

USED ABBREVIATIONS

IADI	International Association of Deposit Insurers
FSA, Financial Supervision Agency	The Republic of Kazakhstan Agency for Regulation and Supervision of Financial Markets and Financial Organizations
NBRK, National Bank	National Bank of the Republic of Kazakhstan
DIS, System	Deposit insurance system
KDIF, Fund	Kazakhstan deposit insurance fund JSC
Law	The Law of the Republic of Kazakhstan «On the obligatory insurance of deposits placed in the second-tier banks of the Republic of Kazakhstan» dated July 7, 2006, No. 169-III LRK

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ANNUAL REPORT

of Kazakhstan deposit insurance fund JSC for 2007

MESSAGE OF THE CHAIRMAN OF THE BOARD OF DIRECTORS



I am pleased to have an opportunity to announce the successful end of the year 2007 for the Kazakhstan deposit insurance fund JSC.

In whole the year 2007 appeared to be a challenge for the domestic deposit insurance system in the view of forcible liquidation of the Valut-Tranzit Bank JSC that had a wide branch network and considerable number of depositors that was about 115 thousand. In spite of difficulties arisen at forming the list of depositors the Fund managed its major task fairly successfully.

As of December 31, 2007 the Fund paid insurance coverage for deposits to 62 thousand depositors of the bank to the amount of 13,8 billion tenge which constituted more than 97% of the total amount of the Fund's obligations for payment of insurance coverage.

As far as payment of insurance coverage to the depositors of the Valut-Tranzit Bank JSC considerably reduced the special reserve of the Fund and the National Bank of the Republic of Kazakhstan made a decision to increase the equity capital of the Fund from 1 billion tenge to 16 billion tenge in order to strengthen its financial position in performing of its main task – protection of rights and interests of depositors.

Among the results of the Fund's activity in 2007 I would like to make a special emphasis on implementation of one of the Fund's projects for determination of the premium rates of banks depending on their risk structure and the level of financial stability. The obtained results became an additional source of information for financial regulatory bodies of the republic.

In this reporting year the Fund adopted the Code of corporate management which clearly establish the principles of Fund's functioning and regulate relationship of the Shareholder, management body and top management of the Fund.

One of the major consequences of the world mortgage crisis was deterioration in the terms of borrowing from the international capital markets. Limitations arisen in external funding resulted in liquid assets deficit in Kazakhstani banks. Though external factors influence the condition of the domestic financial system it is good time to work out antirecession measures and the most significant of them is strengthening of the deposit insurance system.

Experience taken from the latest cases of bank liquidations proves the necessity of further development of domestic deposit insurance system in the fields of minimization of its risks and improvement of payment mechanism; use of alternative methods of problem banks resolution; search of additional funding sources in case of special reserve deficit. These fields will be the priority of the Fund's activity in the nearest prospect and must be based on the experience of the best international practice.

A handwritten signature in black ink, appearing to read 'Medet Sartbaev'.

*Yours faithfully,
Medet Sartbaev
Chairman of the Board of Directors
of the Kazakhstan deposit insurance fund JSC
Deputy Governor of the National Bank of the Republic of Kazakhstan*

MESSAGE OF THE GENERAL DIRECTOR

Dear colleagues!

I would like to present for your attention the annual report on the activity of the Kazakhstan deposit insurance fund JSC for the year 2007.



Despite the complexity of the tasks set before the KDIF in 2007 the Fund has succeeded in coping with them.

The main event of 2007 was the enactment of the Republic of Kazakhstan Law “On the obligatory insurance of deposits placed in second-tier banks of the Republic of Kazakhstan”. The amount of insurance coverage according to the Law was increased by 75% and constituted 700 000 tenge.

Due to the legislative increase of the insurance coverage amount about 97% of depositors of the liquidated Valut-Tranzit Bank JSC were reimbursed in full.

The Fund is aware of its main mission is to protect depositors’ interests by making timely pay-outs in case of liquidation of any member – bank. Successful and effective fulfillment of the Fund’s mission depends firstly on availability of necessary funds. Payment of insurance coverage to the depositors of the forcibly liquidated Valut-Tranzit Bank JSC that started on March 26, 2007 required the sum of 14,2 billion tenge. The existed deficit of the Fund’s special reserve was covered through the additional capitalization of the Fund by its sole Shareholder – the National Bank of the Republic of Kazakhstan.

4 Sufficient capitalization of the Fund is a safe but not the only source of the special reserve replenishment. In this connection recovery of funds directed to payment of insurance coverage to depositors from the assets for liquidation of the bankrupt bank is also regarded as a major resource of funds for making payments. Being guided by this aim the Fund participated in the liquidation commission of the Valut-Tranzit Bank JSC and as a result 1,4 billion tenge, counting to 10% of the paid sum of insurance coverage to the depositors, was returned during the 2007.

Besides, in the reporting year the Fund continued to pay insurance coverage to the depositors of the liquidated Nauryz Bank Kazakhstan JSC. For repayment of the Fund’s claims the liquidation commission of Nauryz Bank Kazakhstan JSC compensated in total 63% of the paid out sum of insurance coverage.

During the last four years the Fund worked hardly over the project of differential premium rates. Its main object is ranking the member banks by the degree of risk presented for the deposit insurance system and fixing higher rates for collection of calendar premiums for banks with higher risk indicators. Since 2007 payment of calendar premiums by member banks is made on the basis of differential premium system “BATA”.

Being a member of the International Association of Deposit Insurers the Fund takes active part in its research work, conferences and seminars. Thanks to effective cooperation with foreign colleagues the Fund has an advantage to develop national deposit insurance system taking into account the best international practice.

Taking this opportunity I would like to express gratitude and appreciation for assistance and close cooperation to the management of the National Bank of the Republic of Kazakhstan, RK Agency for Regulation and Supervision of Financial Markets and Financial Organizations, members of the Advisory Council of the Fund, Association of Financiers of Kazakhstan, the Fund’s staff and friends and colleagues from International Association of Deposit Insurers.

*Yours faithfully,
Bakhyt Mazhenova
General Director
Kazakhstan deposit insurance fund JSC*

A handwritten signature in black ink, appearing to be 'Bakhyt Mazhenova'.

**KAZAKHSTAN DEPOSIT
INSURANCE SYSTEM IN 2007**

Kazakhstan deposit insurance fund JSC was founded on November 15, 1999 by the resolution No.393 of the Management Board of the National Bank of the Republic of Kazakhstan.

The activity of the Kazakhstan deposit insurance fund JSC is regulated by the RK Law “On obligatory insurance of deposits placed in second-tier banks of the Republic of Kazakhstan” that came into force on January 1, 2007.

The main objectives of the Fund’s activity are participation in ensuring stability of the financial system, maintenance of confidence in the banking system, protection of rights and interests of the depositors, encouraging of people’s savings

Within the framework of the stated objectives the Fund fulfils the tasks and functions imposed on it by the legislation of the Republic of Kazakhstan.

List of member banks of the Obligatory deposit insurance system

33 banks were the members of the obligatory deposit insurance system, as of December 31, 2007

**LIST
of member banks of the obligatory deposit insurance system
as of December 31, 2007**

1. ALLIANCE BANK JSC
2. ATF BANK JSC
3. BANK CASPIAN JSC
4. BANK TURANALEM JSC
5. BANK CENTERCREDIT JSC
6. DANABANK JSC
7. DEMIR KAZAKHSTAN BANK JSC
8. JOINT-STOCK BANK SUBSIDIARY ABN AMRO BANK KAZAKHSTAN JSC
9. BANK SUBSIDIARY ALFA BANK JSC
10. BANK SUBSIDIARY BANK OF CHINA IN KAZAKHSTAN JSC
11. BANK SUBSIDIARY NATIONAL BANK OF PAKISTAN IN KAZAKHSTAN JSC
12. BANK SUBSIDIARY TAIB KAZAKH BANK JSC
13. EURASIAN BANK JSC
14. HOUSE CONSTRUCTION SAVINGS BANK OF KAZAKHSTAN JSC
15. ZAMAN-BANK JSC
16. KAZAKHSTAN-ZIRAAT INTERNATIONAL BANK JSC
17. KAZAKHSTAN INNOVATION COMMERCIAL BANK JSC
18. KAZINVESTBANK JSC
19. KAZKOMMERTSBANK JSC
20. MASTERBANK JSC
21. INTERNATIONAL BANK ALMA-ATA JSC
22. HALYK BANK OF KAZAKHSTAN JSC
23. NURBANK JSC
24. SENIM-BANK JSC
25. CITIBANK KAZAKHSTAN JSC
26. JOINT BANK LARIBA-BANK JSC
27. COMMERCIAL AND INDUSTRIAL BANK OF CHINA IN ALMATY JSC
28. TSESNA BANK JSC
29. EXPRESS BANK JSC
30. DELTA BANK JSC
31. BANK SUBSIDIARY HSBC BANK KAZAKHSTAN JSC
32. BANK SUBSIDIARY SBERBANK OF RUSSIA JSC
33. SUBSIDIARY ORGANIZATION BANK TURAN ALEM JSC – TEMIRBANK JSC

During 2007 the Valut-Tranzit Bank JSC was excluded from the list of member-banks due to its forcible liquidation and the Masterbank JSC was admitted to the System.

All banks that have a license for deposit taking, opening and maintaining bank accounts of individuals are the System's members. According to the Law banks join the System by filing an application to the Fund for accession to the Contract of adhesion approved by the Board of Directors of the Fund. All banks that were members of the System at the time of the enactment of the Law completed in due time the procedures established by the Law which proves their participation in the System.

Premiums of member-banks

In accordance with the Law member-banks of the System pay mandatory calendar, additional and extraordinary premiums.

In order to settle the procedure of premiums payment by member-banks the Fund has worked out Regulations on assessment of the amount and procedure of payment of mandatory calendar, additional and extraordinary premiums.

In 2007 there was no need in payment of additional and extraordinary premiums by member-banks in spite of forcible liquidation of Valut-Tranzit Bank JSC and payment of insurance coverage to its depositors.

Mandatory calendar premiums are payable by member banks on a quarterly basis. In accordance with the above Regulations the member banks pay mandatory calendar premiums at the differential rates calculated by the Fund on the basis of BATA differential premium system depending on financial soundness and risk profile of a member bank. The rates of premiums are determined by the Fund quarterly on the basis of values of total accumulation scores of member-banks. Total accumulation score is made up of the values of total scores of a member-bank over seven consecutive periods, which are in turn formed out of the values of quantitative and qualitative indicators of a member-bank, calculated on the basis of the data from the authorized state bodies and member-banks. Classification group of a member bank is based on the results of calculation of the total accumulation score and a corresponding differential rate of a mandatory calendar premium is determined (table 1).

Table 1

Classification groups of member banks and differential rates of mandatory calendar premiums

Classification group	Threshold values of total accumulation score	Rate of calendar premium (% per quarter)
A	140 scores ≤... < 165 scores	0,05
B	120 scores ≤... < 140 scores	0,10
C	100 scores ≤... < 120 scores	0,15
D	80 scores ≤... < 100 scores	0,25
E	0 scores ≤... < 80 scores	0,50

The Fund's main purpose of introducing the BATA system was the introduction of a fair premium system by member banks depending on the financial condition of a member bank and degree of aggressiveness of its business policy. The Fund also uses the results of received calculations in order to determine the probability of insured event (i.e. bank resolution) for the System and the volume of contingent liabilities of the Fund in this case.

Table 2

Breakdown of member-banks by groups in 2007

Classification group	1 quarter		2 quarter		3 quarter		4 quarter	
	quantity	in %	quantity	in %	quantity	in %	quantity	in %
A	1	3%	1	3%	1	3%	1	3%
B	2	6%	2	6%	1	3%	1	3%
C	11	34 %	9	28%	10	31%	11	33%
D	14	44%	16	50%	17	53%	16	48%
E	4	13%	4	13%	3	9%	4	12%
Total	32	100%	32	100%	32	100%	33	100%

As evident from table 2 on distribution of banks by classification groups during 2007 remained rather stable. During the whole reporting year the same bank remained in group “A”. In the second half year of 2007 one bank moved from group “B” to group “C”. On the whole, during the year 2007 only 3 banks firmly established themselves in the best groups “A” and “B”.

During the reporting year 3 banks belonged to the most risky group “E”. At the same time fourth bank moved in the 3 quarter to group “D”, because the main indices characterizing the quality of capital and liquidity improved. In the 4th quarter another bank moved from group “D” to group “E” because of the difficulties originated from worsening of bank management.

The largest and most stable classification groups during the year 2007 were groups “C” and “D”. Main movements among the banks was observed between these two groups. Banks’ movement from one group to another occurred due to the change of financial indicators of the banks’ activity (quantitative indicators of BATA system) and in connection with one-time negative events in the banks’ activity which are connected with violation of prudential and other regulations and with application of sanctions and limited retaliations by the state regulatory bodies in respect to particular banks. The soundness of many banks was considerably influenced by the situation existing in the second half of reporting year in the world financial markets and subsequent revision of ratings of many Kazakhstani banks by international rating agencies.

Special reserve of the Fund

In accordance with the Law the Fund forms a special reserve on an accumulation basis that is intended for payment of reimbursement to the depositors of forcibly liquidated banks.

The main sources of forming a special reserve of the Fund are as follows:

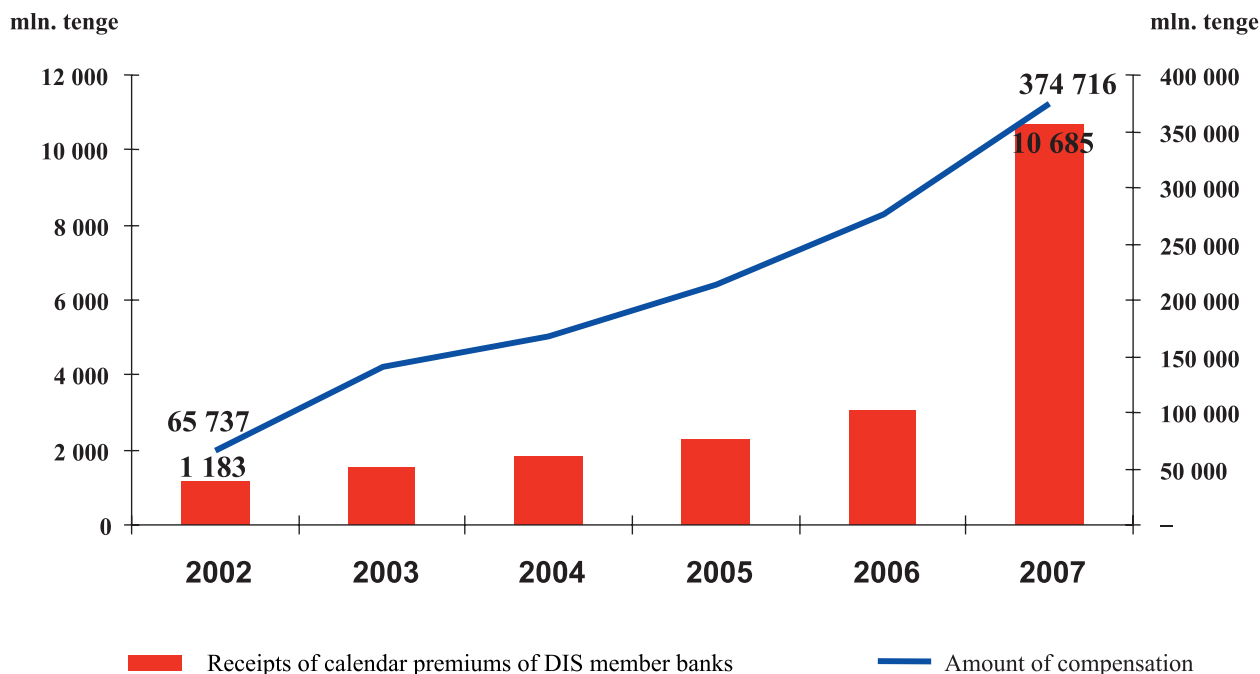
- Mandatory calendar premiums of member banks;
- Income from investment of the Fund’s assets;
- Money received from a forcibly liquidated member-bank as claims of the Fund for the amounts of paid insurance coverage;
- Fifty percent of the amount of the Fund’s authorized capital.

The mandatory calendar premiums paid to the Fund by member- banks over the year 2007 amounted to 10 684,5 million tenge which is 252% or 7 649 million tenge more than that of year 2006 (diagram 1). Total amount of mandatory calendar premiums of member banks paid over the years 2000-2007 was 21 182,2 million tenge.

The main factor of such considerable growth in receipts of mandatory calendar premiums in 2007 was change in Kazakhstani legislation concerning compulsory deposit insurance, namely, increase of the list of objects of compulsory deposit insurance – since January 1, 2007 all deposits of individuals are the objects of obligatory deposit insurance. It’s accordingly increased the base of insured deposits, which is a base for calculating mandatory calendar premiums of the member-banks. Besides, increase in the amount of premiums transferred by member banks happened to a large extent owing to introduction of differential premium system in 2007.

Extension of the list of objects of compulsory deposit insurance pursued the aim of simplification of deposit insurance system, its higher transparency, lower probability of manipulations by member-banks during calculation and payment of mandatory calendar premiums. On the other hand the above stated extension that happened simultaneously with the increase of the amount of insurance coverage from 400 thousand to 700 thousand tenge resulted in considerable increase of the Fund’s joint contingent liabilities for payment of insurance coverage (aggregate amount of coverage to be paid out) which increased by 35,5 %, from 276 548 million tenge in 2006 to 374 716 million tenge in 2007.

**Dynamics of aggregate amount of coverage and receipts
of calendar premiums of DIS member-banks**



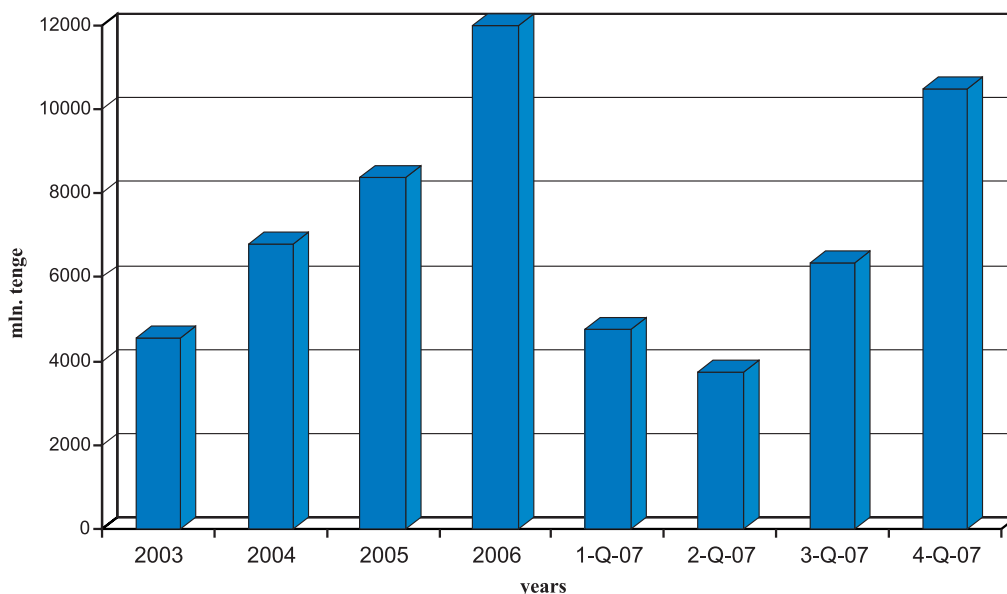
* When plotting a diagram the actual data of receipts were used which may differ from the data of financial statements as a result of applying the accrual method.

As it is seen from the diagram 2 a gradual increase of the Fund's special reserve took place from 2003 to 2006. Payment of reimbursement for the deposits of the liquidated Nauryz Bank Kazakhstan JSC depositors constituted 772 million tenge and slightly influenced the amount of the Fund's special reserve.

The special reserve having reached the level of 12 billion tenge by end of 2006 in March-April of 2007 was fully directed by the Fund in several tranches for payment of reimbursement to depositors of forcibly liquidated Valut-Tranzit Bank JSC. During the year 2007 the Fund paid reimbursement to more than 60 thousand depositors of the liquidated Valut-Tranzit Bank JSC for the total amount of 13,8 billion tenge. The arisen special reserve deficit was replenished with the help of the received regular mandatory calendar premiums from member-banks.

With a view to recover the Fund's financial solvency and to replenish its special reserve the National Bank as the sole Shareholder of the Fund performed its additional capitalization in July 2007 by 5 billion tenge and by 10 billion tenge in December of the same year as well. Therefore the equity capital of the Fund during 2007 increased 16 times as much – from 1 billion tenge to 16 billion tenge.

Special reserve of the Fund, 2003-2007

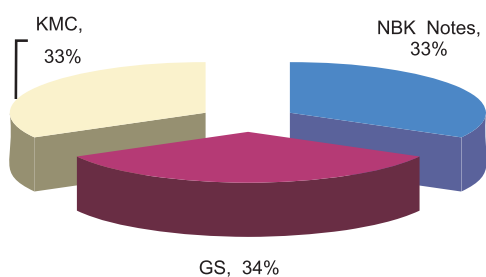


Investment activity of the Fund

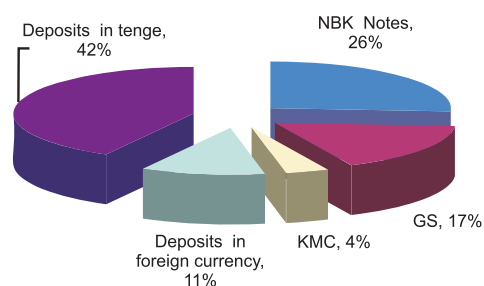
In accordance with the Law the National Bank determines the investment strategy of the Fund’s assets and it is also the trust manager of the Fund’s assets. Asset investment is made in accordance with the Rules of investment of assets of an organization that carries out the function of obligatory deposit insurance. The Fund has an Investment commission which is responsible for operative investment decisions and works out appropriate recommendations for the trust manager. In accordance with the Rules stated above the main purpose of the Fund’s assets investment is to ensure their safety. In this connection the main part of the Fund’s assets is placed in financial instruments with low risk level, particularly in government securities of the Republic of Kazakhstan, foreign government securities that have a certain rating level and in the notes of the National Bank. For the purpose of increasing profitability of the Fund’s assets and hedging currency risks, part of assets is placed in agent’s securities and financial instruments in foreign currency including deposits in leading foreign banks. Average profitability of the Fund’s investments in the reporting year was 6,7 %.

Fund’s portfolio in 2006 and 2007

as of 31.12.2006 r.



as of 31.12.2007 r.



ACTIVITY

OF THE KAZAKHSTAN DEPOSIT INSURANCE FUND JSC



**Anvar Galimullaevich
Saidenov**

Chairman
of the National Bank of
the Republic of Kazakhstan

In accordance with the Law the superior management body of the Fund is the sole Shareholder represented by the National Bank of the Republic of Kazakhstan. The Shareholder determines the priority areas and strategies of the Fund's activity, its budget, procedure for investment of assets, election of the Board of Directors members and appointment of the Director General. The Shareholder decides the issues concerning distribution of net income and the procedure for using the reserve capital of the Fund, takes decisions on placement of shares of the Fund and their repurchase, determines the volume, procedure and time for presenting of financial statements, approves annual financial statements and documents regulating the internal activity of the Fund.

BOARD OF DIRECTORS OF THE FUND

The Board of Directors is a management body that carries out general management of the Fund's activity with the exception of issues related to the exclusive authority of the Shareholder according to the legislation of the Republic of Kazakhstan and the Fund's Charter. This body establishes the main tasks of the Fund's activity for a medium and long-term perspective.

The Board of Directors estimates the Fund's compliance with the approved priority areas taking into account market environment and other factors that influence the financial and economic activity of the Fund.



**Medet
Maksutovich
Sartbaev**

Chairman of the Board of Directors of the Fund

Deputy Chairman of the National Bank



**Daulet
Edilovich
Ergozhin**

Vice-minister
of finance of
the Republic
of Kazakhstan



**Elena
Leonidovna
Bakhmutova**

Deputy
Chairman
of the Financial
Supervision Agency



**Serik
Ahmetzhanovich
Akhanov**

Chairman of the
Council of the
association of legal
entities "Association
of Financiers
of Kazakhstan"



**Bakhyt
Mursalimovna
Mazhenova**

General
Director
of the Fund

EXECUTIVE BODY OF THE FUND

In accordance with the Charter the General Director of the Fund is the sole executive body of the Fund.

Advisory Council of the Fund

For the purposes of adequate representation of the DIS member banks' interests when taking decisions on the issues related to functioning of obligatory deposit insurance system and for reaching unanimous opinion of all member-banks the Fund has an Advisory Council that functions on a permanent basis.

The Advisory Council is a consulting body of the Fund that is aimed at drawing up recommendations on the issues of the System's functioning.

The Advisory Council consists of the DIS member-banks' representatives elected annually through voting at the general meeting of all member-banks.

In 2007 the Advisory Council was composed of 16 banks.

LIST OF BANKS-MEMBERS OF THE ADVISORY COUNCIL

1. ALLIANCE BANK JSC
 2. ATF BANK JSC
 3. BANK TURANALEM JSC
 4. BANK CASPIAN JSC
 5. BANK CENTERCREDIT JSC
 6. BANK SUBSIDIARY TAIB KAZAKH BANK JSC
 7. JOINT-STOCK BANK SUBSIDIARY ABN AMRO BANK KAZAKHSTAN JSC
 8. EURASIAN BANK JSC
 9. HOUSE CONSTRUCTION SAVINGS BANK OF KAZAKHSTAN JSC
 10. KAZKOMMERTSBANK JSC
 11. HALYK BANK OF KAZAKHSTAN JSC
 12. NURBANK JSC
 13. TSESNA BANK JSC
 14. EXPRESS BANK JSC
 15. SUBSIDIARY ORGANIZATION BANK TURAN ALEM JSC – TEMIRBANK JSC
 16. BANK SUBSIDIARY SBERBANK OF RUSSIA JSC
- ASSOCIATION OF FINANCIERS OF KAZAKHSTAN
(NONVOTING OBSERVER)

Aldashov M.B., the Deputy Chairman of Tsesna bank JSC was elected as a Chairman of the Fund's Advisory Council.

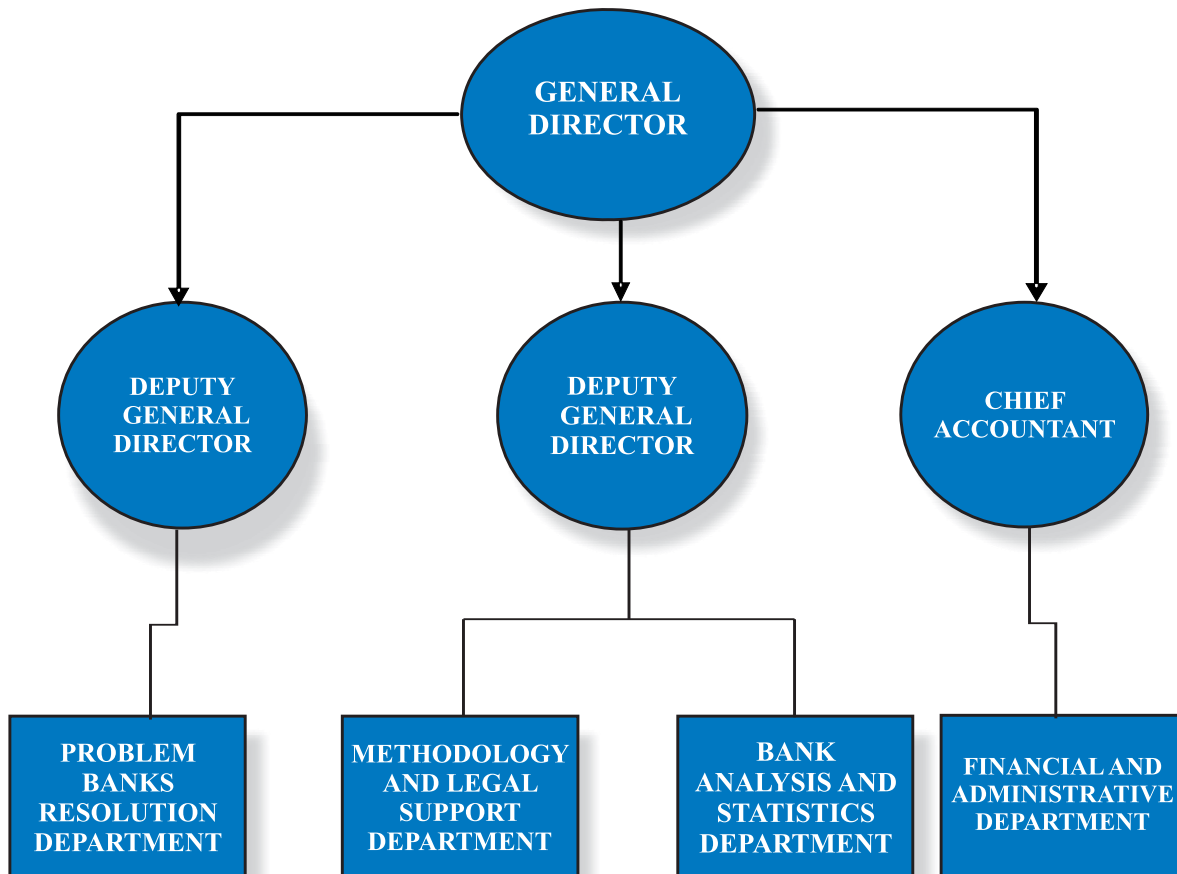
In December 2007 the number of member-banks of the Advisory Council was reduced to 10 banks by the decision of the general meeting of the System's member-banks. The new Advisory Council included the following banks: Alliance Bank JSC, ATF Bank JSC, Bank TuranAlem JSC, Bank CenterCredit JSC, BS TAIB Kazakh Bank JSC, Eurasian Bank JSC, Kazkommertsbank JSC, Halyk bank of Kazakhstan JSC, Nurbank JSC, Tsesna Bank JSC.

Based on the results of voting at the meeting of the Advisory Board on December 24, 2007 Kenzhehanov M.T., the managing director of the Department of retail business of Bank CenterCredit JSC, was elected Chairman of the Advisory Board.

FUND'S STRUCTURE

The Fund consists of four departments:

- methodology and legal support department;
- problem banks resolution department;
- bank analysis and statistics department;
- financial and administrative department.



The main tasks of the **Bank analysis and statistics department** are as follows: determination of classification groups of member-banks and corresponding differential rates of mandatory calendar premiums and duly informing of the member-banks; processing and analysis of statements presented by member-banks, National Bank and Financial Supervision Agency; preparation of information and analytical materials for the Fund management and state regulatory bodies; publications in mass media; carrying out public awareness program; carrying out work with the International Association of Deposit Insurers (IADI) and other issues.

The main tasks of the **Methodology and legal support department** are as follows: legal support of the Fund's activity, protection of its rights and legitimate interests; carrying out methodological work, exercising control over the Fund's compliance with the requirements of the Republic of Kazakhstan legislation; carrying out claims work and representation of interests of the Fund in state bodies and the court; exercising control over the procedure of reimbursement payments to the depositors of a forcibly liquidated member-bank, conducting legal counseling for depositors regarding the issues of the Fund's activity and other functions.

The main tasks of the **Problem banks resolution department** are as follows: protection of the Fund's interests in the process of forcible liquidation of the member-bank; participation in the temporary administrations of the member-bank in connection with its receivership and revocation of its license for conducting all banking operations, in the liquidation commission and commission of creditors of a forcibly liquidated member-bank; preparation of the depositors' register of a forcibly liquidated bank and calculation of insurance coverage due by the Fund to the stated depositors, and other matters.

The main tasks of the **Finance and administrative department** are as follows: organization and maintenance of accounting records; ensuring rational and efficient use of assets and safety of the Fund's property; exercising control over investment of the Fund's assets; organization and supply with necessary goods (works, services); carrying out inventory of assets and liabilities of the Fund; preparation and sending of financial, statistical and tax reports of the Fund to the authorized state bodies, and other functions.

PAYMENT OF INSURANCE COVERAGE TO THE DEPOSITORS AND PARTICIPATION IN THE LIQUIDATION PROCESS OF FORCIBLY LIQUIDATED BANKS

Payment of insurance coverage to depositors of forcibly liquidated banks

With the enactment of the decision of the special inter-district economic court of Karaganda city about forcible liquidation of the Valut-Tranzit Bank JSC the Fund held a competitive tender for selection of an agent bank for payment of reimbursement to the depositors of the stated bank. Based on the results of the competitive tender the Bank TuranAlem JSC was chosen to be an agent bank. The reimbursement to the depositors of forcibly liquidated Valut-Tranzit Bank JSC started on March 26, 2007.

According to the information presented by the liquidation commission of the Valut-Tranzit Bank JSC the total number of depositors is about 115 thousand people and the amount of insurance coverage is 14.2 billion tenge to be paid by the Fund.

As of December 31, 2007 the reimbursement has been paid to more than 62 thousand depositors at the total amount of about 13,8 billion tenge, which is over 97% of the total amount of the Fund's liabilities to the depositors of the stated bank.

During the reporting year insurance coverage payments to the depositors of the forcibly liquidated Nauryz Bank Kazakhstan JSC was continued via the Bank TuranAlem JSC, which has also been an agent-bank for depositors of Nauryz Bank Kazakhstan JSC

Participation in the liquidation commission of the forcibly liquidated Valut-Tranzit Bank JSC

In accordance with the norms of the Republic of Kazakhstan legislation and with the decision of the FSA the representatives of the Fund were included in the temporary administration and subsequently in the liquidation commission of the Valut-Tranzit Bank JSC. As of December 31, 2007 Fund's 5 representatives are members of the liquidation commission of the stated bank and cover the following sectors of activity of the liquidation commission: organization of work for constituting the list of depositors to the Fund and calculation of insurance coverage for deposits including amendments and addendums to it; ensuring control over safety and selling of the bank's property; participation in the work for detection and return of illegally disposed bank property; legal support of the activity of the liquidation commission including participation in judicial sittings related to a number of criminal and civil cases, carrying out claims work; control over timely extinction of loan obligations by the borrowers of the bank and detection of debtors of the bank with overdue liabilities.

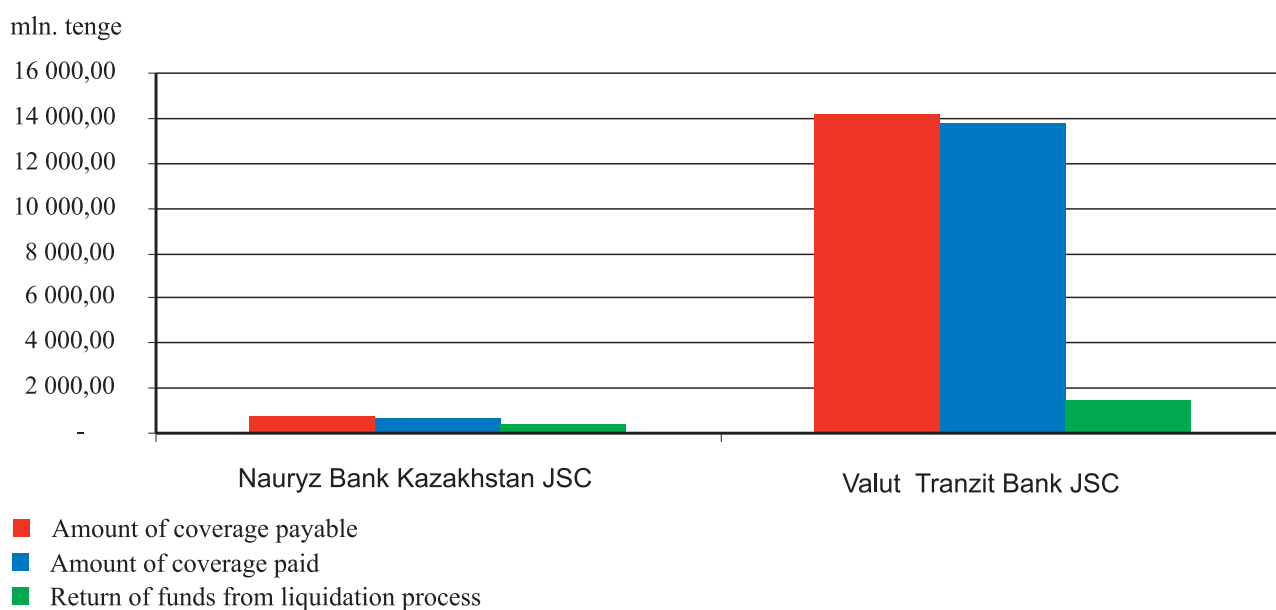
As a result of active participation of the Fund in the liquidation process the liquidation commission of the Valut-Tranzit Bank JSC transferred about 1,4 billion tenge for repayment of claims of the Fund which makes 10% of the amount of the Fund's demands for the total insurance coverage paid by it.

Participation in the liquidation commission of the forcibly liquidated Nauryz Bank Kazakhstan JSC

In the view of license withdrawal for conducting all banking operations from the Valut-Tranzit Bank JSC and taking into account the volume of Fund's claims to the liquidation commissions of both the Valut-Tranzit Bank JSC and Nauryz Bank Kazakhstan JSC, the Fund recalled all its representatives from the liquidation commission of the forcibly liquidated Nauryz Bank Kazakhstan JSC and directed them to the temporary administration of a newly liquidated bank.

As of December 31, 2007 the liquidation commission of the bank transferred 517,3 million tenge, including 424,6 million tenge in 2007 for repayment of claims of the Fund.

Comparative analysis of liquidated banks



Protection of depositors and insured deposits in other member-banks

Payment of insurance coverage to depositors is stipulated by the Law in case of forcible liquidation of a member bank. In accordance with the Law beginning from January 1, 2007 all deposits of individuals are insured, and the maximum coverage limit has increased from 400 to 700 thousand tenge per one depositor.

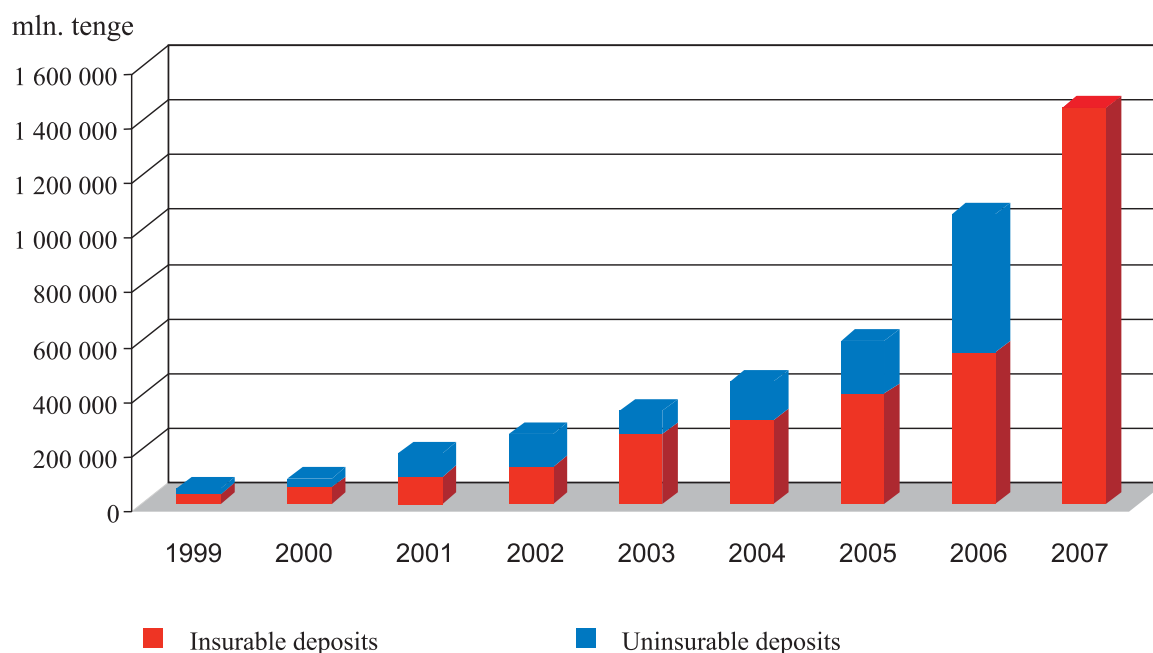
As of December 31, 2007 total amount of deposits of individuals in member banks of the System was 1,45 trillion tenge.

Analysis of statements presented by member banks according to the Contract of adhesion to the DIS shows that 98,8% (over 375 billion tenge) of all opened bank accounts are refundable by the Fund in full (deposits up to the amount of 700 thousand tenge in the equivalent) which constitute about 26% of the total amount of deposits of individuals in all member banks.

15

Dynamics of growth of deposits of individuals in DIS member banks from 1999 to 2007

Diagram 5



PUBLIC AWARENESS

The Fund pays great attention to public awareness. Prior to and after joining the International Association of Deposit Insurers the annual budget of the Fund always envisaged appropriate funding directed to public awareness program.

Within the public awareness campaign the information and explanatory work of the Fund was carried out by means of:

- publication of articles and information messages in republican and regional newspapers;
- interviews and press conferences with participation of the Fund's management on TV;
- audio and video releases on radio stations and TV channels;
- conducting "Hot line";
- release of information booklets for the bank depositors;
- Fund's corporate site in the Internet.

Enactment of the court's decision on forcible liquidation of the Valut-Tranzit Bank JSC and beginning of payment of insurance coverage to its depositors determined the main areas of public awareness program in 2007.

The Fund's management took part in a number of press conferences devoted to these topics and several news blocks relating to the beginning, procedure and period of insurance coverage payments to the depositors of the bankrupt bank.

Along with this the Fund's representatives, who were engaged in the liquidation procedure of this bank, have been giving interviews during the year concerning the procedure of the bank's liquidation, state of liquidation process in it, availability of property and prospects of settlements with the creditors of the bank.

During the year 2007 the Fund placed a large number of publications and information messages in magazines, republican and regional newspapers.

The information and explanatory action "Hot line" became tradition for the Fund for conducting its PA campaign and is annually held in autumn. In 2007 the "Hot line" action was held twice by the Fund.

In April 2007 "Hot line" action took place in order to inform the depositors of the Valut-Tranzit Bank JSC about the beginning and the procedure of pay-outs. During 15 days of "Hot line" action about 500 calls were received from all regions of Kazakhstan (66 cities and settlements).

Also planned "Hot line" was carried out during October 2007 and the number of calls received during this period was about 200.

Fund's staffs answered the questions of the deposit holders through special free of charge telephone line. Using the data obtained through the "Hot line" the Fund regularly analyses the dynamics of awareness level of the depositors about the deposit insurance system. Based on the results of the analysis of frequently asked questions the Fund prepared an information booklet for the depositors of the member-banks concerning the DIS. This booklet was distributed by the Fund on a gratis basis among member banks for their further distribution among the banks' depositors via the front-offices and trading floors of the banks.

Part of the explanatory work with the depositors and banks is performed via the Fund's web-site.

ELABORATION OF REGULATORY DOCUMENTS

For the purposes of implementation of Law provisions the Fund adopted the amended Charter which had the tasks and functions imposed by the Law and changed authorities of the Fund's management bodies.

For the purpose of increasing of the Fund's effectiveness and ensuring high level of business ethics in relations between the Shareholder, other bodies and officials of the Fund as well as in relations of the Fund with third parties the Fund elaborated and introduced the Code of corporate management in 2007. The Code is elaborated in accordance with the rules and regulations of the Republic of Kazakhstan legislation and takes into consideration Kazakhstan's and world practice of corporate management and specific conditions of the Fund's activity at the current stage of its development. It establishes the main principles and a rules applied in the process of management of the Fund and regulates the procedure of functioning and decision-making by the bodies of the Fund.

The Fund together with the Financial Supervision Agency took part in elaboration of the Rules of conducting operations for purchase and assumption of a forcibly liquidated bank to another bank (banks).

The Fund's Board of Directors elaborated approved and brought to the attention of member banks the form and requirements for conducting computerized accounting of insured deposits. By the decision of its Board of Directors the Fund established a period during which the member banks had to adapt their computer information systems to the requirements of the Fund.

In 2007 changes were made in the Rules of assessment of the amount and procedure for payment of mandatory calendar, additional and special premiums for the purpose of their adaptation to changes in the republican legislation.

INTERNATIONAL ACTIVITY

Since April 2003 the Fund has been a member of the International Association of Deposit Insurers (www.iadi.org).

The International Association of Deposit Insurers was founded on May 6, 2002 as a non-profit organization, established in accordance with the Swiss law. The Association is a separate legal entity with permanent location in Basel, Switzerland. The purpose of the IADI is to contribute to stability of financial systems by promoting international cooperation in the field of deposit insurance and to maintain wide international links between deposit insurers and other interested parties. Members of the IADI are the deposit insurance organizations from 52 countries of the world such as the USA, France, Canada, Russia, Japan, Korea, Malaysia, Taiwan, Brazil, etc.

Membership in IADI promotes extension of cooperation of the Fund with foreign organizations, effective exchange of experience and recommendations for improvement of the domestic deposit insurance system and provides the Fund with an access to the world experience in the fields of building effective deposit insurance systems as a constituent of the financial safety system, systems of early response and early detection of problem financial institutions.

The General Director of the KDIF is a Treasurer of IADI and a member of its Executive Council. Being the Treasurer of IADI in 2007 the Fund representative held a key position in working out of the IADI Business plan for the forthcoming three-year period and in approval of the IADI budgets for current and following financial years.

Besides, the Fund takes direct participation in the work of the IADI Research and Guidance Commission. Fund's representative is included in the workgroup for "Islamic banking and deposit insurance" which was set up for studying the experience of the IADI members in creation and functioning of the Islamic banking deposit insurance system, exchange of information and analysis of problems of the mentioned system.

During 2007 the representatives of the Fund took part in a number of meetings of the IADI Executive Council and in seminars of the IADI held in Washington and Istanbul. In October 2007 the representatives of the Fund took part in the sixth annual meeting and conference of the IADI in Kuala Lumpur (Malaysia).

As part of the IADI the Fund is a member of the Asian and Eurasian regional committees. In this field the activity of the Fund is intended to assist the development of deposit insurance system by means of sharing experience with the deposit insurers of different countries and international financial organizations.



Annual meeting of the IADI in Kuala Lumpur, Malaysia

In October of the reporting year the representatives of the National Bank of the Kyrgyz Republic made a three-day working visit to the Fund for the purpose of acquaintance with the functions and authorities of the Fund, principles and conditions of functioning of obligatory deposit insurance system in the Republic of Kazakhstan, its legal framework.



Representatives of the National Bank of the Kyrgyz Republic and the General Director of the Fund

LONG-RUN DEVELOPMENT AND PRIORITY AREAS OF ACTIVITY

The gradual transfer to the system which minimizes and manages its own risks remains the main direction in improving the obligatory deposit insurance system. Within this task the Fund performed the following works during the reporting year:

Introduction of the project of differential premium system of mandatory calendar premiums of member banks

In the reporting period payment of mandatory calendar premiums by member banks started on the basis of the differential premium system.

During the year 2007 the Fund performed active work on automation of process of differential premium rates determination in order to facilitate the calculation procedure, minimize the risks of manipulations or making mistakes in the process of calculations and determination of classification groups for member-banks. The Fund engaged a software programmer company “Asia Soft” LLP for implementation of this task. In connection with a number of changes made in the forms of financial and regulatory reports used for determination of member banks’ classification groups the project implementation was prolonged till 2008.

Keeping accounts of insurable deposits in member banks

Minimization of risks of the Fund's unreadiness to payment of reimbursement coverage at a date established by legislation and impossibility of prompt and correct determination of the Fund's obligations in case of forcible liquidation remains one of the Fund's priority tasks. These risks became apparent in the initial period of forcible liquidation of the Valut-Tranzit Bank JSC.

In order to solve this problem the Fund worked out the form and requirements for maintenance of the automated accounting of insured deposits including calculation of insurance coverage. These forms and requirements were brought to the banks' notice for fulfillment. The deadline was set for member banks by the decision of the Board of Directors of the Fund so that they would adapt their computer information systems to the specified requirements.

Thus in 2008 one of the priority tasks for the Fund will be testing computer information systems of member banks for compliance with all the requirements specified by the Fund.

Prospects of legal introduction of the Islamic banking in Kazakhstan

Representatives of the Fund were included in the workgroup of the Association of Financiers of Kazakhstan that works on the introduction of Islamic banking in the Republic of Kazakhstan. The above workgroup is responsible for preparation of suggestions for improvement of the republican legislation including preparation of legal acts' drafts intended for further introduction and effective regulation of Islamic banking in our country.

Introduction of Islamic banking in Kazakhstan will require adaptation of the laws regulating activity of obligatory deposit insurance system as well as the system of differential premium rates.

Because of the lack of any experience in Islamic banking in Kazakhstan the representative of the Fund became a member of the appropriate workgroup of the IADI for the purpose of studying the international experience in this field.

WORKING OUT THE PROCEDURES OF FORCIBLE LIQUIDATION OF MEMBER BANKS

In the reporting year the Fund continued studying the international experience in the field of effective liquidation of bankrupt banks for the purpose of the effective management of its risks. The Fund's staff took part in the temporary administration and liquidation commission of the forcibly liquidated Valut-Tranzit Bank JSC. Based on practical experience gained in the course of participation in temporary administrations and liquidation commissions of the Nauryz bank Kazakhstan JSC and Valut-Tranzit Bank JSC the Fund collects and analyses problematic questions for the purposes of improvement of the state legislation.

V. V. Radostovets
Director
NAK Tsenteraudit-Kazakhstan LLP
(State license No. 0000017 for audit-ing
activity,
dated December 27, 1999)
February 22, 2008

AUDITOR'S REPORT

We have audited the attached balance-sheet of Kazakhstan Deposit Insurance Fund Joint-Stock Company¹. The reporting consists of Balance Sheet as of December 31, 2007, Income Statement, Statement of Changes in Equity, Cash Flow Statement for the Year expiring on the date indicated above, and a summary of accounting policy's significant elements and other explanatory notes.

Company's management is responsible for preparation and fair presentation of this financial reporting in conformity with International Financial Reporting Standards in the format approved by Resolution of the Republic of Kazakhstan National Bank's Board of Directors. Such responsibility includes designing, introduction and support of internal control relevant to the preparation and fair presentation of financial statements that are free from significant misstatements caused by any fraud or error; selecting and applying appropriate accounting policy; reasons for estimated values.

We are responsible for expression of the opinion regarding this financial statement based on our audits. We have conducted audit in conformity with International Financial Reporting Standards. Such standards oblige us to meet ethical requirements and conduct audit in such a way as to ensure reasonable trust in such financial statements as having no significant misstatements.

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Audit includes implementation of procedures for obtaining of audit evidence on the amounts and information disclosure in financial statements. The selected procedures depend on auditor's opinion, including assessment of risks connected with significant misstatements in financial statements caused by any fraud or error. When estimating such risks for the purposes of auditing procedures corresponding to the circumstances rather than for expression of opinion about effectiveness of the Company's internal control, we have considered internal control connected with preparation and fair presentation of the Company's financial statements.

Audit also includes assessment of acceptability of the applied financial policy, reasoning of estimated values provided by administration and assessment of the general financial statements presentation.

We consider the audit evidence we have provided to be sufficient and appropriately serving as the basis of our opinion.

In our opinion, financial statements of the Company objectively represent financial situation of Kazakhstan Deposit Insurance Fund Joint-Stock Company in all significant aspects as of December 31, 2007, financial results of activity and cash flow for the year expiring on the aforementioned date. Financial reporting is prepared in conformity with International Financial Reporting Standards in the format approved by Resolution of the Republic of Kazakhstan National Bank Board of Directors No. 98, dated 04.05.2007.

I. K. Taskaeva
Auditor
NAK Tsenteraudit-Kazakhstan LLP
Auditor's License No. 465, dated 14.11.1998

¹ Kazakhstan Deposit Insurance Fund Joint-Stock Company.

BALANCE SHEET
for 2007

(Thousands of Kazakhstani tenge)

Indicators	Note	As of the reporting date of the current period	As of the reporting date of the past period
Section 1. Short-term assets			
Cash and cash equivalent (1010-1070)	1	14 180 166	283 992
Short-term financial investments, total, including:	2	9 175 967	5 217 763
Short-term provided loans (1110)			
Short-term financial assets designated for sale (1120)			
Short-term investments held-to-maturity (1130)			
Short-term financial investments, available for sale (1140)		9 175 967	5 217 763
Other short-term financial investments (1150)		0	0
Short-term receivables, total, including:	3	1 201 433	924 051
Buyers and customers' short-term receivables (1210)		0	0
Receivables in associates (1220,1230)			
Employees' short-term receivables (1250)		76	16
Short-term receivables on rent (1260)			
Short-term interests for receipt (1270)		54 415	141 251
Other short-term receivables (1280)		1 146 942	782 784
Loss reserve (1290)			
Inventories, total including:	4	415	416
Raw and other materials (1310)		415	416
Finished products (1320)			
Goods (1330)			
Work-in-progress (1340)			
Other inventories (1350)			
Write-off reserve (1360)			
Current tax assets (1400)	5	12	2
Long-term assets available -for- sale, total, including:			
Long-term assets available -for- sale (1510)			
Groups for retirement available -for- sale (1520)			
Other short-term assets, total, including:	6	2 791	282 982
Short-term advance payments made (1610)		2 056	282 707
Prepaid expenses (1620)		735	275
Other short-term assets (1630)			
Total short-term assets		24 560 784	6 709 206

Section 2. Long-term assets			
Long-term financial investments, total, including:	2	1 990 850	7 613 331
Long-term provided loans (2010)			
Long-term financial investments held-to-maturity (2020)			
Long-term financial investments available -for- sale (2030)		1 990 850	7 613 331
Other long- term financial investments (2040)			
Long-term receivables, total, including:			
Buyers and customers' long-term receivables (2110)			
Receivables in associates (2120, 2130)			
Employee's long-term receivables (2150)			
Long-term term receivables on rent (2160)			
Long-term interests for receipt (2170)			
Other long-term receivables (2180)			
Investments accounted under the equity method (2200)			
Investments in property, total, including:			
Investments in property (2310)			
Amortization and impairment of investments in property (2320)			
Fixed assets, total, including:	7	5 167	5 413
Fixed assets (2410)		12 699	11 158
Amortization and impairment of Fixed assets (1420)		-7 532	-5 745
Biological assets (2500)			
Goodwill			
Intangible assets, total, including:	8	819	1 413
Other intangible assets (2730)		1 873	1 873
Amortization and impairment of other intangible assets (2740)		-1 054	-460
Deferred tax assets (2800)	9	1 200	704
Other long-term assets total, including:	10	2 408	7 200
Long-term advance payments made (2910)		0	7 200
Prepaid expenses (2920)			
Construction in process (2930)		2 408	0
Other long-term assets (2940)			
Total long-term assets		2 000 444	7 628 061
Balance		26 561 228	14 337 267
Section 3. Short-term liabilities			

Short-term financial liabilities, total, including:		0	0
Short-term bank loans (3010)			
Short-term loans received (3020)			
Short-term payables on dividends and participants' incomes (3030)			
Current share of long-term financial liabilities (3040)			
Other short-term financial liabilities (3050)			
Tax liabilities (3110-3190)	11	2	56
Liabilities on other compulsory and free-will payments (3200)		0	21
Short-term payables, total, including:	12	18 730	634 877
Short-term payables to suppliers and contractors (3310)		561	93 835
Short-term payables to subsidiaries (3320)			
Short-term payables to associates (3330)			
Short-term payables to employee's benefits (3350)		531	227
Short-term rental payables (3360)			
Current share of long-term payables (3370)			
Short-term payment of interest (3380)			
Other short-term payables (3390)		17 638	540 815
Short-term estimated liabilities (3400)	13	7 445	19 634
Other short-term liabilities, total, including:		0	0
Short-term advance payments received (3510)			
Prepaid proceeds (3520)			
Available- for -sale liabilities of disposal group (3530)			
Other short-term liabilities (3540)			
Total short-term liabilities		26 177	654 588
Section 4. Long-term liabilities			
Long-term financial liabilities, total, including:			
Long-term bank loans (4010)			
Long-term loans received (4020)			
Other long-term financial liabilities (4030)			
Long-term payables, total, including:			
Long-term liabilities to suppliers and contractors (4110)			
Long-term payables to subsidiaries (4120)			
Long-term payables to associates (4130)			
Long-term rental liabilities (4150)			
Long-term payment of interest (4160)			
Other long- term payables (4170)			
Long-term valued liabilities (4200)			
Deferred tax liability (4300)			

Other long-term liabilities, total, including:			
Long-term advance payments received (4410)			
Prepaid revenue (4420)			
Other long- term liabilities (4430)			
Total long-term liabilities			
Section 5. Warranty provision			
Reserve for deposit repayment of the Kazakhstan Deposit Insurance Fund	14	10 478 883	11 984 073
Total deposit insurance reserve		10 478 883	11 984 073
Section 6. Capital			
Issued capital, total, including:		16 000 000	1 000 000
Issued and outstanding capital (5010)	14	16 000 000	1 000 000
Unpaid capital (5020)			
Issued capital income (5100)			
Redeemable equity instruments (5200)			
Reserves, total, including:		-393 683	191 764
Reserve capital stated by instruments of incorporation (5310)	14	10 000	10 000
Reserve for revaluation (5320: 5321, 5322, 5323)	14	-403 683	181 764
Reserve for foreign currency translation on foreign activity (5330)			
Other reserves (5340)		0	0
Retained income (uncovered loss), total, including:		449 851	506 842
Profit (loss) of the reporting year (5410)		449 851	0
Adjustment of profit (loss) due to the changes in accounting policy (5420)			
Profit (loss) of the of the previous years (5430)		0	506 842
Total capital		16 056 168	1 698 606
Balance		26 561 228	14 337 267

CASH FLOW STATEMENT
for 2007

Indicators	Amount
1	2
Cash flow from operation activity	
Net profit for the reporting period	449 851
Net profit at the beginning of the reporting period	0
Net profit at the end of the reporting period	449 851
Operations adjusting net profit:	-526 945
Accumulated amortization and impairment	2 381
Accrued reserves on doubtful debts, on retirement of reserves	0
Accrued income	-566 368
Accrued expenses	37 042
Changes in assets and liabilities:	-30 982
Changes in business inventories	-2 406
Changes in trade receivable	
Changes in prepaid expenses	9 670
Changes in advance payments made	287 850
Changes in other receivables	-23 543 614
Changes in other assets	0
Changes in account calculation with suppliers and contractors	-13 054
Changes in prepaid revenue	458 763
Changes in advance payments received	0
Changes in budget accounting	-3
Changes in other payables	22 771 812
Changes in other liabilities	
Increase (+), decrease (-) of monetary assets resulting from operating activities	-108 076
Cash flow from investment activity	
Changes in financial investments	1 421 508
Changes in other long-term assets	
Changes in provided loans	
Changes in Fixed assets	-1 541
Acquired	0
Sold	-1 541
Changes in intangible assets	
Acquired	
Sold	
Other changes	
Increase (+), decrease (-) of monetary assets resulting from investment activity	1 419 967
Cash flow from financial activity	
Changes in issued capital	
Changes in received loans, of them:	

actually	
currency exchange difference	
Transfer of retained income to the RK NB	
Other changes	12 987 967
Asset revaluation	-403 683
Increase (+), decrease (-) of monetary assets resulting from financial activity	12 584 284
TOTAL: Increase (+) / decrease (-) of monetary assets	+13 896 174
Monetary assets at the beginning of the reporting period	283 992
Monetary assets at the end of the reporting period	14 180 166

STATEMENT OF INCOME
for 2007

Indicators	Note	For the reporting period	For the prior period
1	2	3	4
Income (loss) from sale of goods and service providing			
Cost of sold goods and services provided (7000)			
Gross income			
Income from financing (6100)	15	573 085,00	621 253
Other incomes (6200)	16	126 132,00	322 449
Administrative costs (7200)	17	136 616,00	117 912
Costs in connection with sale of goods and service providing (7100)			0
Financing costs (7300)			27 041
Other costs (7400)	18	113 246,00	292 447
The share of profit/loss of subsidiaries accounted by equity method			
Income (loss) for the period of the continued activity		449 355,00	506 302
Income (loss) from terminated activity		0,00	0
Income (loss) prior to tax		449 355,00	506 302
Corporative income tax expenses (7700)	19	-496,00	-540
Net income (loss)		449 851	506 842

STATEMENT OF CHANGES IN EQUITY
for 2007

Item	Share capital	Reserve capital	Investment revaluation	Property and equipment revaluation	Retained earnings (loss)	Total capital
Balance as of January 1 of the reporting period	1000000	10000	181655	109	506842	1698606
Changes in accounting policy						
Adjusted balance						
Property and equipment revaluation				(9)		(9)
Value changes of available-for-sale securities			(585438)			(585438)
Cash flow hedge						
Income (loss) from other operations						
Income/loss, recognized directly in the equity						
Income/loss for the period						
Total income/loss for the period					(56991)	(56991)
Dividends						
Equity issue	15000000					15000000
Redeemable shares						
Internal transfers						
Including:						
Changes in accumulated revaluation of Fixed assets						
Formation of reserve capital						
Other operations						
Balance as of December 31 of the reporting year	16000000	10000	(403783)	100	449851	16056168
Balance as of January 1 of the preceding year	1000000	10000	0	0	0	1010000
Changes in accounting policy						
Adjusted balance						
Revaluation of Fixed assets				109		109

Value changes of available-for-sale securities			181655			181655
Cash flow hedge						
Profit (loss) from other operations						
Profit/loss, recognized directly in the equity						
Profit/loss for the period						
Total profit/loss for the period					506842	506842
Dividends						
Equity issue						
Redeemable shares						
Internal transfers						
Including:						
Changes in accumulated revaluation of Fixed assets						
Formation of reserve capital						
Other operations						
Balance as of December 31 of the previous year	1000000	10000	181655	109	506842	