIF is actively represented in a multitude of working groups and subcommittees related to the IADI Standing Committee for Research and Guidance which are specialized in certain area of deposit insurance or particular mechanisms for bank resolution, namely: Islamic Deposit Insurance Group (IDIG), P&A Subcommittee, Bail-in Subcommittee, Target Reserve Ratio Subcommittee, as well as Recoveries Subcommittee. In the framework of this membership, KDIF is constantly involved in various international events and research initiatives conducted by IADI and its regional committees.

In the end of May, 2016, the representatives of KDIF took part in the 48th Meeting of the IADI Executive Council and IADI International Conference "Variety And Harmonization of Deposit Insurance Systems" in Paris, France. In the course of the event, such issues for the deposit insurance system as standards, financial crises, models and cross-border cooperation were discussed.

30 June to 1 July, the representatives of KDIF also participated in 9th Annual General Meeting and International Seminar of Eurasia Regional Committee "Effective Deposit Insurance Systems And Crisis Management" where the KDIF's representative made presentation "Risk Management System, Identifying the Target Reserve Ratio, and Differential Premium Rate System Applied at KDIF" during the 1st session of the seminar.

Within the reporting year KDIF conducted effort towards enhancement of cooperation with certain foreign deposit insurance organizations.

Particularly, on October 26, 2016, during the course of Annual General Meeting and IADI International Conference "Preparing to the Future Financial Crisis" KDIF signed memorandum on mutual understanding and cooperation with Korea Deposit Insurance Corporation (KDIC). Therein exchange of letters of intention with a view of enhancement of mutual cooperation between KDIF and Financial Services Compensation Scheme, the United Kingdom, took place. During the course of annual general meetings of Eurasian and Asia-Pacific Regional Committees in Seoul, Korea, in October, 2016, the representatives of KDIF delivered a speech on the core achievements of KDIF performed during the reporting period.

Apart of the above, during the course of international seminar on risk-based banking businesses analysis in Kuala-Lumpur, Malaysia, on November 7 – 10, 2016, and bilateral experience sharing with the representatives of Deposit Insurance Corporation of Malaysia in the course of the indicated seminar, the KDIF employees received consultations regarding various issues related to functioning of deposit insurance systems, particularly insurance of deposits placed with Islamic banks, protection of insurance financial products, as well as differential premium system applied in Deposit Insurance Corporation of Malaysia. In the course of the indicated seminar, the issues regarding risk-based analysis and assessment of financial institutions, macro- and microprudential assessment models were discussed. The target audience of the seminar was comprised of financial regulators from across the South-East Asia. The total number of participants comprised over 70 attendees.

In addition to the above, during 2016 the KDIF employees were actively involved into various IADI research initiatives, the assignments of the Eurasian and Asia-Pacific Regional Committees and various standing committees and working groups: Data

and Survey Committee, Research and Guidance Committee, Islamic Deposit Insurance Group, as well as various subcommittees of the IADI Research and Guidance Committee.

Regarding the methodological assignments conducted by KDIF in the course of its participation in IADI, KDIF also reviewed the draft projects of such documents as:

- IADI Core Principles for Effective Islamic Deposit Insurance Systems, Sharia Governance for the Islamic Deposit Insurance Systems developed by the dedicated working group on Islamic Deposit Insurance working under the IADI Research and Guidance Committee,
- Analytical Report "Deposit Insurance And Bail-In: Problems and Issues To Be Discussed" developed by the IADI Research and Guidance Committee,
- IADI Asia-Pacific Regional Committee's Strategic Priorities and Action Plans Committee Action Plan,
- Target Reserve Ratio Guidelines developed by IADI Research and Guidance Committee,
- IADI Glossary Update Guidelines developed by the Data and Survey Committee,
- research paper of the Target Reserve Ratio Subcommittee covering target reserve ratio establishment in the deposit insurance organizations,
- research paper of the IADI P&A Subcommittee,
- research paper of the IADI Bail-In Subcommittee and its implications on the deposit insurance systems and financing.

Apart of that, KDIF developed the replies to the survey originators on the following:

- IADI Annual Survey 2016: an integrated research on the deposit insurance systems as of January 1, 2016,
- survey of Savings Deposit Insurance Fund of Turkey on conduct of compliance assessment of deposit insurance organizations' operations with the Core Principles of Effective Deposit Insurance Systems,
- survey of Canada Deposit Insurance Corporation on compliance of the deposit insurance organizations with law and standards,
- survey of P&A Subcommittee of the IADI Research and Guidance Committee,
- survey of Interbank Deposit Protection Fund, Italy, on the bail-out guidelines,

- survey of Deposit Insurance of Vietnam regarding the public awareness initiatives of KDIF.

In the course of its membership in Eurasia and Asia-Pacific Regional Committees of IADI, KDIF prepared quarterly reports on its activities.

Apart of that, KDIF initiated conduct of various surveys among all the Association members with a view of observation of global best practice in the corresponding areas:

1. on establishment of target reserve ratio of the deposit insurance organizations around the globe,
2. on specific approach to the systemic banks in the framework of differential premium rates.

The outcomes of the indicated surveys were composed into a single document, which was submitted to the KDIF Chairman in the format of executive summary.

In the course of technical assistance under the Combined Economic Research Program 2016, the World Bank conducted integrated independent assessment of compliance of Kazakhstani deposit insurance system with the IADI Core Principles for Effective Deposit Insurance Systems. According to the assessment results, KDIF is either "largely" or "materially" compliant with the most criteria of the IADI Core Principles.

With a view of developing the suggestions regarding fulfillment of recommendations given by the World Bank, a dedicated working group on enhancing the bank recovery measures, resolution and liquidation was established by Resolution of the Governor of National Bank No. 397 dated October 3, 2016, which included the representatives of KDIF.

According to the independent assessment results, KDIF elaborated the action plan for elimination of the identified facts of incompliance with a view of increasing the extent of compliance of its operations with the IADI Core Principles.

Apart if that, the representatives of the World Bank provided KDIF with the materials regarding the global best practice in deposit insurance, conducted education seminars for the KDIF employees, including the organizational structure of KDIF, and the instruments and methods of problem bank resolution and liquidation that are recommended for the deposit insurance system in Kazakhstan.

Whereas in October, 2015, during the IADI Annual General Meeting, KDIF was awarded by the IADI Selection Committee as Deposit Insurance Organization of the Year in the nomination "For Achievements in Banking Resolutions and Payouts, according to the effective guidelines of IADI, during the reporting year KDIF was represented in the Selection Committee. KDIF was taking part in the process of assessment, assigning the marks and the selection in four various nominations of the award based on the applications submitted by the deposit insurance organizations.

In the end of the reporting year KDIF entered a dedicated initiative committee for strategic priorities

and actions plans operating under the Asia-Pacific Regional Committee (SPAC). In December, 2016, the representatives of KDIF took part in the first teleconference gathering the members of the Committee and gave comments and recommendations to the action plan of the Committee for the forthcoming period.

In the framework of cooperation with the foreign deposit insurance system organizations, in December, 2016, the representatives of KDIF at the request by esisuisse were taking part in testing of the organization's hotline, a dedicated survey being filled-in and forwarded to esisuisse.

Independent Auditors' Report

To the Shareholder and Management of Kazakhstan Deposit Insurance Fund JSC

Opinion

We have audited the financial statements of Kazakhstan Deposit Insurance Fund JSC ("the Fund"), which comprise the statement of financial position as at 31 December 2016, and the statement profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA

Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue

as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for

the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Roman Sattarov

Qualified auditor
of the Republic of Kazakhstan
Qualification certificate
No.MF-0000149
dated 31 May 2013

Nurlan Bekenov

General Director
Deloitte, LLP

Deloitte, LLP

State license on auditing in the Republic of Kazakhstan Number 0000015, type MFU-2, given by the Ministry of Finance of Kazakhstan dated 13 September 2006

28 February 2017
Almaty, Kazakhstan

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

(in thousands of Kazakhstani Tenge)

	Notes	31 December 2016	31 December 2015
ASSETS:			
Cash and cash equivalents	5, 17	64,459,519	79,576,372
Available-for-sale securities	6, 17	514,593,725	441,760,269
Accounts receivable	7, 17	3,638,133	2,013,221
Other assets	8, 17	959,934	812,766
TOTAL ASSETS		583,651,311	524,162,628
LIABILITIES AND EQUITY:			
LIABILITIES:			
Other liabilities	9, 17	614,843	1,080,881
Total liabilities		614,843	1,080,881
EQUITY:			
Share capital	10	214,358,600	194,871,600
Available-for-sale securities revaluation deficit		(44,067,323)	(19,511,201)
Reserve capital		1,948,716	1,771,560
Special reserves of compensation	19	395,247,203	270,056,516
Retained earnings		15,549,272	75,893,272
Total equity		583,036,468	523,081,747
TOTAL LIABILITIES AND EQUITY		583,651,311	524,162,628

On behalf of the Management of the Fund 28 February 2017

Kogulov B.B.
Chairman of the Fund

Amirbekova E.M.
Acting Chief Accountant

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of Kazakhstani Tenge)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Interest income	11, 17	33,532,694	21,800,421
Revenue from member-banks' contributions and proceeds from liquidation commission	12	36,088,893	29,445,727
The costs of compensation to depositors of liquidated banks	12	(14,322)	(4,265,470)
Net (loss)/gain on foreign exchange operations	13	(2,810,391)	65,386,307
Other income/(expense)		9	(79,339)
NET NON-INTEREST INCOME		33,264,189	90,487,225
OPERATING EXPENSES	14, 17	(593,824)	(576,483)
PROFIT BEFORE INCOME TAX		66,203,059	111,711,163
Income tax expense	15, 17	(1,179,216)	(137,634)
NET PROFIT		65,023,843	111,573,529
Mandatory distribution of net revenue from contributions paid by member-banks and proceeds from liquidation commission in the special reserve	12	(36,074,571)	(25,180,257)
NET PROFIT AFTER MANDATORY DISTRIBUTION		28,949,272	86,393,272
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that may be reclassified subsequently to profit or loss: Net loss on revaluation of investments available-for-sale, net of tax effect of nil tenge		(24,556,122)	(20,769,373)
OTHER COMPREHENSIVE LOSS		(24,556,122)	(20,769,373)
TOTAL COMPREHENSIVE INCOME		4,393,150	65,623,899

On behalf of the Management of the Fund 28 February 2017

Kogulov B.B.
Chairman of the Fund

Amirbekova E.M.
Acting Chief Accountant

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of Kazakhstani Tenge)

	Notes	Share Capital	Available-for sale securities revaluation deficit	Reserve capital	Special reserves of compensation	Retained earnings	Total
31 December 2014		177,156,000	1,258,172	1,610,510	215,394,855	19,142,454	414,561,991
Net profit after mandatory distribution		-	-	-	-	86,393,272	86,393,272
Other comprehensive loss		-	(20,769,373)	-	-	-	(20,769,373)
Issue of ordinary shares	10	17,715,600	-	-	-	-	17,715,600
Transfer to reserve capital		-	-	161,050	-	(161,050)	-
Formation of special reserve		-	-	-	29,481,404	(29,481,404)	-
Mandatory distribution of net income from contributions of member-banks	12	-	-	-	29,445,727	-	29,445,727
Compensation to depositors of JSC "Valut-Transit Bank"	12	-	-	-	(4,265,470)	-	(4,265,470)
31 December 2015		194,871,600	(19,511,201)	1,771,560	270,056,516	75,893,272	523,081,747
Net profit after mandatory distribution		-	-	-	-	28,949,272	28,949,272
Other comprehensive loss		-	(24,556,122)	-	-	-	(24,556,122)
Issue of ordinary shares	10	19,487,000	-	-	-	-	19,487,000
Transfer to reserve capital		-	-	177,156	-	(177,156)	-
Formation of special reserve		-	-	-	89,116,116	(89,116,116)	-
Mandatory distribution of net income from contributions of member-banks	12	-	-	-	36,088,893	-	36,088,893
Compensation to depositors of JSC "Valut-Transit Bank"	12	-	-	-	(14,322)	-	(14,322)
31 December 2016		214,358,600	(44,067,323)	1,948,716	395,247,203	15,549,272	583,036,468

On behalf of the Management of the Fund 28 February 2017

Kogulov B.B.
Chairman of the Fund

Amirbekova E.M.
Acting Chief Accountant

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of Kazakhstani Tenge)

	Notes	31 December 2016	31 December 2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Proceeds from payments of mandatory regular contributions		33,610,381	28,176,449
Proceeds from liquidation committee	12	697,646	140,000
Receipt of interest on deposits placed		10,920,615	1,214,568
Interest received on available-for-sale securities		20,531,272	17,970,109
Interest received on transaction of reverse repo	11	318,985	404,121
Other receipts		251,597	9,778
Payments for suppliers' goods and services		(183,699)	(157,486)
Payment of business trip expenses		(8,688)	(5,887)
Payroll payment		(287,390)	(280,652)
Other taxes and other mandatory payments to the budget		(103,617)	(93,745)
Reimbursement to depositors of liquidated bank		(14,322)	(3,656,717)
Other payments		(6,457)	(614,684)
Net cash inflow from operating activities		65,726,323	43,105,854
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturity of available-for-sale securities		294,151,950	100,498,466
Purchase of available-for-sale securities		(394,463,458)	(88,670,143)
Purchase of property, plant and equipment		(13,176)	(23,434)
Purchase of intangible assets		(5,492)	(2,575)
Net cash (outflow)/ inflow from investment activities		(100,330,176)	11,802,314
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary shares	10	19,487,000	17,715,600
Net cash inflow from financing activities		19,487,000	17,715,600
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(15,116,853)	72,623,768
Effect in foreign exchange rate changes on cash and cash equivalent in foreign currency		-	1,077,079
CASH AND CASH EQUIVALENTS, beginning of the year	5	79,576,372	5,875,525
CASH AND CASH EQUIVALENTS, end of the year	5	64,459,519	79,576,372

On behalf of the Management of the Fund 28 February 2017

Kogulov B.B.
Chairman of the Fund

Amirbekova E.M.
Acting Chief Accountant

