

# INTELLIGENT PROTECTION OF SMART DEPOSITS



Годовой отчет  
**Annual Report**  
Жылдық есеп

 **2017**



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

# Annual Report 2017



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# Message from the Chairman

## Dear Friends, Colleagues and Partners!



2017 has become an important milestone in the Kazakhstan Deposit Insurance Fund history of development. In the course of the year we were functioning in the circumstances of banking license revocation in two deposit insurance system member banks.

The National Bank of the Republic of Kazakhstan revoked the license of “Kazinvestbank” JSC to conduct all banking operations on December 26, 2017. Thereafter, in May, 2017, for the first time ever in the history of the Kazakhstani banking sector, purchase and assumption transaction was executed as a method to protect individual depositors. Subsidiary Bank “Alfa-Bank” JSC became the acquirer bank of a part of the bank’s assets and liabilities, including the liabilities to the retail depositors in the amount of 7.8 billion tenge.

The legal prerequisites governing execution of such operation were stipulated in the legislation of the Republic of Kazakhstan in 2009. This is the case of integration of the Global best practice into our country’s legal framework, which builds upon complete regulatory grounds. According to the legislation, retail deposits are given priority: these shall be transferred in the first order. The deposits shall be transferred in full amount, including the interest accrued. Therefore, the retail depositors of “Kazinvestbank” JSC were able to either withdraw their deposits in part or in full amount or to sign a deposit contract with the acquirer bank and keep their savings with Subsidiary Bank “Alfa-Bank” JSC.

Up to the date of completion of the purchase and assumption transaction with Subsidiary Bank “Alfa-Bank” JSC, four employees of KDIF were engaged in the operations of the “Kazinvestbank” JSC Temporary Administration Office. By the end of 2017, KDIF was represented therein by one employee.

On November 2, 2017, banking license of “Delta Bank” JSC was revoked. Four employees of KDIF were engaged in operations of the bank’s Temporary Administration Office. As of the date of license revocation, the obligations of KDIF to reimburse insured bank depositors were around 120 million tenge. It is worth mentioning that, among the 2,244 insured depositors, the deposits of 2,242 were within the maximum coverage limit.

KDIF is fully equipped with the adequate financial and network capacity to fulfill its obligations to the insured depositors. The accumulated financial resources of KDIF dedicated to reimbursing insured depositors estimate at 568.6 billion tenge, including the share of authorized capital and the special reserve for payouts. For the purpose of KDIF capitalization growth, the National Bank of the Republic of Kazakhstan, the sole shareholder of the KDIF, made annual contribution to the KDIF authorized capital in the amount of 21.4 billion tenge. The KDIF authorized capital estimate at 235.8 billion tenge, while 70 per cent thereof shall be allocated for payout of the deposit insurance coverage, where appropriate. KDIF special reserve for payout estimates at 459.1 billion tenge, 52.4 per cent thereof being accumulated via collecting compulsory regular premiums of the deposit insurance system member banks. During 2017, KDIF received 35.1 billion tenge in member banks’ premiums aggregating 55 per cent of the special reserve increase.

According to the most recent data, 99.7 per cent of the retail deposit accounts placed with the deposit insurance system member banks are insured in full amount. Target reserve ratio established by the KDIF Board of Directors for 2017 was 6.3 per cent. The actual reserve ratio net of 70 per cent authorized capital was 5.6 per cent, while the same inclusive of 70 per cent authorized capital was 6.9 per cent of the total aggregate deposit balances of general public placed with the deposit insurance system member banks.

In terms of the Information Technology resources, KDIF disposes an array of ad-hoc IT solutions, including BATA Information System to estimate differential member banks' premium rates, and SaIT Insect Information System to ensure 100% automated compliance verification of the insured deposits database administration order. SaIT Payout Information System dedicated to payout processes automation was put into industrial operation.

In November, 2017, we introduced integrated retail deposit database, which is a distinctive project in the Republic of Kazakhstan. This is an Internet resource which allows bank depositors to find and compare information regarding the retail savings products available in each and all member banks' product line. The exclusivity of this Internet resource builds upon its non-commercial nature – the search results are composed according to the users' request details. Another objective of the Deposit Portal is to facilitate balanced and informed decisions in personal finance. Particularly, the Deposit Portal enables the users both to select the appropriate retail savings product and to compare the financial indicators of the member banks to assess their reliability. Therefore, the mission and development potential of the Deposit Portal remains in full accord with the systematic effort of the National Bank of the Republic of Kazakhstan to raise financial literacy of Kazakhstani people.

Completion of independent assessment of deposit insurance system in the Republic of Kazakhstan by the experts of the World Bank back in 2016–2017 has become another project of utmost importance. The project was completed within the three-party agreement between the World Bank, Government of the Republic of Kazakhstan and National Bank of the Republic of Kazakhstan. The assessment methodology was built upon the Core Principles for the Effective Deposit Insurance Systems. This paper was elaborated by International Association of Deposit Insurers back in 2014, and has become the gold standard in deposit insurance. The World Bank conducted an integral assessment of the KDIF operations from the standpoint of effective operation processes, and the institutional and legal framework. First and foremost, the point needs to be made that the independent assessment did not reveal any incompliance of operational issues with the best practices, particularly in such areas as payout process and claim recovery as a creditor of a failed bank. Future areas of development are indicated in the field of reinforcing the mandate of KDIF in bank failure resolution and cooperation of the financial safety net participating authorities. In the process of trilateral negotiations between the NBK, the World Bank and KDIF these recommendations and initiatives were accepted favorably.

The conclusions of the independent assessment conducted by the World Bank were presented to the international expert community in the course of a notable event, the International Seminar and Conference. The event was convened by KDIF in cooperation with IADI. KDIF had a true honor to welcome 39 experts in deposit insurance at the level of executive officers, deputy CEOs, and lead experts representing deposit insurance organizations from across 15 countries. IADI was represented by Mr. David Walker, Secretary General, Mr. Vijay Deshpande, IADI Advisor, and Mr. Nikolay Remchukov, Research Analyst. To conduct this event was both great privilege for KDIF, and also a great effort facilitated by contribution of each and any employee of KDIF. In the course of two-day program of the International Seminar and Conference, two vital issues on the agenda of the deposit insurance organizations throughout the Globe were discussed – the processes pertaining to, and Global best practice in bank failure resolution, and Islamic deposit insurance.

I therefore take this opportunity to thank all participants and speakers of the International Seminar and Conference, as well as the representatives of National Bank of the Republic of Kazakhstan and the members of KDIF Board of Directors for their support of the event. We hope that in 2018 we continue the effort towards cooperation with the international expert community and the IADI, and fulfill new common projects and far-reaching research initiatives within the framework of the KDIF's large-scale task in the field of development of deposit insurance system in the Republic of Kazakhstan and integration of Global best practice into the legislative framework and the business processes of KDIF.

Kind regards,  
**Bakyt Kogulov**  
Chairman, Kazakhstan Deposit Insurance Fund



# About KDIF



Kazakhstan Deposit Insurance Fund was established in November, 1999, according to the Resolution of the National Bank of the Republic of Kazakhstan No.393 dated 15 November, 1999, under the initiative declared by the President of the Republic of Kazakhstan with a view to maintaining stability of the Kazakhstani financial system in the aftermath of the economic crisis. KDIF operates in the organizational and legal form of Joint Stock Company. National Bank of the Republic of Kazakhstan is the founding organization and the sole shareholder of KDIF.



## Mission

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

## Vision

KDIF aspires to:

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

## Strategic Objectives

- ▶ To engage in safeguarding stability of financial system.
- ▶ To protect the rights and lawful interests of the insured depositors in the event of forced liquidation of a deposit insurance system member bank.

## Key Principles of Operation

- ▶ Compulsory membership basis for any bank licensed to accept deposits of general public, to open and maintain current and savings bank accounts.
- ▶ Assurance of deposit insurance system transparency.
- ▶ Mitigation of risks associated with the deposit insurance system operation.
- ▶ Accumulation of special reserve for payouts on ex-ante basis to reimburse insured depositors and individual entrepreneurs.

In order to fulfill the mandate entrusted by the legislation of the Republic of Kazakhstan, KDIF fulfills the functions as follows:

- ▶ to reimburse insured depositors of a deposit insurance system member bank,
- ▶ to maintain Deposit Insurance System Member Banks Register,
- ▶ to conduct investment management of proprietary assets,
- ▶ to accumulate special reserve for payouts on ex-ante basis,
- ▶ to appoint agent bank on the basis of competitive bidding procedure,
- ▶ to engage in temporary administration office designated during the period of conservation of a member bank and (or) following revocation of a member bank's license to conduct all banking operations,
- ▶ to engage in liquidation commission of a deposit insurance system member bank in forced liquidation up to the date of redemption of KDIF's claim in the amount of deposit insurance coverage payout, either accomplished or in progress,
- ▶ to engage in creditor committee of a deposit insurance bank in forced liquidation up to the date of redemption of KDIF's claim in the amount of deposit insurance coverage payout, either accomplished or in progress,
- ▶ to establish the order of payment of the deposit insurance member bank premiums, and oversee accuracy and timeliness of allocation,
- ▶ to define the terms of Adhesion Contract.

## Deposit Insurance Coverage

Any deposit, current account or cash balance of payment card pertaining to an individual or individual entrepreneur shall be subject to deposit insurance, excluding for non-interest bearing demand deposits placed with Islamic banks.

Insured depositors shall be reimbursed in national currency solely in the amount of deposit balance net of accrued interest (which does not apply to compound interest) within the limit of:

- ▶ deposits in national currency – 10 million tenge,
- ▶ deposits in foreign currency – 5 million tenge (in equivalent amount).

Should a depositor allocate multiple insured deposits with the same member bank which are different in type and currency, such depositor shall be reimbursed within the total coverage limit of 10 million tenge. Deposits and bank accounts of the same depositor placed with another member bank shall be reimbursed on a stand-alone basis.



# 2017 in Facts And Figures

2016 (as of BoY, 2017)

2017 (as of BoY, 2018)

## Financial Performance Indicators

<b>502.9</b>	Accumulated financial resources of KDIF dedicated to reimbursing insured depositors	<b>568.6</b>
<b>214.4</b>	Authorized capital (in billion tenge)	<b>235.8</b>
<b>35.4</b>	Deposit insurance member bank premium allocations (in billion tenge)	<b>35.1</b>
<b>6.3%</b>	Target reserve ratio (as a share of retail deposit balances in deposit insurance system member banks)	<b>6.3%</b>
<b>6.4%</b>	Actual reserve ratio	<b>6.9%</b>
<b>567.3</b>	Present value of assets (in billion tenge)	<b>689.7</b>
<b>46.1</b>	Investment income (in billion tenge)	<b>38.6</b>

## Deposit Insurance System

<b>32</b>	Number of DIS member banks	<b>30</b>
<b>7,902</b>	Total retail deposits in DIS member banks (in billion tenge)	<b>8,221</b>
<b>+14.9%</b>	Annual gain in retail deposits	<b>+4%</b>

2016 (as of BoY, 2017)

2017 (as of BoY, 2018)

## Deposit Insurance Coverage Payout Liabilities

<b>93%</b>	Share of settled liabilities associated with reimbursing depositors of “Valut-Tranzit Bank” JSC	<b>97%</b>
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<b>0.50</b>	Remainder of liabilities to the depositors of “Valut-Tranzit Bank” JSC (in billion tenge)	<b>0.47</b>
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<b>1</b>	Number of DIS member banks’ license revocations	<b>1</b>
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<b>8,292</b>	Number of insured depositors “Kazinvestbank” JSC	<b>2,244</b>
		<b>“Delta Bank” JSC</b>

<b>0.77</b>	KDIF contingency liabilities associated with reimbursing insured depositors (as of date of revocation of banking license, in billion tenge)	<b>0.12</b>
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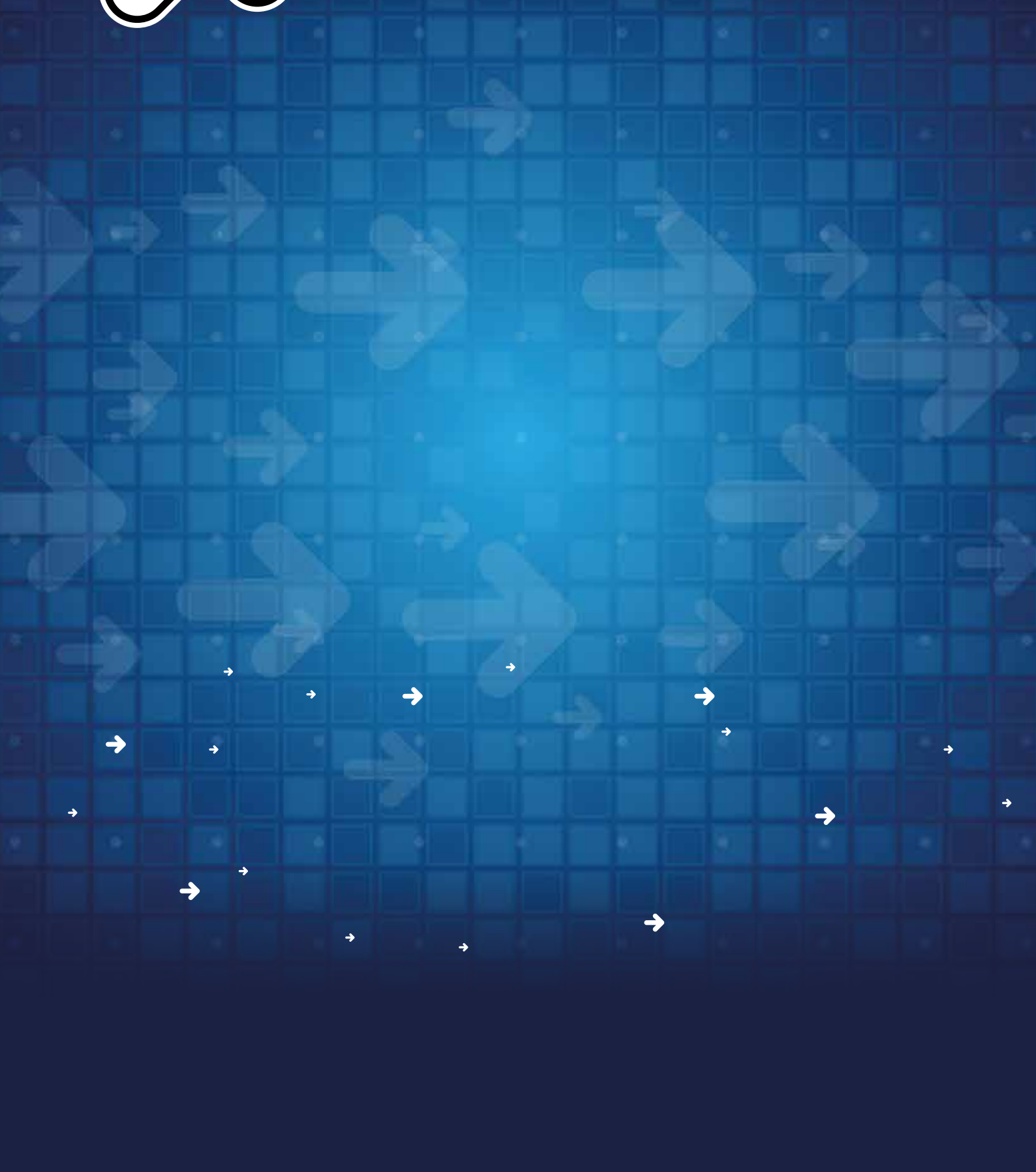
## Ensuring Capacity To Handle Payout

<b>6</b>	Number of measures to verify insured deposits database administration order compliance with the provisions of Contract of Adhesion (including recurrent measures)	<b>5</b>
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<b>23</b>	Number of banks which installed SaIT Inspect Information System for self-directed testing of retail deposit databases	<b>25</b>
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# Key Developments in 2017



## Developments in Banking Sector

**“Kazinvestbank” JSC.** On December 26, 2016, National Bank of the Republic of Kazakhstan revoked license of “Kazinvestbank” JSC to conduct all banking operations. On May 23, 2017, in the course of purchase and assumption transaction, which was conducted for the first time ever in the Kazakhstani banking sector history, liabilities of “Kazinvestbank” were assumed by the acquirer bank Subsidiary Bank “Alfa-Bank” JSC, in particular: liabilities to insured depositors in the amount of 7.8 billion tenge, liabilities to legal entities in the amount of 6 to 8 billion tenge, and pension assets of “Unified Accumulative Pension Fund” JSC in the amount of 3.2 billion tenge.

**“Delta Bank” JSC.** License of “Delta Bank” JSC to conduct all banking operations commencing November 3 was revoked by Resolution of Board of the National Bank of the Republic of Kazakhstan dated November 2, 2017. KDIF liabilities to insured depositors as of the date of banking license revocation estimated at 120.1 million tenge. The number of insured depositors possessing cash balances was 2,244. The bank was represented by headquarters in Almaty and branches in Astana and Aktau.

As of year-end, 2017, four KDIF employees were engaged in operations of Temporary Administration Office of “Delta Bank” JSC.

## Changes in Deposit Insurance System Membership

***According to the Deposit Insurance Law, any second-tier bank licensed by the National Bank of the Republic of Kazakhstan to accept deposits, open and maintain bank accounts of general public shall enter the deposit insurance system on a compulsory basis. At the moment, 30 banks are members of deposit insurance system.***

During 2017, membership of two banks was suspended:

- 1) “Zaman-Bank” JSC, following acquisition of Islamic bank license,
- 2) “Delta Bank” JSC, following revocation of license to conduct all banking and other operations.

On September, 4, 2017, “Zaman-Bank” JSC recalled its deposit insurance member bank certificate following voluntary reorganization into Islamic bank. According to the Deposit Insurance Law of the Republic of Kazakhstan, “Islamic Bank “Zaman-Bank” JSC shall be removed from the Deposit Insurance Member Bank Register.

Commencing November 3, 2017, “Delta Bank” JSC membership in the deposit insurance system was suspended due to revocation of the bank’s license for conducting banking and other operations by Resolution of the Board of National Bank of the Republic of Kazakhstan No.194 dated November 2, 2017. By resolution of the Governor of National Bank of the Republic of Kazakhstan temporary administration was assigned acquiring powers of all bank’s governance bodies. Representatives of National Bank of the Republic of Kazakhstan and KDIF entered the Temporary Administration Office.

## Launch of the Deposit Portal

***The Deposit Portal is the distinctive Web resource in the Republic of Kazakhstan compiling the timely and accurate data on any bank savings product available on the marketplace and the financial performance indicators of the second-tier banks. The core objective of the Deposit Portal is to raise financial literacy of Kazakhstani people while allocating savings with the deposit insurance system member banks.***

Launch of the Deposit Portal [www.deposit-kdif.kz](http://www.deposit-kdif.kz) was announced on November 29 in the course of press conference held in the “Interfax Kazakhstan” Information Agency Press Center. The Deposit Portal and the cross-functional retail deposit database has become the outcome of work conducted by ad-hoc Working Group comprised of the KDIF employees. The exercise has been carried out during 2017.

The Deposit Portal is a consolidated database covering all bank savings products offered by each and any bank conducting business in the Republic of Kazakhstan which enables the users to execute independent assessment and select appropriate bank savings product taking into account specific preferences and the tolerable level of risk. Therewith, timeliness and accuracy of data on bank savings products and financial performance indicators is the competitive advantage of the Deposit Portal.

Therefore, the objective of the Deposit Portal is to:

- 1) establish fair conditions on the marketplace,
- 2) eliminate the possibility of unfair competition and money laundering,
- 3) create an incentive for the member banks to improve savings products, raise performance indicators, and implement new technology.

The concept of the Deposit Portal builds upon the informational nature, and does not assume designing any conclusions or recommendations for the users regarding selection of a particular savings product. The Deposit Portal acts as independent information platform with neutral relation to the owners of data and the data itself. The users make decisions regarding allocation of savings independently relying on comparison of data and assumption of risk and returns.

In future, KDIF is planning to develop the toolkit for assessment of banks' savings products and financial performance indicators, which is expected to allow for more informed decisions. Therewith, it is expected that analytical, informational and educational content will be available with a view to promoting greater awareness and understanding of approaches to application and assessment of information which is available on the Web resource. It is also expected that the Deposit Portal is going to both raise financial literacy of people and reinforce confidence with the deposit insurance system and the financial system of the Republic of Kazakhstan as a whole, and provide for timely response of people to the shifts in interest rates.

## International KDIF – IADI Seminar and Conference

***On September 4–5, International Technical Seminar & Conference “Core Principles for the Effective Deposit Insurance Systems, And Islamic Deposit Insurance” and Annual Meeting of IADI Eurasia Regional Committee took place in Almaty, Kazakhstan. The event was conducted by Kazakhstan Deposit Insurance Fund in cooperation with IADI, International Association of Deposit Insurers.***

The event agenda was built around two vital issues:

- 1) Global best practice in problem bank resolution, crisis management and conduct of failure resolution,
- 2) Islamic deposit insurance.

The International Seminar and Conference consolidated 39 attendees at senior executive level, deputy executives and leading experts in deposit insurance industry from across 15 jurisdictions, including the representatives of Deposit Insurance Agency, Russian Federation, Federal Deposit Insurance Corporation, USA, and the participants from among the CIS countries, Japan, Korea, Malaysia, Indonesia, Turkey, Jordan, Poland, and Bulgaria. The event was also attended by the executive officers of National Bank of Kazakhstan, which was represented by Mr. Oleg Smolyakov, Deputy Governor, and Mr. Sabit Khakimzhanov, Director of Financial Stability Department, Mr. Bisengali Tadzhiyakov, member of KDIF Board of Directors, Distinguished Worker in The Financial Industry of the Republic of Kazakhstan. IADI was represented by [Mr. David Walker](#), Secretary General, [Mr. Vijay Deshpande](#), IADI Advisor, and Mr. Nikolay Remchukov, Research Analyst of the IADI Secretariat.

In the course of the International Conference, the representatives of deposit insurance organizations from Russian Federation, Ukraine, Poland, Japan and Indonesia shared their practical experience in troubled bank resolution, particularly bail-in, crisis management, conduct of purchase and assumption transaction, liquidation processes and handling payouts to depositors. During the Day I of the International Conference, [Ms. Colleen Mascenik](#), Senior Financial Economist, the World Bank, shared the outcomes of independent assessment of the Kazakhstani deposit insurance system against the 16 IADI Core Principles for the Effective Deposit Insurance Systems. The report indicates compliance of the KDIF operations and the legal and regulatory framework towards the

standards and recommendations stated in the IADI Core Principles in the field of:

- ▶ order of membership in deposit insurance system,
- ▶ deposit insurance coverage,
- ▶ order of reimbursing depositors in the event of bank failure,
- ▶ failure resolution, including recovery of claim associated with reimbursing deposit insurance coverage payout.

Therewith, the report states the need for reinforcement of mechanisms of contingency financing in the event of systemic bank crisis and the processes associated with resolution of troubled banks. The report also covered such issues and areas of development for the Kazakhstani deposit insurance system as expansion of the KDIF mandate in the field of bank resolution at the level of legal framework, revision of action coordination order with the National Bank of the Republic of Kazakhstan in the event of failure of a systemically important financial institution. The representative of the World Bank also marked that, in the course of trilateral meetings with engagement of the National Bank of Kazakhstan, the selected recommendations and strategic development initiatives had been received favorably and might be reflected in the legal framework of the Republic of Kazakhstan in the near future.

Mr. David Walker, IADI Secretary General, expressed appreciation to KDIF for successful conduct of the event marking that during the last two years KDIF had been taking effort to enhance its operations throughout the last two years. Particularly, self-assessment of operations towards the IADI Core Principles was conducted under the methodology of IADI, while the representatives of the World Bank were engaged to conduct independent assessment. The Association welcomes such initiatives taken by KDIF, and the organization’s readiness to incorporate the recommendations into practice.



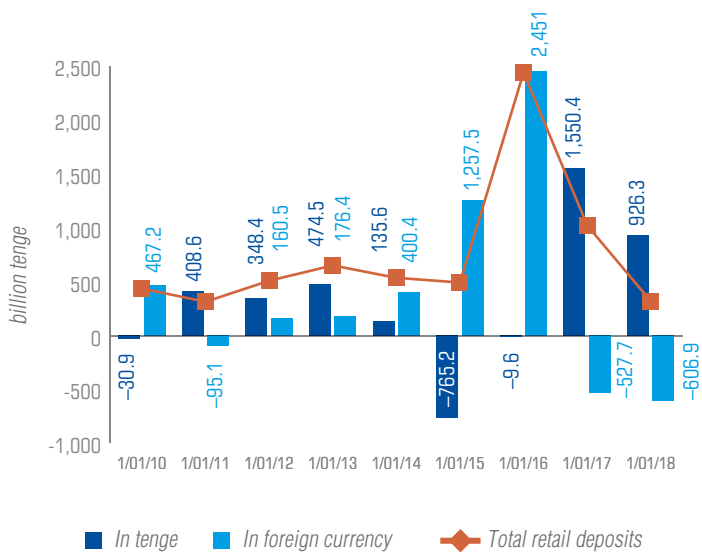
# Retail Deposit Market Overview

As of January 1, 2018, aggregate deposit balances of general public placed with the deposit insurance system member banks amounted to 8.2 trillion tenge. Herewith, the aggregate deposit balances of general public gained 319.4 billion tenge, or 4%, since the beginning of year. During the reporting year, increase in deposits of general public gained 7.4%, or 46.4 million tenge, as of January 1, 2018.

Share of individuals' bank accounts opened in national currency prevails consistently composing 95% as of January 1, 2018, while share of accounts opened in foreign currency estimate at 5%. Upon that, 81% of aggregate individuals' accounts are current and card accounts, the remainder 19% being bank deposits.



### Timeline of developments in retail deposit market

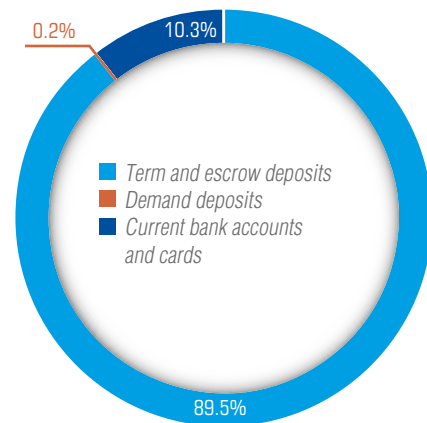
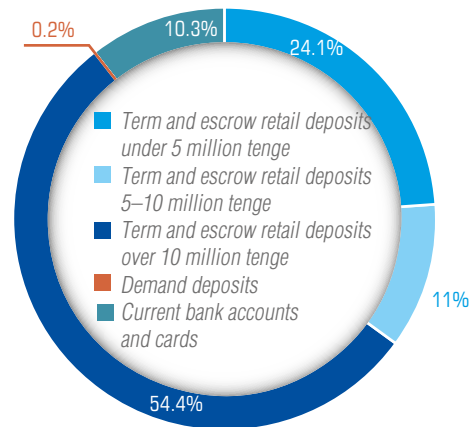


During the reporting year, the volume of retail deposits in national currency demonstrated growth –tenge-denominated deposits have increased by 31% (+926.3 billion tenge), while foreign currency deposits decreased by 12.3% (-606.9 billion tenge). At the year-end 2017, market share of national currency deposits composed 47.6%, while market share of foreign currency deposits composed 52.4% (compared to 37.8% and 62.2% the same period last year, respectively).

At the year-end 2017, the top-five banks in terms of retail deposits were:

- ▶ “Halyk Bank of Kazakhstan” JSC with a 19.9% market share in retail deposits among all deposit insurance system member banks, and 2.2 billion tenge (+0.1%) year-to-year gain in retail deposit balances,
- ▶ “Kazkommertsbank” JSC with a 17% market share, and 3.2 billion tenge (+0.2%) gain in retail deposit balances,
- ▶ “Kaspi Bank” JSC with 10.6% market share, and 129.2 billion tenge (+17.5%) gain in retail deposit balances,
- ▶ Subsidiary Bank “Sberbank of Russia” JSC with a market share of 8.5%, and 72.1 billion tenge (+11.5%) gain in retail deposit balances,
- ▶ “Tsesnabank” JSC (with a market share of 8.4%, and 12.9 billion tenge (+1.9%) gain in retail deposits balances.

### Insured deposits by categories (as of January 1, 2018)



According to the reporting data provided by the deposit insurance system member banks, as of January 1, 2018, term and escrow accounts take the largest share of 89.5% in the retail deposits total amounting to 7.4 trillion tenge and gaining 3.5%, or 247.7 billion tenge. These are followed by the current bank accounts and cash balances on payment cards with a share of 10.3%, or 842.9 billion tenge, and 70.4 billion tenge (+9.1%) gain in the retail deposits total and year-to-year. Demand deposits balance comprise 0.2% in the retail deposits total demonstrating year-to-year gain by 1.3 billion tenge.

Increase in retail deposits is mainly determined by a gain of 835.3 billion tenge (or 34.5%) in term and escrow deposits in national currency. At the same time, term and escrow deposits demonstrated a gain of 247.7 billion tenge, or 3.5%, against decrease of the same bank accounts in foreign currency by 587.7 billion tenge. Upon that, term and escrow deposits under 5 million tenge demonstrated a gain of 221.2 billion tenge, or 12.5%; within the range of 5 to 10 million tenge gained 158.1 billion tenge, or 21.3%, while term and escrow deposits over 10 million tenge have shown a decrease of 131.6 billion tenge, or -2.9%.



# Corporate Governance

National Bank of the Republic of Kazakhstan is the founding institution of KDIF. As a Sole Shareholder, the National Bank fulfills the functions of higher governing body of KDIF.

In accordance with resolution of the NBK Governor, Deputy Governor of the National Bank Mr. Zhanat Kurmanov is empowered

to take all decisions falling within the purview of the Sole Shareholder's competence.

KDIF Board of Directors is comprised of 3 members, including Chairman of the Board of Directors, Independent Director and the KDIF Chairman. Mr. Oleg Smolyakov, Deputy Governor of the National Bank, is the Chairman of the Board of Directors.

## “KDIF” JSC Board of Directors

### MR. OLEG SMOLYAKOV

Deputy Governor, National Bank of the Republic of Kazakhstan ,  
Chairman of the Board of Directors

### MR. BAKYT KOGULOV

KDIF Chairman

### MR. BISENGALI TADZHIYAKOV

Independent Director

During 2017, 17 meetings of KDIF Board of Directors took place, including 3 in-person meetings and 14 meetings by absentee voting. Committee for Strategic Planning, Risk Management and

Internal Audit, Human Resources, Remuneration and Social Issues acts under the Board of Directors.

## Accomplishments of the KDIF Board of Directors in 2017

- ▶ The Rules of Procedure governing information system security assurance, information and operation systems maintenance was adopted.
- ▶ Maximum recommended interest rates for newly accepted bank deposits were ratified (twofold).
- ▶ 2017 Inspection Plan for Internal Audit Service was approved.
- ▶ KDIF Risk Management Officer and Internal Audit Service reports were reviewed on a regular basis.
- ▶ Amendments and additions into the Contract of Adhesion were adopted.
- ▶ 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 were adopted.
- ▶ Amendments and additions to the Risk Management Administration Rules were adopted.
- ▶ Target reserve ratio for 2018 was established.
- ▶ 2016 Annual Financial Statement was given prior approval.
- ▶ Amendments and additions to the Methodology for calculation of the maximum recommended interest rates for newly accepted bank deposits were adopted.
- ▶ Amendments and additions to the Manual for administration and safekeeping of data subject to protection were approved.
- ▶ Amendments and additions to the “KDIF” JSC Business Plan (Annual Budget) 2017 were approved.
- ▶ Revised version of “KDIF” JSC Accounting Policy was approved.
- ▶ Report on the outcomes of IADI Eurasian Regional Committee Annual General Meeting was reviewed and preliminarily approved.
- ▶ The Status Report on the project implementation in regard to consolidated database of bank savings products (the Deposit Portal) was reviewed and taken into consideration.
- ▶ Amendments and additions to the KDIF Employee Rewarding Rules were approved.
- ▶ Amendments to KDIF Tax Accounting Policy were approved.
- ▶ Report on execution of KDIF Development Plan for 2012–2016 (in regard to 2016), Development Plan for the period of 2017–2021 (in regard to 2017) were approved.
- ▶ “KDIF” JSC Business Plan (Annual Budget) for 2018 was adopted.

## 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 the member banks' representatives.

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

- ▶ to develop and review the proposals regarding 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 prior to submission to the KDIF Board of Directors for review and approval,

- ▶ to develop the 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 deliver recommendations associated with prevention of possible cases of the DIS member banks not fulfilling their obligations 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 Advisory Council shall be elected annually from among its members. In 2017, a representative of JSC "Halyk Bank of Kazakhstan" served as Advisory Council Chairperson.

## Composition of the KDIF Advisory Council in 2017

Representatives of 10 deposit insurance system member banks were members of KDIF Advisory Council:

- |   |   |
|---|---|
| <ol style="list-style-type: none"> <li>1) JSC "Halyk Bank of Kazakhstan" (Chairperson of the KDIF Advisory Council),</li> <li>2) JSC "ForteBank",</li> <li>3) JSC "Kaspi Bank",</li> <li>4) JSC "Eurasian Bank",</li> </ol> | <ol style="list-style-type: none"> <li>5) JSC "Bank CenterCredit",</li> <li>6) JSC "Kazkommertsbank",</li> <li>7) JSC "Tsesnabank",</li> <li>8) SB "Sberbank" JSC,</li> <li>9) JSC "ATFBank",</li> <li>10) SB "Alfa-Bank" JSC.</li> </ol> |
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## KDIF Advisory Council activities results in 2017

During 2017, five in-person meetings of the KDIF's Advisory Council were held. Among others, the following key issues were discussed therein:

- ▶ 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,
- ▶ amendments to the Contract of Adhesion in regard to bringing the provisions thereof into compliance with the current practices in executing measures to verify compliance of the member banks' insured deposit databases against the requirements of the Contract of Adhesion,
- ▶ consideration of the Advisory Council member banks' propositions regarding revision (decrease) of the maximum

recommended 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%,

- ▶ additions to the KDIF Methodology for calculation of the maximum recommended interest rates for newly accepted bank deposits.

KDIF Board of Directors took into consideration the opinions of the Advisory Council member banks while considering all issues on the agenda.

During 2017, a Working Group on administration and development of SaIT Inspect Information System acted under KDIF Advisory Council.



# DIS 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.

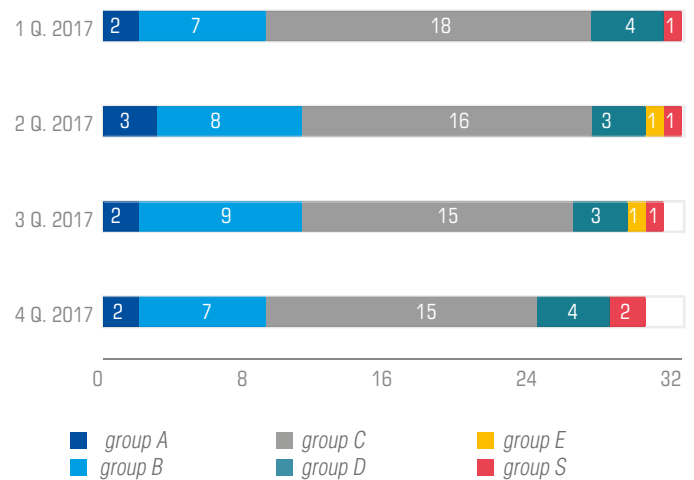
The total cumulative score for each DIS member bank is determined on a quarterly basis based on calculating these indicators. Depending on the assigned value of the cumulative total score, a DIS member bank is allocated into one of the classification groups, each having its own corresponding differential rate for regular premium. 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 continuously improves its guidelines for calculating differential premium rates taking into consideration the 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 National Bank of the Republic of Kazakhstan. The last complex revision of guidelines for calculating differential premium rates of the DIS member banks was ratified in 2016.

In accordance with BATA, the system for calculation of differential mandatory calendar premium rates, which is based on the key financial indicators and includes 6 classification groups with corresponding quarterly premium rates, within the reporting period: 4 member banks improved their positions being transferred to the classification groups with lower quarterly premium rates, positions of 3 member banks deteriorated, the member banks being transferred to the classification groups with higher quarterly premium rates, and 23 member banks retained their positions.

As the outcomes of the 4<sup>th</sup> quarter of 2017, 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 6.7% (2 member banks), total proportion of the group “B” reached 23.3% (7 member banks), the share of the group “C” totaled 50% (15 member banks), the proportion of the classification group “D” equaled to 13.3% (4 banks), the share of the group “S” totaled 6.7% (2 banks), while no banks were attributed to the classification group “E”.

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



Classification Group	A	B	C	D	E	S
The differential premium rate attributed to the DIS member bank*	0.04	0.08	0.11	0.19	0.38	0.5
Number of member banks classified into the respective group	2	7	15	4	0	2

\* as a percentage of the amount of all deposits of individuals placed in the member Bank

## The initiatives to enhance the differential premium system during 2017

During 2017, KDIF introduced adaptations to BATA Information System following the amendments and additions to the Rules governing the determination of, and establishment of the order of payment in regard to compulsory regular, additional and extraordinary member bank premiums adopted by Resolution of KDIF Board of Directors (Minutes No.32 dated 30 October, 2016). On June 22, 2017, an agreement on maintenance and development services was signed to update the BATA Information System in accordance with the revised version of the Rules. During 2017 full scope of work under the Agreement has been accomplished.

In the course of development of methodology of calculation of regular member bank premiums, KDIF accomplished studies of selected jurisdictions' experience (Canada, Korea, Malaysia, Japan, and Poland), conducted the respective comparative study,

and delivered suggestions on implementation of International practice. In addition, research is conducted in regard to international experience in application of [Supervisory Review And Evaluation Process, SREP](#). Survey was conducted among the deposit insurance organizations of Poland, Turkey and Korea. At the moment, the indicated work directions require further study.

KDIF also plans to consider the potential to enhance its methodology via integration with the outcomes of supervisory authority measures upon second-tier banks, particularly including early detection systems and inspection outcomes. In this regard, KDIF plans to hold consultative meetings with National Bank of the Republic of Kazakhstan and propose the issue of extending the scope of information provided to KDIF for discussion.



# Special Reserve for Payouts

KDIF accumulates the special reserve for payouts on ex-ante basis to conduct payout of deposit insurance coverage to insured depositors in the event of forced liquidation of a member bank or to cover the difference between the amount of assets and liabilities transferred from a troubled bank to an acquirer bank under purchase and assumption transaction (limited to the total amount subject to payout).

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

- ▶ expenses of KDIF limited to 70% 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 in forced liquidation of a member bank in the amount of deposit insurance coverage payouts,
- ▶ investment income associated with special reserve for payouts assets allocation,
- ▶ investment income associated with allocation of KDIF proprietary assets reduced by the amounts of expenses and contributions under the terms of the Charter.

In the event of deficit of the special reserve to reimburse the insured depositors of a bank in forced liquidation, legislation provides for a number of ex-post back-up funding measures to replenish the special reserve, for instance:

- ▶ to levy additional premiums imposed to DIS member banks,
- ▶ to receive a loan from the National Bank of the Republic of Kazakhstan in the amount as necessary to cover the special reserve deficit,
- ▶ to replenish authorized capital, up to 70% of which may be allocated for reimbursing depositors of a bank under forced liquidation according to the decision of the National Bank of the Republic of Kazakhstan.

## Capacity of the special reserve for payouts

As of December 31, 2017, the total amount of the KDIF special reserve for payouts composed 459.1 billion tenge, net of authorized capital.

Compared to the beginning of the reporting period, the DIS member banks premiums have performed growth in the amount of 35.1 billion tenge, up to the level of 240.5 billion tenge as of the end of 2017. The KDIF net income to replenish the special reserve for payouts increased by 15.3 billion tenge over the reporting year. Its share in the structure of the KDIF's special reserve amounted to 33.2% at the end of the reporting year, compared to 34.7% at the year-end 2016. 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 insured depositors increased by 240 million tenge, and amounted to 10.4 billion tenge.

By resolution of the Sole Shareholder ratified in December 2017, KDIF special reserve for payouts was replenished by 13.2 billion tenge at the expense of KDIF. In 2017 the Sole Shareholder increased the balance of the KDIF authorized capital by 10% up to 235.8 billion tenge.

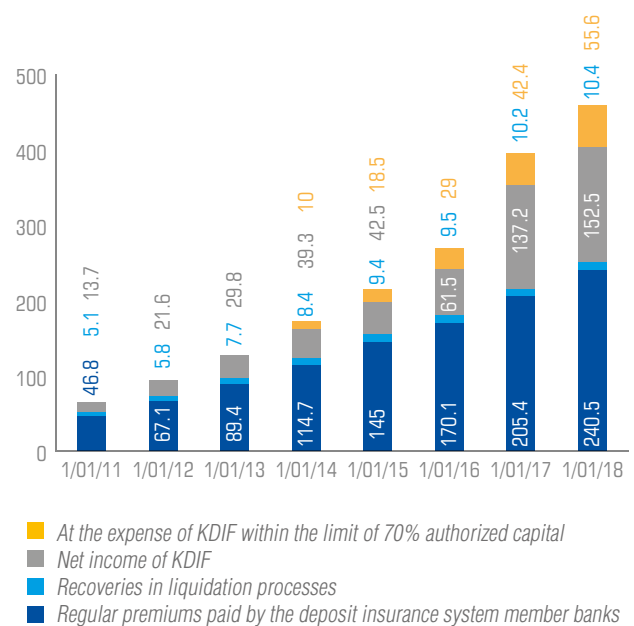
Inclusive of the maximum amount of authorized capital which shall be attributed to depositor reimbursement in the event of the KDIF special reserve deficit (i.e. 70% of the KDIF authorized capital), the accumulated financial resources to reimburse insured depositors comprised 568.6 billion tenge.

## Methodology for determining the target reserve ratio

In accordance with the Deposit Insurance Law of the Republic of Kazakhstan, target reserve ratio shall compose no less than 5% of the total amount of insured deposits placed with deposit insurance system 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 December 25, 2014) all necessary calculations to establish the forecast value of the target reserve ratio and amount for 2018 were completed. The issue was submitted for approval to the KDIF Board of Directors. The target reserve ratio was established at the level of 6.3% by Resolution the KDIF Board of Directors No.10 dated August 31, 2017. The actual reserve ratio for 2017 net of 70% authorized capital constituted 5.6%, while the same inclusive of 70% authorized capital constituting 6.9%.

### Sources of funding the Special reserve





# Investment Management

Trust management of the KDIF assets is conducted by the National Bank of the Republic of Kazakhstan, while the corresponding relationships between the parties are stipulated under the trust management contract.

The KDIF Investment Management Policy is ratified by Resolution of KDIF Board of Directors No.5 dated November 27, 2014, and is 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.

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

- 1) investment portfolio of the KDIF at the expense of funds of the KDIF authorized capital,
- 2) investment portfolio comprising special reserve assets.

The investment portfolio of the KDIF proprietary assets is composed by financial instruments traded on the domestic market and denominated in national currency. Special reserve assets shall be denominated both in tenge and foreign currency, and shall be invested within the following allocations:

- ▶ financial instruments denominated in foreign currency: within the minimum share of 25% and the maximum share of 45% of the special reserve asset value,
- ▶ 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 allocation. In this regard, the Trustee allocated a part of assets in the amount of 105 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. In addition, securities issued by quasi-governmental entities “Sovereign Wealth Fund “Samruk-Kazyna” JSC and “KEGOC” JSC in the amount of 6.2 billion tenge were acquired by the Trustee to the special reserve assets portfolio.

At the end of the reporting period, the total value of KDIF assets amounted to 689.7 billion tenge performing an increase of 17.9% (+104.89 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. Upon that, the investment income of KDIF financial instruments denominated in national currency totaled 72.1%, while the investment income of KDIF financial instruments denominated in foreign currency demonstrated a gain of 2.9%. In 2017, a significant part of KDIF assets were allocated on deposit accounts with the National Bank of the Republic of Kazakhstan with an annual return of 25%.



Therewith, following amendments and additions to the Tax Code of the Republic of Kazakhstan effective from January 1, 2017, as stipulated in subitem 2-1) Art. 143, stating that interest income received by KDIF shall not be subject to taxation at source, such tax was not applied to the KDIF deposit allocated in National Bank of the Republic of Kazakhstan in the amount of 1.5 billion tenge,

## Investment portfolio composition

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 National Bank of Kazakhstan,
- ▶ bonds of International financial organizations holding a minimum credit rating “A–”,
- ▶ securities issued by the national managing holding entities and national companies of the Republic of Kazakhstan (within the limit of 30% of the total proprietary assets portfolio, and up to 10% of the proprietary assets portfolio per 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 special reserve asset 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 issuer),
- ▶ money deposits (with maximum term of maturity 1 year) allocated with non-resident banks holding a credit rating no lower than “A+” / “A1”.

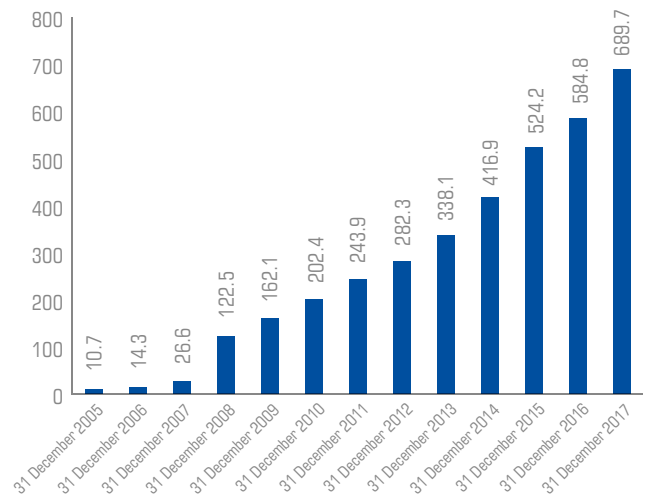
At the end of the reporting period the total value of the KDIF investment assets amounted to 673.2 billion tenge (97.6% of the total assets), including:

- ▶ special reserve portfolio in the amount of 459.4 billion tenge,
- ▶ proprietary asset portfolio in the amount of 213.8 billion tenge.

As an outcome of 2017, KDIF reported the investment income in the amount of 38.6 billion tenge, including income associated with special reserve portfolio comprising 23.5 billion tenge, and income associated with the proprietary asset portfolio comprising 15.1 billion tenge. The aggregate value of the investment portfolio allocated to financial instruments increased by 105.8 billion tenge (or by 18.6%).

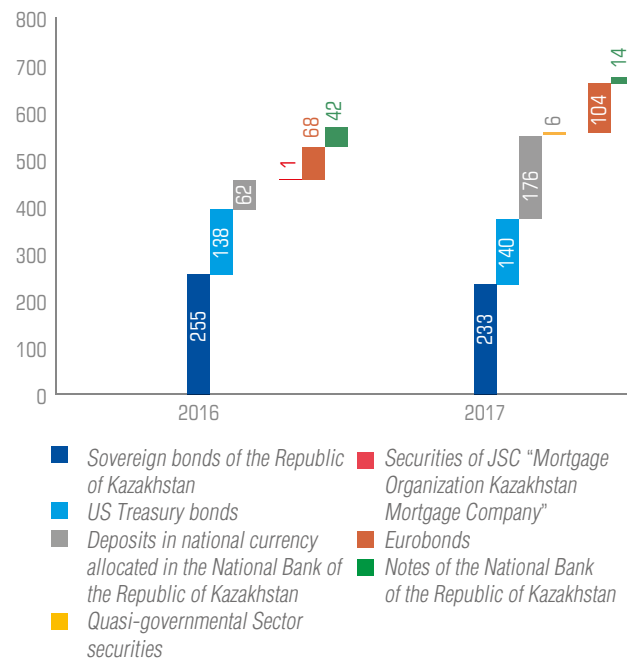
which resulted in receiving the interest income in full amount of 9.8 billion tenge (instead of 8.3 billion tenge).

### Growth of KDIF assets



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

### Portfolio composition per financial instruments category in 2016 – 2017 (bln. tenge)





# Organization of the Payout Processes



During 2017, KDIF employees were appointed to the temporary administration offices of “Kazinvestbank” JSC and “Delta Bank”

JSC. KDIF also continued payouts to insured depositors of “Nauryz Bank” JSC, “Valut-Tranzit Bank” JSC.

**Payouts of the deposit coverage to insured depositors of banks in forced liquidation as of 31 December, 2017 (in million tenge)**

Name of the bank in forced liquidation	Amount of the KDIF obligations to the insured depositors	Payouts of the deposit coverage	Remaining obligations amount
“Nauryz Bank Kazakhstan” JSC	772.0	679.6	92.4
“Valut-Tranzit Bank” JSC	18 354.3	17 888.7	496.6

During 2017, KDIF conducted payouts by its own means. As of January 1, 2018, KDIF reimbursed 32 insured depositors in total amount of 29.46 million tenge.

## 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, to confirm preparedness of a member bank to retrieve the data on insured deposits at any time within the established terms, and to eliminate the risk associated with duplicative payout, and a variety of reputational risks.

Over the reporting period, KDIF accomplished compliance verification measures in 5 member banks, including:

- ▶ scheduled measures being accomplished in 3 member bank,
- ▶ extraordinary measures being accomplished in 2 member banks.

Compliance verification measures are conducted via 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 5 member banks in part of filling in personal data of the bank clients, aggregation of the

clients’ accounts, and incorrect calculation of the deposit insurance coverage amount. After having completed the compliance verification measures, KDIF was taking control of elimination of breaches via following up action plans ratified by the member banks’ governance bodies on monthly basis, and monitoring of monthly reports of execution.

In order to continuously maintain the member banks’ insured depositor registers in accurate state, during the year KDIF continued its effort to ensure that SaIT Inspect Information System is installed in the member banks for self-directed testing. As of January 1, 2018, the information system was installed in 25 member banks. Meanwhile, explanatory work associated with technical issues of use of the information system is underway with 5 member banks. A software update was installed in 25 member banks which had signed Framework Agreement governing use of information system. KDIF is also reviewing the suggestions of member banks that arose during self-directed testing.



# Operations of the Liquidation Commissions of Forcibly Liquidated Member Banks

## “Valut-Tranzit Bank” JSC

In 2017 the process of forced liquidation of “Valut-Tranzit-Bank” JSC was underway. The procedure for the forced liquidation of “Valut-Tranzit Bank” JSC commenced back in March, 2007. The total amount of the KDIF’s liabilities to the bank’s depositors composed 14.01 billion tenge. In August, 2010, in accordance with the Law of the Republic of Kazakhstan “On Amendments and Additions to Certain Legal Acts of the Republic of Kazakhstan on Enhancing the Protection of Property Rights, Insuring Protection of Contractual Obligations and Tightening Responsibility for their Violation”, the bank’s depositors were paid an additional reimbursement in the total amount of 4.25 billion tenge.

KDIF’s representatives were appointed Chairman and Deputy Chairman of Liquidation Commission, and Deputy Chairman of the Creditor Committee of “Valut-Tranzit Bank” JSC. In coordination with the Liquidation Commission employees, KDIF composed Action Plan for completion of “Valut-Tranzit Bank” JSC Liquidation Commission operations. Execution of the Action Plan is being monitored on a monthly basis.

In 2017, the number of employees appointed to Liquidation Commission was reduced from 73 to 43, while operations of branches in 5 cities across the Republic of Kazakhstan have been terminated.

The process of the forced liquidation is complicated by issues related to collection of receivables by judicial order and 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 process.

During the year, claim of KDIF towards the liquidation commission of JSC “Valut-Tranzit Bank” was redeemed in total amount of 240 million tenge.

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



## Settlement of the KDIF claim within the 8<sup>th</sup> sequence of creditor claims

KDIF has also requirements within the 8<sup>th</sup> sequence of creditor claims to “Valut-Transit Bank” JSC and “Nauryz Bank Kazakhstan” JSC in the amount of 28.1 million tenge and 5.9 million tenge, respectively.

The name of the bank under forced liquidation	The amount of liabilities settled by the failed banks' liquidation commission as per the deposit coverage payouts made as of 31.12.2017		The balance of outstanding claims of the liquidation commissions on the deposit coverage payouts made as of 31.12.2017	
	(in million tenge)	(%)	(in million tenge)	(%)
<b>3<sup>d</sup> sequence of settling the creditors' claims</b>				
“Valut-Transit Bank” JSC	9,658	52.6	8,696	47.38
“Nauryz Bank Kazakhstan” JSC	772	100	0	0
<b>8<sup>th</sup> sequence of settling the creditor claims</b>				
	The balance of outstanding liabilities of the liquidation commission on member bank premiums			
“Valut-Transit Bank” JSC	0	0	28.1	100
“Nauryz Bank” JSC	0	0	5.9	100

## Engagement in operations of Creditor Committee

In 2017, National Bank of the Republic of Kazakhstan approved the procedure for participating in creditor committee meetings of a DIS member bank in forced liquidation governing the procedure for making decisions on bank liquidation issues.

During the reporting year, the representatives of KDIF participated in 12 meetings of “Valut-Transit Bank” JSC Creditor Committee. Over 30 suggestions regarding enhancement of the liquidation proceedings were raised. The following main issues were discussed during the meetings:

- ▶ report on monthly expenses of the liquidation commission, approval of monthly expenses estimates,

- ▶ approval of amounts subject to write-off that are not liable to collection, including the amount of unrecoverable receivables,
- ▶ review of the property valuation reports,
- ▶ report on property disposal,
- ▶ approval of amendments and additions to the property disposal plan,
- ▶ assessment of accounts receivable collection.

Over 2017, due to the inability to recover accounts receivable due to the total lack of assets, accounts receivable in the amount of 15.4 billion were written off.

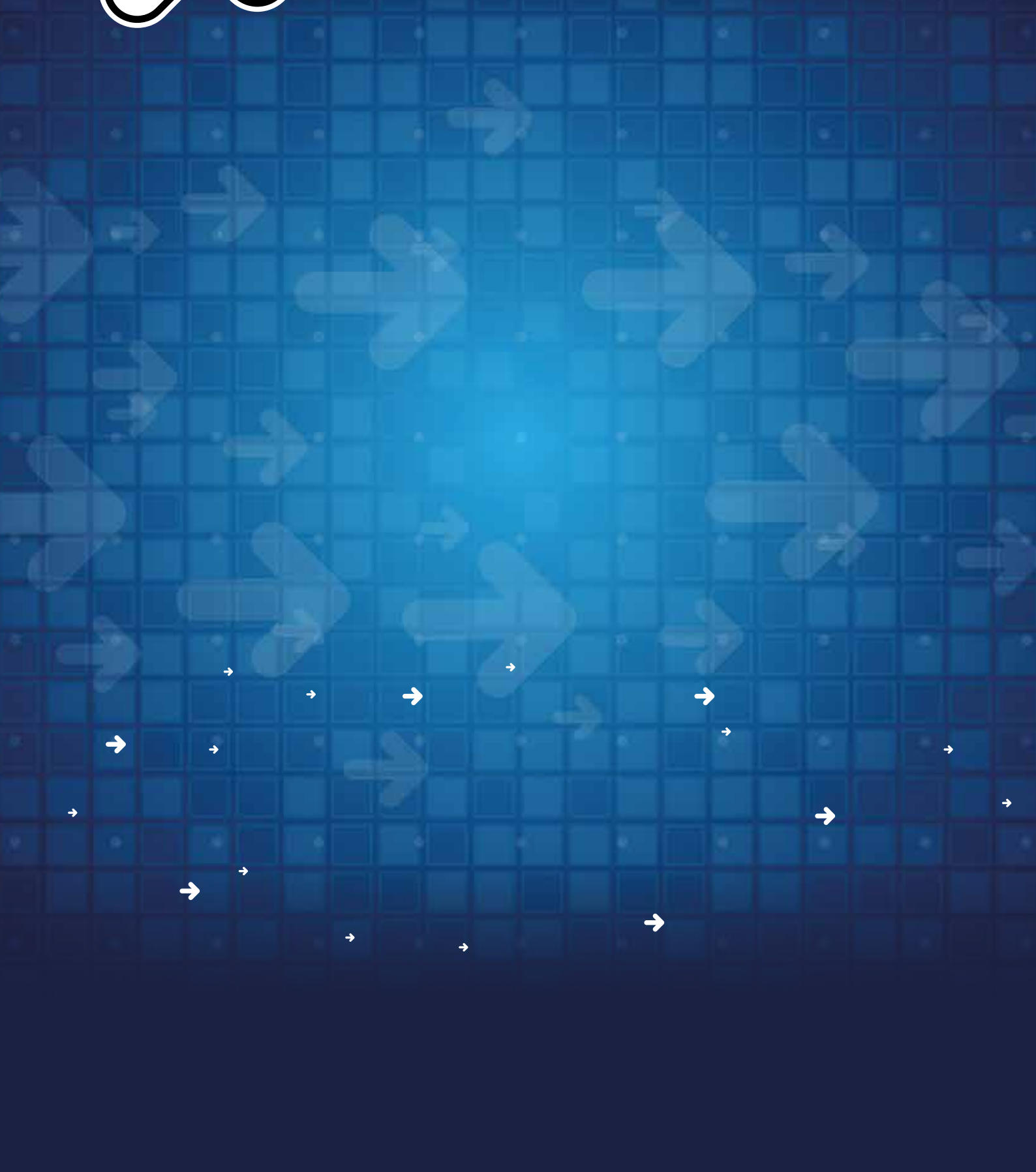
## “Delta Bank” JSC

License of “Delta Bank” JSC to conduct all banking operations commencing November 3 was revoked by Resolution of the Board of National Bank of the Republic of Kazakhstan No.194 dated November 2, 2017. By resolution of NBK Governor Temporary Administration Office was established to take over all functions of

the bank's governing bodies. Representatives of National Bank of the Republic of Kazakhstan and KDIF were engaged in temporary administration. The bank was represented by headquarters in Almaty and branches in Astana and Aktau cities.



# Risk Management System Development



High-quality implementation of all tasks assigned to KDIF requires continuous improvement of its risk management system. Thus, in 2017, amendments were introduced to the Risk Management Administration Rules in terms of timing for reporting.

In order to improve the risk management system of KDIF it is necessary to have the ability to identify and manage the main areas of risk, which involves:

- ▶ identifying and understanding the most significant risks,
- ▶ efficient assessment of risks within the entire areas of the KDIF operations, creating a reporting system and personalized responsibility for managing risks,
- ▶ taking appropriate measures to minimize risks,
- ▶ improvement of the internal control system in key business processes.

Improvement of the risk management system may help to reduce costs due to the following:

- ▶ reducing the cost of internal control by improving automated control procedures,
- ▶ optimizing or eliminating duplication of functions in Risk Management and Internal Control,
- ▶ enhancing the efficiency of business processes through implementation of automated centers, business processes and continuous monitoring.

Understanding the importance of the risk management system, the senior management of KDIF aims that the risk management system contributed to improvement of the operational efficiency in KDIF to ensure high-quality performance of functions aimed at

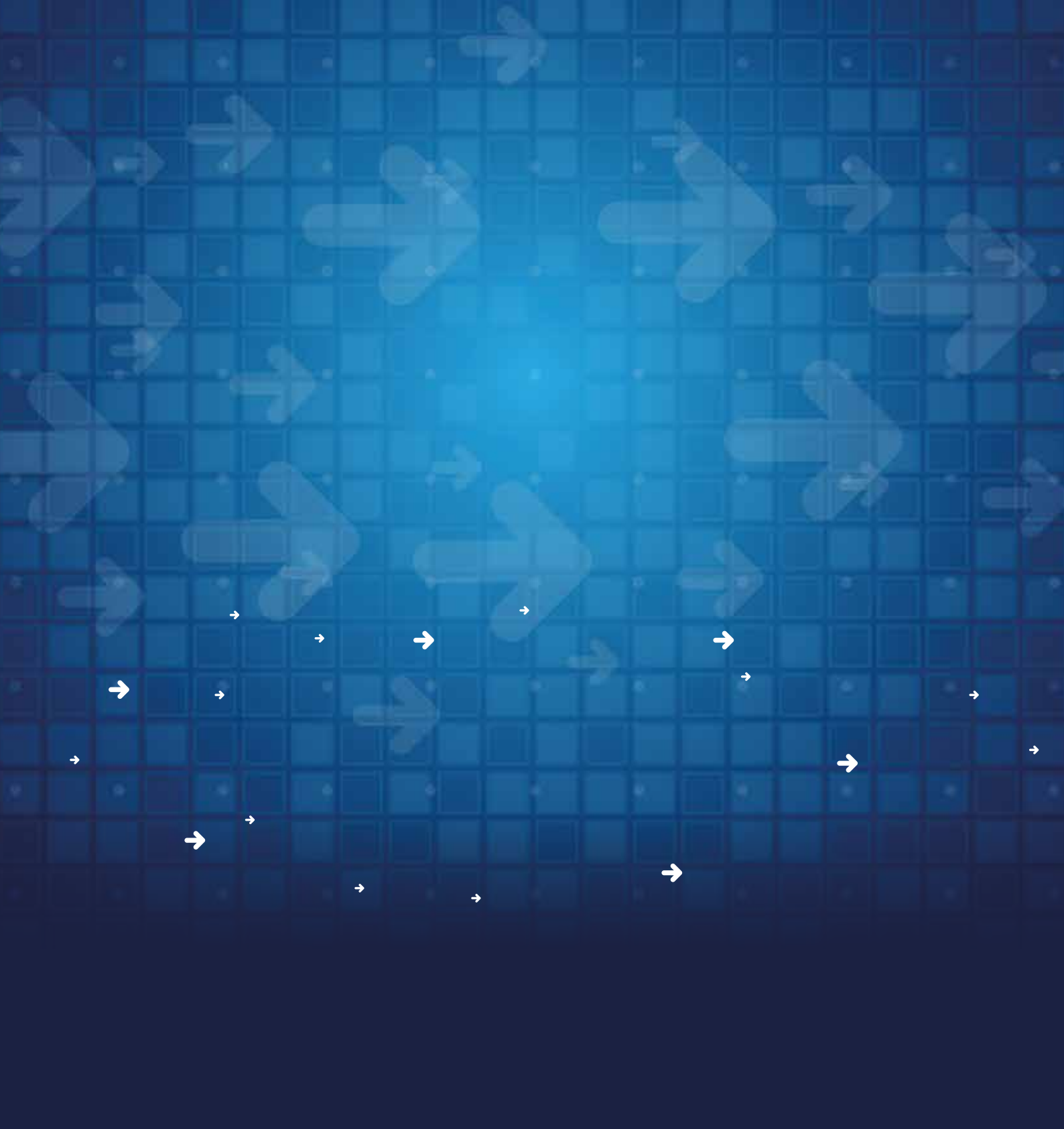
maintaining stability of financial system and protecting rights of insured depositors. In order to ensure effective implementation of risk management operations, Risk Management Committee functions under the KDIF Board of Directors, Independent Director being the Committee Chairman.

During 2017, three meetings of Risk Management Committee were held to review the risk management reports. Following their results, recommendations were prepared for the KDIF Board of Directors. In its turn, the Board of Directors takes into account the current state of exposure of KDIF to financial risks, as well as recommendations of Risk Management Committee while making management decisions. The following activities were also carried out by the KDIF:

- ▶ regular management reports were being prepared on a regular basis: during 2017, quarterly reports on financial risk management and the outcomes of stress-testing conducted by KDIF were submitted for review to the KDIF Board of Directors,
- ▶ since 2017, proprietary risk events database is maintained in a revised form,
- ▶ for the first time ever, information security assessment was carried out using a revised methodology which was developed on the basis of international approaches, new measures were taken to minimize information security risks according to the assessment results,
- ▶ employee trainings were carried out in order to improve the risk management culture at KDIF,
- ▶ operational risks were assessed in the context of each business process on the basis of comprehensive analysis and fulfilling the risk self-assessment procedure by the owners of business processes.



# Public Relations





KDIF continuously conducts information campaign to provide for public awareness of deposit insurance coverage using an array of communication tools, including publication of news items in media, collaboration with journalists and editorial boards of news media, business media and TV-channels, maintaining social media accounts, and engaging in social media marketing campaigns.

During 2017, the news background built upon such negative events in the banking sector as revocation of license to conduct banking operations in two second-tier banks, “Kazinvestbank” JSC and “Delta Bank” JSC, temporary suspension of cash withdrawals by the depositors of “Bank RBK” JSC back in October and November, general course of events in the banking sector following announcement of future consolidation by 6 banks during the year,

and announcement of Banking Sector Financial Sustainability Program by National Bank of the Republic of Kazakhstan.

Launch of the Deposit Portal, an integrated database on retail savings products available on the marketplace, has become an important positive event during 2017. The Deposit Portal is an ad-hoc project by KDIF aimed at raising financial literacy and reinforcing confidence of people with the banking system as a whole. The Deposit Portal is believed to have the content development capacity associated with publishing expert, analytical and educational materials. It is supposed that those materials would be devoted to promoting financial literacy and understanding of the assessment and analysis principles in regard to financial information.

## News coverage of the events in “Kazinvestbank” JSC, “Delta Bank” JSC

License of “Kazinvestbank” JSC for conducting all banking operations was revoked on December 28, 2016. Later on, January 6, 2017, KDIF Chairman and Deputy Chairman took part in the press briefing co-hosted by Financial Services Consumers’ Rights Protection and External Communication Division of National Bank of the Republic of Kazakhstan and the Temporary Administration Office. In the course of event, such issues were covered as total deposit balances of general public placed with the bank, liabilities of KDIF associated with reimbursing depositors, and timing and order of payout. The press briefing received coverage on television, including such TV-channels as KTK, Khabar, Khabar-24, Astana, Atameken Business Channel, Channel 31. Later on, in the course

of completion of the purchase and assumption transaction between “Kazinvestbank” JSC and Subsidiary Bank “Alfa-Bank” JSC, KDIF was not engaged in news coverage.

License of “Delta Bank” JSC to conduct all banking operations was revoked on November 3, 2017. During the same day, KDIF distributed a press release dedicated to this event mentioning the details of forthcoming interaction with the insured depositors. The event was covered in leading business and news media. News stories were broadcasted on television newscasts, including such TV-channels as KTK, Khabar-24, Atameken Business Channel.

## News coverage of the Deposit Portal launch

November 29, 2017, on the day of launch of the Deposit Portal, KDIF convened press conference in the Press Center of “Interfax Kazakhstan” Information Agency. The project was presented by KDIF Chairman and Deputy Chairman, who was the direct project supervisor. The event was attended by journalists and economic analysts of 12 media. The event outcomes received coverage in 25 news stories. Four news stories were broadcasted on television newscasts via Atameken Business Channel, Channel 31, KTK, Khabar-24.

Later on, in December, 2017, four editorials covering the Deposit Portal and other issues of KDIF operations were published on

online media [Informburo.kz](http://Informburo.kz), [Kapital.kz](http://Kapital.kz), [Forbes.kz](http://Forbes.kz), [Kursiv.kz](http://Kursiv.kz). On December 29, KDIF Deputy Chairman took part in Assem Nurgaliyeva’s TV show “Digital Kazakhstan” on Atameken Business Channel. The whole broadcast was devoted to launch of the Deposit Portal.

## News coverage of the International Seminar and Conference

On September 4, in the course of International Seminar and Conference “Core Principles for the Effective Deposit Insurance Systems, And Islamic Deposit Insurance” hosted by KDIF in cooperation with International Association of Deposit Insurers, IADI, [Ms. Colleen Mascenik](#), Senior Financial economist of the World Bank, introduced the outcomes of independent compliance

assessment of Kazakhstani deposit insurance system with the international standards in deposit insurance. The report outcomes were covered on business media and news media. News stories were broadcasted in newscasts on Almaty and Atameken Business Channel.

## Publication of informational content

During 2017, KDIF released a series of two videos. The first reel “Do you have payment cards and bank deposits?” contains general information related to deposit insurance, particularly the insured financial products, the maximum coverage limit, banking services that are not covered, and KDIF contact information. The second reel “Is your bank’s operations discontinued due to resolution of court?” narrates the processes after the event of revocation of a member bank’s license to conduct all banking operations, including conduct of payouts via agent bank, payout commencement timing, required documents and timing to receive reimbursement at the agent bank. The videos are barely animated to remind of news coverage slides, while the second reel is designed in formal infographic style. The two videos use peaceful tones, the text being read by a female speaker.

During 2017, the first reel was broadcasted, particularly in the format of weather-forecast sponsorship on KTK television channel during September – October, and on Channel-31 during December. Total broadcast period was 57 days, while total number of demonstrations was 173.

Commencing November 10, 2017, the video was promoted on Facebook and Instagram. The target audience included male and female users above the age of 20 who have finance, banking

services and investments among their interests. Over the campaign period the number of broadcasts on Facebook was 180,000, while the same on Instagram being 225,000.

In December, 2017, a newspaper article “The Right To Choose: KDIF Launched a Consolidated Deposit Database” was published in 13 regional newspapers and Republic-wide newspaper Caravan. In November – December, news articles and interview dedicated to the user interface capacity of the Deposit Portal, as well as future plans of KDIF, were published in online media [Inforburo.kz](#), [Kursiv.kz](#), [Forbes.kz](#), [Kapital.kz](#).

In addition, during the year:

- ▶ analytical articles “International Practices in Deposit Insurance”, “Assessment of Risk Profile of Banks in Calculation of Member Banks Premiums Collected by Kazakhstan Deposit Insurance Fund, JSC” were published in Economic Outlook of the National Bank of the Republic of Kazakhstan in Kazakh and Russian languages,
- ▶ comments of KDIF Chairman and Mr. Bisengali Tadzhiyakov, Member of the Board of Directors, Independent Director, associated with operation of deposit insurance system and the outcomes of consolidation of second tier banks were published in [Forbes.kz](#) online media.

## Guest lectures in academic institutions

Starting from the beginning of 2017, KDIF representatives gave lectures dedicated to Kazakhstani deposit insurance system in 17 higher education institutions in Almaty, Astana, Karaganda, and Shymkent cities in Russian, Kazakh and English languages.

The total number of attendees was 1,800 students, including 930 students attending during the period of January – April, and 870 students attending during the period of October – December, 2017.

## Cooperation with Financial Literacy Centers

In order to expand the sphere of public awareness campaign, KDIF concluded memoranda on cooperation in the field of raising public awareness with “Training Center of National Bank of the Republic of Kazakhstan” JSC and “School of Financial Literacy of Aigul Abdraimova” LLP. The parties made agreements on joint effort

towards raising awareness of people of compulsory insurance of bank deposits and operations of KDIF, as well as reinforcing financial literacy of people.

To-date, the events as follows have taken place:

- ▶ two lectures for “BEREKE Financial Literacy Center”, which is a joint social and educational initiative of National Library of the Republic of Kazakhstan and School of Financial Literacy of Aigul Abdraimova,
- ▶ three lectures for the students of Nazarbayev University (Astana city) and the employees of regional branches of the National Bank of the Republic of Kazakhstan.

## Tutoring bank employees

From the beginning of 2017, training seminars covering the issues of deposit insurance were conducted for the front-line employees being directly engaged in business processes with clients and depositors in all deposit insurance system member banks. In

majority of the banks, teleconferencing or video and audio calls were arranged with the regional branches.

Over the year, the total number of attendees, including those attending remotely, was 1,902.

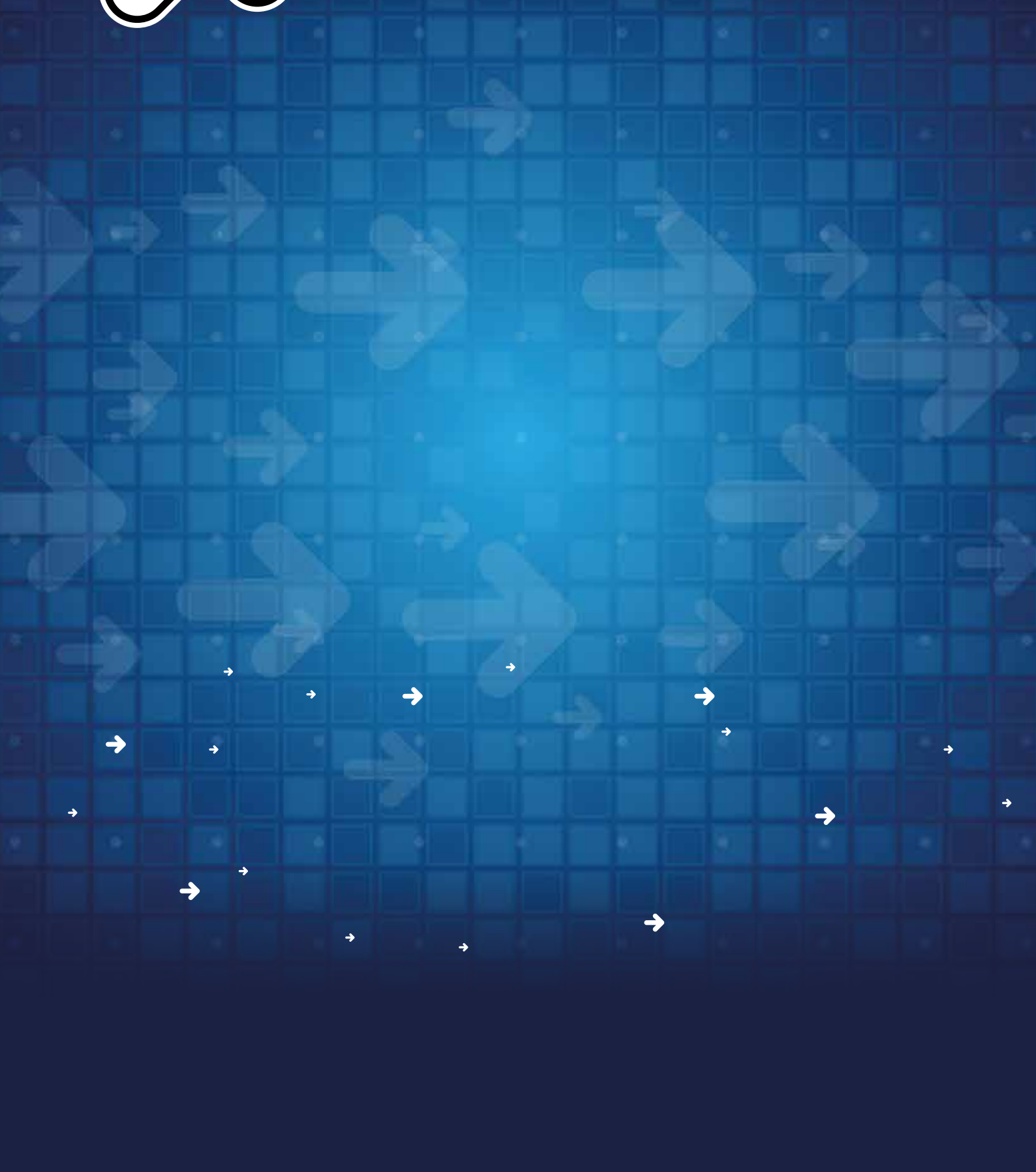
## “Deposit Insurance” Section on the NBK Online Mobile App

On June 29, 2017, under the proposal of KDIF, a special section dedicated to deposit insurance was launched in the NBK Online Mobile Application. The application enables its subscribers to address any question regarding insurance of deposits. The replies are prepared by the KDIF specialists. Over the period of this section availability, 27 questions were received.

In order to provide for news coverage for this initiative, information notice was distributed among news and business media, and on social media.



# Methodological Assignments



Implementation of the goals, tasks and functions of the mandatory deposit insurance system is determined by the Constitution of the Republic of Kazakhstan, the Civil Code of the Republic of Kazakhstan, regulatory legal acts of National Bank of the Republic of Kazakhstan, and decisions of the KDIF Sole Shareholder and the Board of Directors. Consequently, KDIF is actively involved in the development of the legal framework for deposit insurance.

During the reporting year, significant methodological work was carried out both to improve the internal regulatory documents of KDIF and to develop proposals for introducing amendments and addenda to the legislative acts of the Republic of Kazakhstan and normative legal acts of the National Bank of the Republic of Kazakhstan.

In order to prepare proposals for further development of the legal framework, certain aspects of best practice and international experience were thoroughly studied and examined, in particular:

- ▶ experience of foreign deposit insurance organizations in expropriation of “dormant accounts” a per practice of Savings Deposit Insurance Fund of Turkey (TMSF),
- ▶ experience of Azerbaijan Deposit Insurance Fund in conduct of payouts, accumulation of special reserve for payouts,
- ▶ tax imposition in foreign deposit insurance organizations and implementation of accounting standards,
- ▶ methodology for calculation of differential rates of regular premiums paid by member banks as per practice of deposit insurance organizations of Canada, Korea, Malaysia, Japan, and Poland,
- ▶ implementation of regulatory review under the provisions of [Supervisory Review and Evaluation Process, SREP](#), in calculating the differential rates of regular premiums paid by member banks as per practice of deposit insurance organizations of Poland, Turkey, Korea, and other countries,
- ▶ implementation of International Financial Reporting Standards by foreign deposit insurance organizations,
- ▶ practice of raising interest rates and benefits accrued on retail deposits as offered by foreign banks in Russian Federation and in the Republic of Belarus,
- ▶ regulations of irrevocable deposit market as per experience of Federal Deposit Insurance Corporation, the USA.

As part of its methodological work, KDIF took active part in the Working Group supervised by the National Bank of the Republic of Kazakhstan. As the outcome, a number of proposals were submitted to National Bank of the Republic of Kazakhstan, in particular ones in regard to:

- ▶ improving the functions and operations of KDIF in terms of participation in troubled bank resolution processes, conducting the functions of corporate liquidator, as well as providing access to the facilities of banking secrecy while executing measures to verify compliance of the member banks’ insured deposit databases against the requirements of the Contract of Adhesion. A draft document is elaborated that contains comprehensive amendments to the legislative acts of the Republic of Kazakhstan, which were agreed with the National Bank of the Republic of Kazakhstan and the Association of Financiers of Kazakhstan and further included into the draft law of the Republic of Kazakhstan “On Amendments and Addenda

to Certain Legislative Acts of the Republic of Kazakhstan concerning issues of compulsory insurance and reinsurance”,

- ▶ making amendments to the Rules for calculation of interest rates on loans and deposits in a fair, annual, effective, comparable estimate (the real value) approved by the Resolution of the Board of the National Bank of the Republic of Kazakhstan No.137 dated March 26, 2010. Within the framework of the suggested changes, KDIF prepared an explanatory note for the second-tier banks and the Financiers’ Association of Kazakhstan regarding amendments to the Rules governing the determination of, and establishment of the order of payment in regard to compulsory regular, additional and extraordinary member bank premiums were approved by Resolution of the KDIF Board of Directors No. 32 dated October 30, 2006, and the manual for preparation and submission of reports on retail deposits. At the same time, certain work was conducted in coordination with National Bank of the Republic of Kazakhstan in regard to approval by the KDIF Sole Shareholder of timing for introduction of amendments related to submission of reports,
- ▶ regulation of the term deposit market and introduction of irrevocable deposits,
- ▶ improving the procedure for conducting payouts to insured depositors, in particular, procedures related to selection of an agent bank,
- ▶ enhancement of procedures related to executing the measures to verify compliance of the member banks’ insured deposit databases against the requirements of the Contract of Adhesion,
- ▶ improving reporting on “dormant accounts”, or unclaimed individuals’ account balances, based on collection of data on unclaimed banking accounts of individuals and study of relevant international experience,
- ▶ design and implementation of Retail Deposit Market Index by analogy with the Credit Market Index,
- ▶ extending deposit insurance coverage to include deposits allocated in Islamic banks,
- ▶ extending deposit insurance coverage to include current accounts of certain categories of legal entities (socially important small business groups) and individual entrepreneurs,
- ▶ making amendments and addenda to the Mutual Cooperation And Information Exchange Agreement between KDIF and National Bank of the Republic of Kazakhstan.

During the process of its methodological work, the KDIF participated in meetings and Working Groups of National Bank of the Republic of Kazakhstan and Financiers’ Association of Kazakhstan, within the framework of which the following proposals were made:

- ▶ regarding the existing proposals on further development of retail deposit market in terms of the term deposit market regulation and introduction of irrevocable deposits, regulation of systemic risk in the deposit market establishing the benchmark levels for different groups of deposits,
- ▶ regarding development of conditions for, and the mechanism of providing liquidity by the National Bank of the Republic of Kazakhstan as the lender of last resort,
- ▶ regarding development of the institutional framework for troubled bank resolution and enhancement of the resolution and liquidation measures,

- ▶ on harmonization of the Eurasian Economic Union member countries' legislation in regard to design and operations of deposit insurance systems.

Since the beginning of 2017, KDIF has continued taking measures aimed at introducing amendments and addenda to the Tax Code of the Republic of Kazakhstan within the framework of the Working Group dedicated to the issues of application of tax in the financial sector, which included representatives of the State Revenue Committee, Ministry of National Economy of the Republic of Kazakhstan, National Bank of the Republic of Kazakhstan, and KDIF. During the meetings of this working group, the issue of recognizing the KDIF as a non-profit organization subject to corporate income tax exempt was discussed. This issue was also discussed during the meeting of the working group chaired by the Minister of the National Economy of the Republic of Kazakhstan. However, it was denied to recognize KDIF as a non-profit organization for tax purposes.

The proposal of KDIF to establish deductions incurred while accumulating special reserve for payouts within the limit of 70 per cent authorized capital was considered by the National Bank of the Republic of Kazakhstan, and also within the framework of a dedicated working group, including one under chairmanship of Vice Minister of National Economy of the Republic of Kazakhstan.

During the reporting period, certain work was carried out to improve the methodological basis of KDIF, following which a number of projects were implemented, including:

- ▶ amendments to the Charter (approved by Resolution of Sole Shareholder No. 227 dated March 27, 2017),
- ▶ amendments to the Contract of Adhesion (approved by Resolution of the Board of Directors dated October 3, 2017),
- ▶ amendments and addenda to the Rules governing the determination of, and establishment of the order of payment in regard to compulsory regular, additional and extraordinary member bank premiums (approved by Resolution of the Board of Directors No. 6 dated June 22, 2017),
- ▶ amendments to Methodology for calculation of the maximum recommended interest rates for newly accepted bank deposits (approved by Resolution of the Board of Directors No. 6 dated June 22, 2017),
- ▶ amendments and addenda to the Risk Management Administration Rules (approved by Resolution of the Board of Directors No. 2 dated May 14, 2017),
- ▶ Rules of Procedure governing information system security assurance, information and operation systems maintenance (approved by Resolution of the Board of Directors dated April 14, 2017),
- ▶ Security Checklist in regard to use of information systems at KDIF (approved by Resolution of KDIF Chairman dated August 15, 2017),
- ▶ Procedure for installation and update of operating system versions on servers, workstations and active network equipment at KDIF (approved by Resolution of KDIF Chairman dated June 1, 2017),
- ▶ Rules for design, development, follow-up revision, implementation and maintenance of information systems at KDIF (approved by Resolution of KDIF: of KDIF Chairman dated June 1, 2017),
- ▶ Rules for information system security assurance at KDIF (approved by KDIF Chairman dated June 13, 2017),
- ▶ Methodology for calculation of cost of administration and development of information system (approved by Resolution of KDIF Chairman dated August 15, 2017),
- ▶ Manual for operation, storage, modification and provision of access to the calculation of deposit coverage amounts due in bank liquidation (approved by Resolution of KDIF Chairman dated June 22, 2017),
- ▶ amendments and addenda to the Manual for administration and safekeeping of data subject to protection (approved by Resolution of KDIF Board of Directors No. 7 dated June 30, 2017),
- ▶ KDIF Accounting Policy (approved by Resolution of KDIF Board of Directors dated August 31, 2017),
- ▶ KDIF Tax Accounting Policy (approved by Resolution of KDIF Board of Directors dated November 30, 2017),
- ▶ Manual for record keeping of transactions with inventories, fixed assets and intangible assets at KDIF (approved by KDIF Chairman dated June 20, 2017),
- ▶ Rules for disposal and write-off of articles of fixed assets, intangible assets, inventories and accounts receivable overdue originating as a result of non-monetary activities off the balance sheet (approved by the Decision of KDIF Board of Directors dated October 3, 2017),
- ▶ Instruction for recognition of accounts receivable (approved by Resolution of KDIF Chairman dated November 30, 2017),
- ▶ Draft Methodology for assessing, recognizing and recording the estimated reserves and contingent liabilities developed in the course of transition to International Financial Reporting Standard 9 "Financial Instruments" taking into account international best practice implemented in the IADI member organizations,
- ▶ Procedure for purchasing goods, works and services at KDIF (approved by Resolution of KDIF Chairman No. 30 dated March 6, 2017),
- ▶ Instruction for delegation of employees for business and training purposes (approved by Resolution of KDIF Board of Directors No. 10 dated August 31, 2017),
- ▶ Procedure for participation in the meetings of the creditors committee of a deposit insurance system member bank in forced liquidation (approved by Resolution of KDIF Chairman No. 52 dated April 28, 2017),
- ▶ Manual for Record Keeping at KDIF (approved by Resolution of KDIF Chairman dated May 22, 2017),
- ▶ KDIF Report Submission Order and Register of Reports (approved by Resolution of KDIF Chairman dated May 24, 2017),
- ▶ Criteria for evaluation of performance of the KDIF departments and divisions for the purpose of improving operations in all business dimensions,
- ▶ Rules of employment at KDIF (approved by Resolution of KDIF Chairman dated March 9, 2017),
- ▶ Rules of attestation of employees (approved by Resolution of KDIF Chairman dated July 2, 2017),
- ▶ Procedure for serving internship at KDIF (approved by Resolution of KDIF Chairman dated 10 March, 2017),

- ▶ amendments and addenda to the Instruction of delegation of employees to business trips (approved by Resolution of KDIF Board of Directors No. 10 dated August 31, 2017),
- ▶ Rules for payout of remuneration to employees (approved by Resolution of KDIF Board of Directors dated October 31, 2017),
- ▶ Procedure for opening, maintenance and closure of corporate payment cards (approved by Resolution of KDIF Chairman dated June 8, 2017).

In addition, upon completion of the reporting year accomplishment reports were prepared in regard to the established development directions for 2017–2019, and completion of divisions' action plans for 2017. In addition, KDIF Action Plan for 2018 and Strategic Development Directions for 2018–2020 were prepared.



# International Cooperation

KDIF has been a member of the International Association of Deposit Insurers (IADI) since 2003, and participates in several regional and technical committees of the Association:

- ▶ regional committees of Eurasia and Asia-Pacific,
- ▶ Training and Technical Assistance Council Committee,
- ▶ technical committees on:
  - training and conference,
  - technical assistance,
  - Islamic deposit insurance,

KDIF is actively involved in fulfilling the tasks of technical committees under the IADI Core Principles and Research Council

Committee dedicated to research in various areas of deposit insurance and mechanisms for resolving troubled banks:

- ▶ Purchase and Assumption Technical Committee,
- ▶ Deposit Insurance Fund Target Ratio Technical Committee,
- ▶ Technical Committee on Recoveries,
- ▶ Financial Inclusion and Innovation Technical Committee.

KDIF participates in important international events and research conducted by IADI, as well as its regional and technical committees.

## Cooperation with foreign deposit insurance organizations

During 2017, KDIF was taking any effort to strengthen bilateral cooperation with foreign deposit insurance organizations.

For instance, on September 5, 2017, during the International Seminar and Conference in Almaty, the Memorandum of Understanding and Cooperation between KDIF and Agency of Deposit Compensation of the Republic of Belarus was signed. Also, during the 4<sup>th</sup> quarter of 2017 draft memoranda of understanding and cooperation were prepared with Indonesia Deposit Insurance Corporation (IDIC) and Philippine Deposit Insurance Corporation (PDIC).

In May, 2017 two representatives of Deposit Insurance Agency of Russian Federation visited Almaty to share their valuable experience in the field of processing recoveries in liquidation estate of banks in forced liquidation with the specialists of KDIF.



## Participation in international events

On February 15 – 16, 2017, the representatives of KDIF took part in the 51<sup>st</sup> meeting of the IADI Executive Board and IADI Asia-Pacific Regional Committee Technical Seminar in Tokyo, Japan, performing a presentation on KDIF risk management system and the differential premium system. During the period of May 29 to June 3, the representatives of KDIF participated in the 52<sup>nd</sup> meeting of the IADI Executive Council and International Research Conference in Basel, Switzerland.

In the course of these events, the IADI standing and regional committees, which KDIF is a member of, held their meetings, namely the Eurasian and Asian-Pacific Regional Committees, Data and Survey Standing Committee, Research and Methodology Standing Committee, Purchase and Assumption Transaction Standing Subcommittee, IADI Standing Subcommittee on Financial Inclusion and Innovation.

On July 16 – 20, 2017, the representatives of KDIF participated in the IADI Annual Meeting and International Conference of the Asia-Pacific Regional Committee in Jakarta, Indonesia, where a presentation on the upcoming IADI International Seminar and Conference in Almaty 2017 was delivered.

On October 8 – 13, 2017, the representatives of KDIF participated in the IADI Annual General Meeting and International Conference in Quebec, Canada, where achievements and results of the KDIF operations over 2017 were presented at the meetings of the IADI Eurasia and Asia-Pacific Regional Committees, including the outcomes of the International Seminar and Conference held in Almaty on September 4–5.

## Participation in international research projects

During the reporting year, KDIF participated in discussion of IADI draft research documents, for instance:

- ▶ IADI research paper regarding the issues of purchase and assumption transaction,
- ▶ IADI research paper regarding bail-in, and its implications on deposit insurance.

KDIF also prepared and submitted answers to surveys initiated by IADI Technical and Regional committees:

- ▶ IADI Annual Survey 2017, a comprehensive survey on deposit insurance systems worldwide, as of January 1, 2017,
- ▶ Survey regarding public policy objectives in deposit insurance organizations initiated by IADI Research and Guidance Committee,
- ▶ Survey regarding systemic risk management and dealing with systemic crisis initiated by IADI Secretariat,
- ▶ Survey regarding deposit insurance coverage limit and particular aspects of establishment thereof initiated by Indonesia Deposit Insurance Corporation (IDIC).

Furthermore, within the framework of membership and participation in the Eurasia and Asia-Pacific Regional Committees, KDIF submitted reports on activities and achievements on a quarterly basis to secretariats of the deposit insurance organizations chairing these regional committees (Turkey and Japan, respectively).

In addition, during the reporting year, KDIF independently initiated several surveys, which were distributed among all IADI member organizations, in order to study international best practices in a number of following areas:

- ▶ experience of foreign deposit insurance organizations in expropriation of dormant accounts,
- ▶ experience of Azerbaijan Deposit Insurance Fund in conduct of payouts, accumulation of special reserve for payouts,

- ▶ tax imposition in foreign deposit insurance organizations and implementation of accounting standards,
- ▶ methodology for calculation of differential rates of the regular premiums paid by member banks as per practice of Bank Guarantee Fund, Poland,
- ▶ implementation of International Financial Reporting Standards by foreign deposit insurance organizations,
- ▶ implementation of regulatory review under the provisions of Supervisory Review and Evaluation Process, SREP, in calculation of differential rates of regular premiums paid by member banks as per practice of Bank Guarantee Fund, Poland,
- ▶ the experience in rising the interest rates and benefits accrued on retail deposits as offered by foreign banks in Russian Federation and in the Republic of Belarus.

From January 1 to July 20, 2017, KDIF actively participated in several teleconferences of [Strategic Priorities and Action Plans Committee \(SPAC\)](#) acting under Asia-Pacific Regional Committee, and regularly provided comments to the SPAC regarding the operations for the forthcoming period.

Within the framework of cooperation with foreign deposit insurance organizations, at the request of esisuisse, Switzerland, KDIF employees participated in testing the efficiency of toll free hotline during November, and reported on the results online.

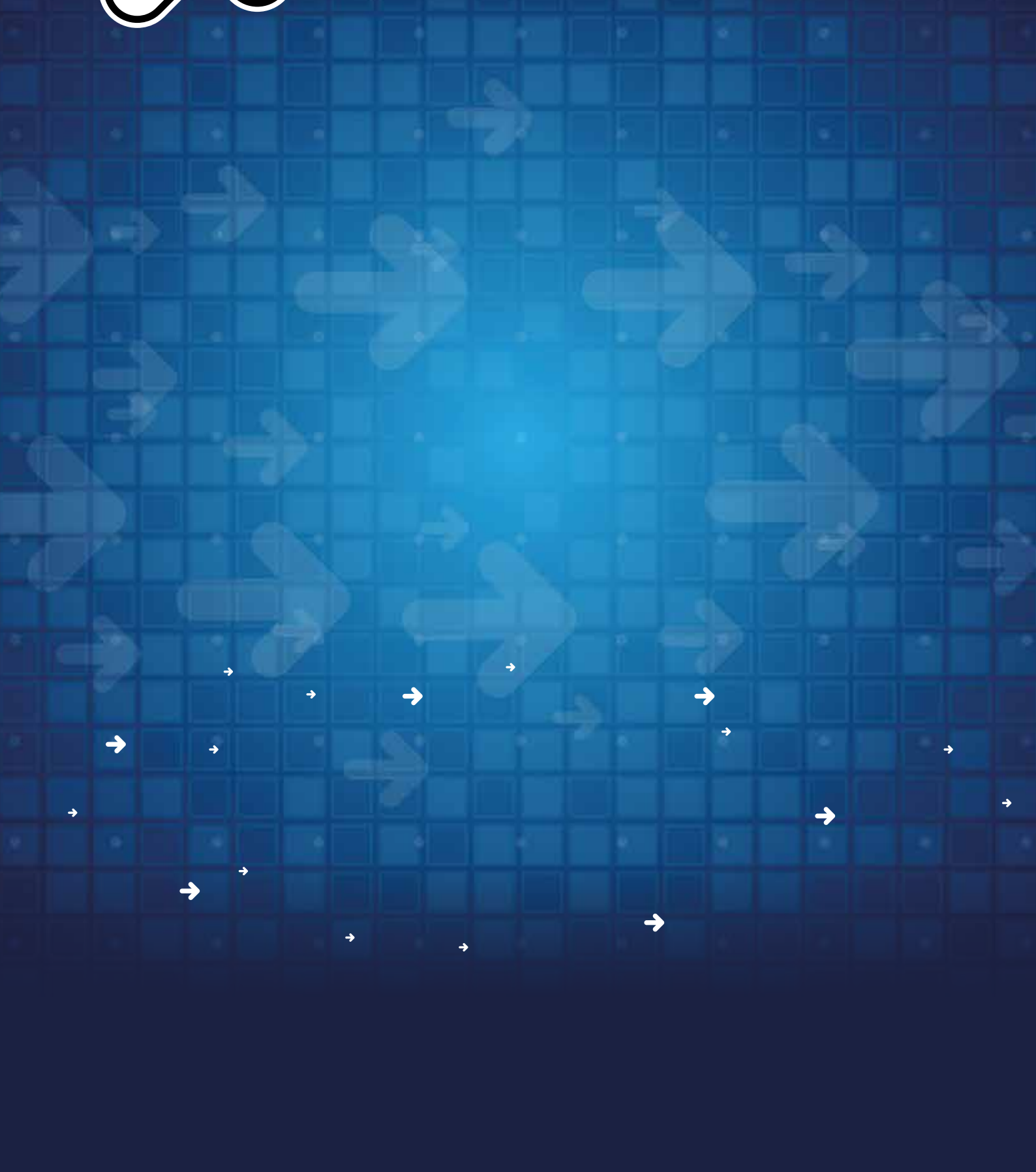
During the 4<sup>th</sup> quarter, KDIF applied to join two newly established Technical Committees of IADI and IADI Council Committee:

- ▶ Training and Conference Technical Committee,
- ▶ Technical Assistance Technical Committee,
- ▶ Training and Technical Assistance Council Committee.

All the above applications were approved by IADI Secretariat.



# Engagement in Social Life



As a social charity project for the New Year, a donation was made from all KDIF employees to support the Children's Hospice "I Am with You". The equipment was purchased to secure oxygen supply into all hospital rooms.

The Children's Hospice "I Am with You" provides social, medical, psychological and spiritual assistance to terminally ill children under the age of 18 and their families. At the hospital, palliative care is given to the parents of terminally ill children in order, inter alia, to give parents the opportunity to rest or solve their urgent problems: the Children's Hospice shall take full responsibility for caring for children on a temporary basis.

The Children's Hospice "I Am with You" is the first children's hospice in Kazakhstan to help children diagnosed with cancer. The life affirming intrinsic philosophy of the Hospice builds upon the belief that due to care provided by those around them, children and their relatives can live to the fullest for the last period of the patient's life.

In addition, the KDIF's employees congratulate the veterans of the Great Patriotic War on the Victory Day on an annual basis. So, in 2017 the KDIF's staff congratulated the veterans of the Great Patriotic War and the home front workers living in Enbekshikazakh District on the Victory Day on May 9, 2017. The War Veterans received greeting cards and monetary assistance from the KDIF employees.

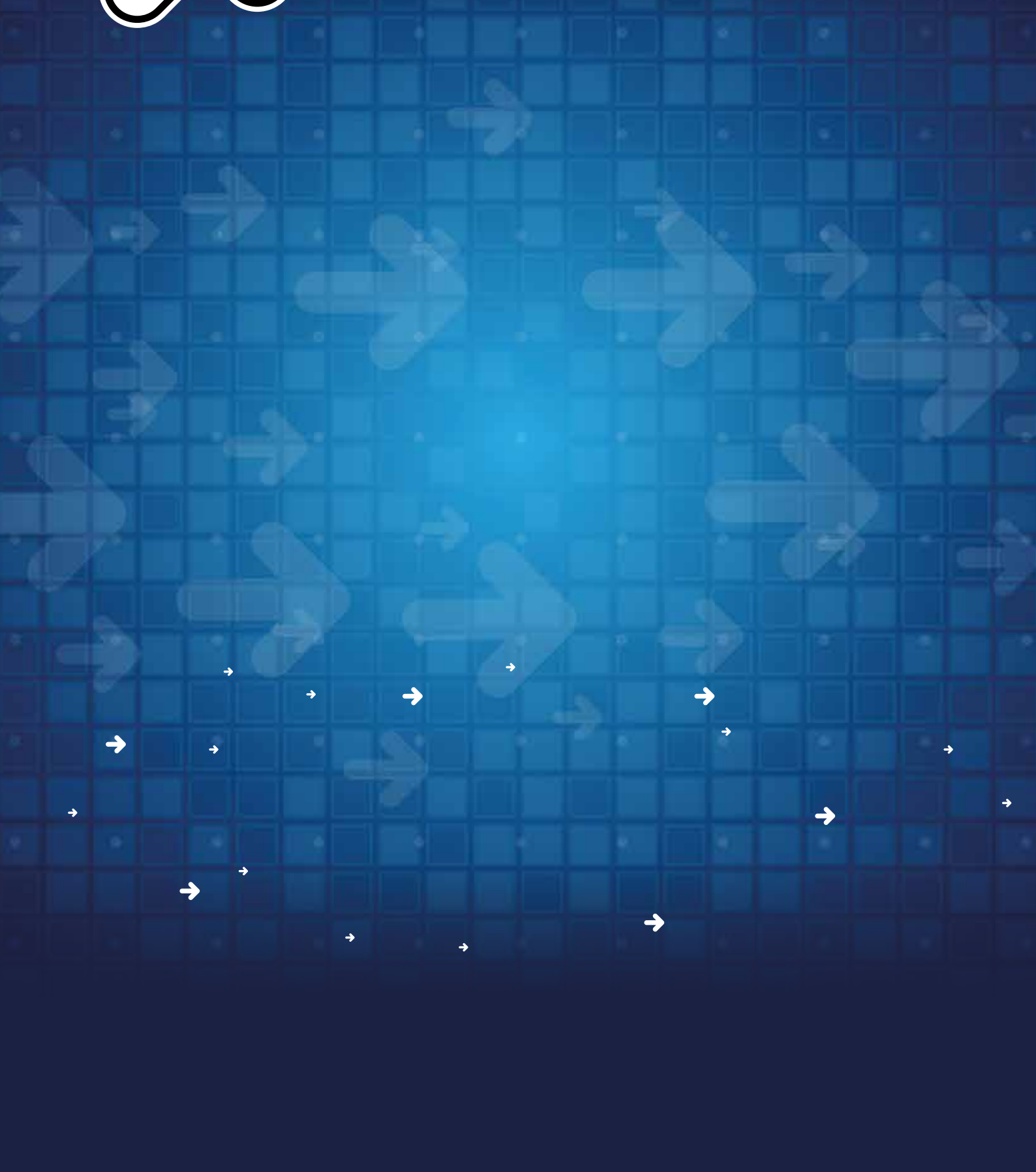
## Participation of the KDIF employees in sports competitions

In 2017 six of the KDIF employees took part in a cycling marathon on the itinerary Al Farabi Avenue – Medeo. The cycling marathon was organized by the National Bank of the Republic of Kazakhstan in honor of the Constitution Day of the Republic of Kazakhstan (August 30, 2017). The cycling marathon was attended by Governor of National Bank of Kazakhstan, Mr. Daniyar Akishev.

A total of about 100 employees of the National Bank of the Republic of Kazakhstan and its subsidiary organizations participated in the cycling marathon. As a result of the cycling marathon one employee of the KDIF Payout Administration Department took the 5<sup>th</sup> place in the mountain bike section on the distance to Medeo.



# Independent auditors' report



# INDEPENDENT AUDITORS' REPORT

To the Shareholder and Management of the Kazakhstan Deposit Insurance Fund JSC

## Conclusion on the Audit Results

### ***Opinion***

We have audited the accompanying financial statements of Kazakhstan Deposit Insurance Fund JSC (hereinafter the "Fund"), consisting of the statement of financial position as at 31 December 2017, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, as well as a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements fairly present, in all material respects, the financial position of the Fund as at 31 December 2017, as well as its financial performance and cash flows for the year then ended, in compliance with International Financial Reporting Standards.

### ***Basis for Opinion***

We have performed our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section Auditor's Responsibility for the Audit of the Financial Statements herein. We are independent of The Integrated Registrar, as required by the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (Code of IESBA) and the ethical requirements applicable to our audit of financial statements in Kazakhstan, and we performed other ethical responsibilities of ours in compliance with those requirements and the Code of Ethics for Professional Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Other information***

Audit of the financial statements of Kazakhstan Deposit Insurance Fund JSC as at 31 December 2016 and for the year ended at this date was performed by another auditor, who expressed the unqualified opinion for this financial statements on 28 February 2017.

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

Management of the Fund is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable preparation of the 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, and for disclosing, where appropriate, matters related to going concern, and using the going concern basis for financial reporting unless management either intends to liquidate the Fund, or to cease its operations, or has no other realistic alternatives but to do so.

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

### ***Auditor's Responsibility for the Audit of the Financial Statements***

Our objective is to obtain reasonable assurance whether the financial statements are free of material misstatement due to fraud or error, and to express the audit opinion. Reasonable assurance means a high degree of certainty, but does not guarantee that the audit performed in accordance with the International Standards on Auditing always identifies significant misstatements, if any. Misstatement can be caused by fraud or errors, and are considered material if you can reasonably assume that they, individually or cumulatively, can impact on economic decisions of users made on the basis of the financial statements.

As part of the audit performed in accordance with the International Standards on Auditing, we use professional judgment and maintain professional scepticism throughout the audit. In addition, we perform the following:

- ▶ Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or errors; design and perform audit procedures in response to the risks; obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Detection risk of material misstatement resulting from fraud is higher than the detection risk of material misstatement due to errors, since fraud can involve conspiracy, falsification, deliberate omission, misrepresentation of information or override of internal controls:

- ▶ obtain understanding of the 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 appropriateness of disclosures prepared by management;
- ▶ make a conclusion with respect to the appropriateness of application of ongoing concern assumption, and based on the audit evidence obtained we make a conclusion whether there is substantial uncertainty due to certain events or conditions that can result in significant doubts about the Fund's ability to continue as a going concern. If we come to a conclusion that significant uncertainty exists, in the audit opinion we should draw attention to the relevant disclosure in the financial statements or, if such disclosure is inadequate, we should modify our opinion. Our conclusions are based on the audit evidence obtained before the date of our audit opinion. However, future events or conditions can result in the loss of the Fund's ability to continue as a going concern;
- ▶ evaluate the overall presentation of the financial statements, its structure and content, including disclosures, we also evaluate whether the financial statements present the underlying transactions and events so as to ensure their fair presentation.

We interact with those charged with governance, bringing to their attention, inter alia, information about the planned scope of the audit and its timing, as well as material findings of the audit, including significant shortcomings of the internal control identified in the course of the audit.

The engagement partner responsible for the audit resulting in this independent auditor's report is Irina Litvinchik.

BDO Kazakhstan LLP  
State license No.15003448 dated 19 February 2015 for audit activities issued by the Committee for Financial Monitoring of the Ministry of Finance of the Republic of Kazakhstan.

Almaty, Kazakhstan  
28 February 2018

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Irina Litvinchik  
Auditor Qualifying Certificate No. 0000223  
issued by the Qualification Commission  
for Certification of Auditors of the Republic of  
Kazakhstan on 22.12.2014.

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T.A. Omarov  
Director of BDO Kazakhstan LLP

## Statement of financial position (in tenge thousand)

	Note	31 December 2017	31 December 2016
<b>ASSETS:</b>			
Cash and cash equivalents	5,17	176 839 706	64 459 519
Available for sale securities	6,17	506 377 544	514 593 725
Accounts receivable	7,17	5 538 770	3 638 133
Other assets	8,17	963 862	959 934
<b>TOTAL ASSETS</b>		<b>689 719 882</b>	<b>583 651 311</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Other Liabilities	9,17	93 398	614 843
<b>Total liabilities</b>		<b>93 398</b>	<b>614 843</b>
<b>EQUITY</b>			
Authorised capital	10	235 794 400	214 358 600
Share premium		6	-
Revaluation deficit of available-for-sale securities		(32 418 847)	(44 067 323)
Capital reserve		2 143 586	1 948 716
Special reimbursement reserve	19	459 135 686	395 247 203
Retained earnings		24 971 653	15 549 272
<b>Total equity</b>		<b>689 626 484</b>	<b>583 036 468</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>689 719 882</b>	<b>583 651 311</b>

On behalf of the Management of the Fund:

\_\_\_\_\_  
B.B. Kogulov  
Chairman of the Fund

\_\_\_\_\_  
A.A. Pichitayeva  
Chief Accountant

28 February 2018

## Statement of profit or loss and other comprehensive income (in tenge thousand)

	Note	31 December 2017	31 December 2016
Interest income	11,17	39,153,257	33,532,694
Income from contributions of member banks, and proceeds from the liquidation commission	12	35,363,538	36,088,893
Reimbursement to depositors of liquidated banks	12	(29,457)	(14,322)
Net foreign exchange loss	13	(379,454)	(2,810,391)
Other income/(expenses)		71	9
<b>NET NON-INTEREST INCOME</b>		<b>34,954,698</b>	<b>33,264,189</b>
OPERATING EXPENSES	14,17	(603,310)	(593,824)
<b>PROFIT BEFORE TAX</b>		<b>73,504,645</b>	<b>66,203,059</b>
Income tax expense	15,17	1,089	(1,179,216)
<b>NET PROFIT</b>		<b>73,505,734</b>	<b>65,023,843</b>
Mandatory allocation of net income from member bank contributions, and proceeds from the liquidation commission to the special reimbursement reserve		(35,334,081)	(36,074,571)
<b>NET PROFIT AFTER THE MANDATORY ALLOCATION</b>		<b>38,171,653</b>	<b>28,949,272</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>			
Items that may subsequently be reclassified to profit or loss:			
Net loss on revaluation of the fair value of available for sale securities less tax - zero tenge		11,648,476	(24,556,122)
<b>OTHER COMPREHENSIVE INCOME</b>		<b>11,648,476</b>	<b>(24,556,122)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>49,820,129</b>	<b>4,393,150</b>

On behalf of the Management of the Fund:

\_\_\_\_\_  
B.B. Kogulov  
Chairman of the Fund

\_\_\_\_\_  
A.A. Pichitayeva  
Chief Accountant

28 February 2018



## Cash flow statement (in tenge thousand)

	Note	31 December 2017	31 December 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Proceeds from mandatory contributions		32,684,326	33,610,381
Proceeds from liquidation commission of a forced liquidated bank	12	240,000	697,646
Deposit interest received		9,640,824	10,920,615
Interest received on available-for-sale securities		24,213,815	20,531,272
Interest received on reverse REPO transactions	11	65,942	318,985
Other proceeds		146,410	251,597
Payments to suppliers for goods and services		(182,486)	(183,699)
Travel expense payments		(11,139)	(8,688)
Payment of salaries		(305,509)	(287,390)
Other taxes and mandatory payments to the budget		(96,635)	(103,617)
Reimbursements on deposits of the liquidated bank		(30,671)	(14,322)
Other payments		(689)	(6,457)
<b>Net cash inflows from operating activities</b>		<b>66,364,188</b>	<b>65,726,323</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from the redemption of available-for-sale securities		619,485,047	294,151,950
Acquisition of available-for-sale securities		(594,904,848)	(394,463,458)
Acquisition of property, plant and equipment		-	(13,176)
Acquisition of intangible assets		-	(5,492)
<b>Net cash (outflow)/inflow from investing activities</b>		<b>24,580,199</b>	<b>(100,330,176)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Issuance of ordinary shares	10	21,435,800	19,487,000
<b>Net cash inflow from financing activities</b>		<b>21,435,800</b>	<b>19,487,000</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>112,380,187</b>	<b>(15,116,853)</b>
Effect of changes in exchange rate on cash and cash equivalents		-	-
<b>CASH AND CASH EQUIVALENTS as at the year-beginning</b>	<b>5</b>	<b>64,459,519</b>	<b>79,576,372</b>
<b>CASH AND CASH EQUIVALENTS as at the year-end</b>	<b>5</b>	<b>176,839,706</b>	<b>64,459,519</b>

On behalf of the Management of the Fund:

\_\_\_\_\_  
B.B. Kogulov  
Chairman of the Fund

\_\_\_\_\_  
A.A. Pichitayeva  
Chief Accountant

28 February 2018

## Statement of changes in equity (in tenge thousand)

	Note	Authorised capital	Revaluation deficit of available-for-sale securities	Capital reserve	Social reimbursement reserve	Retained earnings	Total
<b>31 December 2015</b>		194,871,600	(19,511,201)	1,771,560	270,056,516	75,893,272	523,081,747
Net profit after mandatory allocation		-	-	-	-	28,949,272	28,949,272
Other comprehensive income		-	(24,556,122)	-	-	-	(24,556,122)
Issuance of ordinary shares	10	19,487,000	-	-	-	-	(19,487,000)
Transfer to capital reserve		-	-	177,156	-	(177,156)	-
Formation of the special reimbursement reserve		-	-	-	89,116,116	(89,116,116)	-
Mandatory allocation of net income from member bank contributions	12	-	-	-	36,088,893	-	36,088,893
Payments to depositors of Valyut-Tranzit Bank JSC	12	-	-	-	(14,322)	-	(14,322)
<b>31 December 2016</b>		<b>214,358,600</b>	<b>(44,067,323)</b>	<b>1,948,716</b>	<b>392,247,203</b>	<b>15,549,272</b>	<b>583,036,468</b>
Net profit after mandatory allocation		-	-	-	-	38,171,653	38,171,653
Contributions of the owner		6	-	-	-	-	6
Other comprehensive income		-	11,648,476	-	-	-	11,648,476
Issuance of ordinary shares	10	21,435,800	-	-	-	-	21,435,800
Transfer to capital reserve		-	-	194,870	-	(194,870)	-
Formation of the special reimbursement reserve		-	-	-	28,554,402	(28,554,402)	-
Mandatory allocation of net income from member bank contributions	12	-	-	-	35,363,538	-	35,363,538
Payments to depositors of Valyut-Tranzit Bank JSC	12	-	-	-	(29,457)	-	(29,457)
<b>31 December 2017</b>		<b>235,794,406</b>	<b>(32,418,847)</b>	<b>2,143,586</b>	<b>459,135,686</b>	<b>24,971,653</b>	<b>689,626,484</b>

On behalf of the Management of the Fund:


\_\_\_\_\_  
B.B. Kogulov  
Chairman of the Fund

\_\_\_\_\_  
A.A. Pichitayeva  
Chief Accountant

28 February 2018

## List of Abbreviations

<b>Agent bank</b>	A deposit insurance system member bank that performs procedures to reimburse the insured depositors according to Agency Service Agreement
<b>APRC</b>	Asia-Pacific Regional Committee of the International Association of Deposit Insurers
<b>Compliance verification measures</b>	The measures taken to verify compliance of the member banks' insured deposits databases against the KDIF requirements as established in the Contract of Adhesion
<b>Deposit Insurance Law</b>	The Law of the Republic of Kazakhstan "On Mandatory Insurance of Deposits Placed with the Second-Tier Banks of the Republic of Kazakhstan"
<b>DIS</b>	Mandatory deposit insurance system
<b>EARC</b>	Eurasia Regional Committee of the International Association of Deposit Insurers
<b>IADI</b>	International Association of Deposit Insurers
<b>KDIF</b>	Kazakhstan Deposit Insurance Fund JSC
<b>Member bank</b>	A second-tier bank of the Republic of Kazakhstan being a member of the deposit insurance system
<b>ALE</b>	Association of Legal Entities
<b>National Bank, NBK</b>	National Bank of the Republic of Kazakhstan
<b>Tax code</b>	Code of the Republic of Kazakhstan "On taxes and other mandatory payments to budget"
<b>The Core Principles</b>	IADI Core Principles for the Effective Deposit Insurance Systems



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

2017