

**Strategic Development Plan of  
JSC "Kazakhstan Deposit Insurance Fund"  
for 2009 - 2011**

**Almaty 2008**

## Contents

<b>Kazakhstan Deposit Insurance Fund</b>	4
<b>Main Authorities</b>	4
<b>Vision</b>	5
<b>Mission</b>	5
<b>Main achievements for the period of 2006-2008</b>	5
<b>The current condition of the Kazakhstani financial market and prospects for the deposit market development in 2009-2011</b>	6
<b>Strategic goals for 2009-2011</b>	11
<i>Scorecard of the Fund's Strategic Goals' Fulfillment in 2006-2008</i>	12-14
<b>1. Effective corporate management</b>	15
<b>2. Development of partnership</b>	16
<i>2.1. Cooperation with Shareholders, Authorized Bodies and member-banks</i>	16
<i>2.2. Cooperation with international organizations</i>	17
<b>3. Investment strategy of the Fund</b>	18
<b>4. Operating activities</b>	19
<i>4.1. Improvement of mechanism for coverage payout to depositors of a forcibly liquidated bank</i>	19
<i>4.2. Elaboration of procedures for establishment of the special reserve</i>	19
<i>4.2.1 Alternative sources for financing special reserve deficit</i>	20
<i>4.3. Introduction and Development of Methodology on Differential Premium System of mandatory calendar premiums to be paid by the member-banks</i>	21
<i>4.4. Implementation of the Fund's functions upon the special reserve recovery</i>	22
<i>4.5. Development of proposals on introduction of the effective methods assigned to problem banks resolution and based on the least cost principle</i>	23
<i>4.6. Legal provision of the Fund's activities and the methodological operations</i>	24
<i>4.7. Development of the informational provision</i>	24
<i>4.8. Public Awareness on the issues related to the Deposit Insurance</i>	25
<b>5. Human resources management</b>	26
<b>6. Developing the Fund's projects under the expert consulting</b>	27
<i>Scorecard of the Fund's Strategic Goals for 2009-2011</i>	28-30
<b>Financial Plan: Appendices 1-6</b>	31-36

## Abbreviations Used

KDIF, the Fund	JSC "Kazakhstan Deposit Insurance Fund"
National Bank	The National Bank of the Republic of Kazakhstan
Financial Supervision Agency, FSA	The Agency of the Republic of Kazakhstan on regulation and supervision of financial market and financial organizations
FIAK	"Financial institutions' association of Kazakhstan"
IADI, the Association	International Association of Deposits Insurers
DIS, the System	Deposit Insurance System
Member-Bank	The Bank being the member of the deposit insurance system
The 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"

*The strategic development plan of the Fund for 2009-2011 aimed to establish the strategic objectives and goals for further development of the deposit insurance system of Kazakhstan.*

## **Kazakhstan Deposit Insurance Fund**

Kazakhstan deposit insurance system that was established in November 1999 has proved its importance to the domestic banking system in maintaining the financial stability and the public confidence.

The legal basis of the deposit insurance system's functioning is the Law of the Republic of Kazakhstan "On the obligatory insurance of deposits placed in the second-tier banks of the Republic of Kazakhstan", adopted as of July 7, 2006.

The sole Shareholder is the National Bank of the Republic of Kazakhstan. The management body is a Board of Directors of the Fund. The Fund's Board of Directors consists of 6 persons: Deputy Governor of the National Bank, Deputy Chairman of the Financial Supervision Agency, Vice-Minister of Finance of the Republic of Kazakhstan, two independent directors, one of which is the representative of "Financial institutions' association of Kazakhstan" and the General Director of the Fund.

The Fund's Board of Directors shall control fulfillment of the strategic plan. The strategic plan may be specified in the Fund's business-plans, generated for each fiscal year.

## **Main Authorities**

According to the Law the main authorities of the Fund are as following:

- Repayment of a certain amount of reimbursement in the case of forcible liquidation of a member- bank;
- Accumulation of the special reserve intended for coverage payment to depositors;
- Participation in the temporary administration appointed for the period of conservatorship of the member- bank;
- Participation in the temporary administration appointed for the period of the banking license withdrawal from the member-bank;
- Participation in the liquidation commission and committee of creditors of the member-bank under the forcible liquidation.

## Vision

**To operate as the organization:**

- **Which complies with the Core Principles for Effective Deposit Insurance Systems;**
- **Which performs its mission using the achievements of the world best practices**

## Mission

**The mission of the Fund is the protection of the depositors' interests by insuring bank deposits and reimbursing the losses in case of forcible liquidation of the Member Bank.**

**In order to fulfill the mission effectively the Fund strives to implement its main goals related to the deposit insurance and to contribute to the Kazakhstan banking sector's stability at the highly professional level.**

**While fulfilling these goals the Fund bends every effort to minimize the associated risks and the potential losses of the Fund.**

## Main Achievements of the Fund for the Period of 2006-2008

- Adoption of the Law of the Republic of Kazakhstan "On the obligatory insurance of deposits placed in the second-tier banks of the Republic of Kazakhstan",
- Introduction of the differential premium system of mandatory calendar premiums of the member- banks,
- Accretion of the Fund's authorities including the right to participate in liquidation commission of a forcibly liquidated bank,
- Introduction of the risk management system,
- Fulfillment of the IADI's Treasurer functions,
- Other

## **The current condition of the Kazakhstani financial market and prospects for the deposit market development in 2009-2011**

During the considered three-year period starting from 2006 the economy of Kazakhstan has experienced both the continuous growth and the financial crisis commencement.

The significant economic growth till the second part of 2007 was provided by the rapid development of the construction and banking sectors of the economy. The construction sector which has been intensively growing during 2004-2007 and financing thereof the banks has allowed to increase the amount of assets of the banking system. However, this has compelled the banking system to take excessive risks.

The main source of funding was external borrowings. Borrowings from the external capital markets were obtained using various tools, the main of which include the long-term and short-term loans and debt securities. By the end of 2007 the volume of the external borrowings in the total liabilities of the Kazakhstani banks increased up to 54.2% against 41.4% in 2004. Foreign loans seemed to be more attractive for the domestic banks, first of all, due to the lower interest rates. During the last years the Netherlands and the Great Britain were the main sources of "cheaper" loans for the Kazakhstani banks been. External debt concentration of the three largest banks as of the end of 2007 constituted 61.6%\* .

The US mortgage crisis commenced in summer of 2007 has significantly affected the liquidity factors of the leading American and European banks. This has contracted the international capital markets and, as a consequence, decreased the opportunities for the Kazakhstani banks in obtaining new loans from abroad.

In their turn the banks had to decrease the volume of the customers lending on purchase of real estate and to the construction sector. Reduction of the loan portfolio was also conditioned by the necessity in repaying the external loan obligations by the bank.

The liquidity problems and the fluctuation of raw materials' prices allowed forecasting a decrease in the export revenues for the nearest future. So, for example, in July 2008 the price of Brent brand oil was 147.3 US dollars per barrel, towards the end of the same year the oil price decreased by 3.7 times and amounted only 40 US dollars per barrel.

The fact that the current global financial crisis has significantly affected the Kazakhstani economy can be obviously observed in the following three main reasons:

- The financial market mainly dependence on external funding sources;

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\* Source: Payment balance and the external debt of the Republic of Kazakhstan for the year 2007 (the National Bank)

- High involvement of the banking segment in the construction sector;
- Domination of the raw material component in the total volume of the country's export.

Analysis of the key parameters of the banking sector activities during the period of 2006-2008 has shown the significant growth in comparison with the previous periods and the traced tendency towards decrease of some indicators.

The aggregate assets of the second-tier banks as of 01.10.2008 amounted 12 500 billion tenge, thus having increased by 41.0% in comparison with the aggregate assets amount as of 31.12.2006. The loan portfolio constitutes the main share of the bank's assets. As it can be seen from *Table 1*, the maximum specific weight of the loan portfolio in the total assets volume of STB (second-tier banks) RK is attributed to the end of 2007, which is conditioned by the tendencies described previously. In 2008 the growth rate of financing the real sector by the banks was much lower (the amount of the loan portfolio increased by 2.5%) in comparison with the previous year (the amount of the loan portfolio increased by 47.9%).

*Table 1. Dynamics of STB Loan Portfolio*

Banking Sector	01.01.07	01.01.08	01.10.08
Assets amount (billion tenge)	8 875	11 683	12 500
Loan amount (billion tenge)	5 992	8 868	9 094
Loan portfolio share in STB's assets	67.5%	75.9%	72.8%

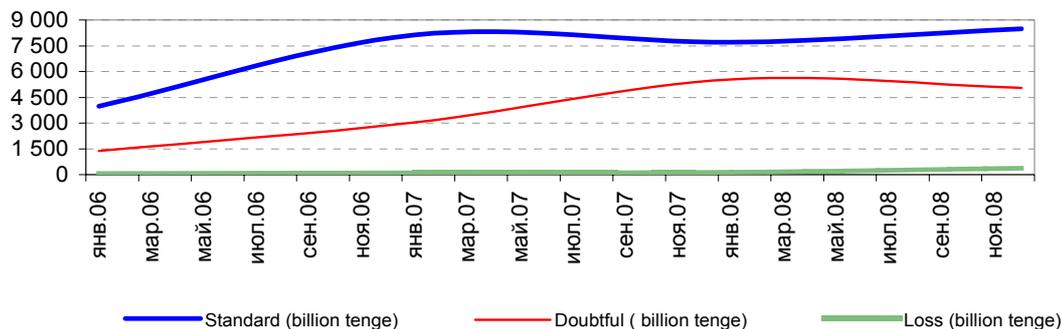
Source: Consolidated Balance sheet on STB RK, STB Financial indicators ( FSA)

The data of the supervision body on STB's show the tendency of significant decline of the banks revenues as a result of lending operations decrease and impairment of the bank assets quality.

Despite the fact that the volume of standard assets of STB has increased twice, the growth of doubtful assets and contingent liabilities for the three years constituted 265.5%, and that of the loss assets and contingent liabilities constituted 422.5%. The volume of the doubtful and loss assets and contingent liabilities is nearly 40% of the total amount of assets and contingent liabilities (*See Diagram 1*).

As of the end of 2007 the total amount of loans constituted 79%, 60% of which consisted from the doubtful and loss loans, while as of the end of 2006 the total amount of loans was equal to 69%, 47% of which was attributed to the doubtful and loss loans. Thus, the growth rate of the doubtful and loss loans constituted 88% for the year 2007. By October 1, 2008 the amount of doubtful loans has contracted, however, the amount of loss loans still has positive trend.

Diagram 1. Dynamics of Classified Assets and Contingent Liabilities for the period of 2006 - 2008 (billion tenge)



Source: Consolidated Report on Classification of Assets and Contingent Liabilities and Generation of Provisions by STB RK (FSA)

The dynamics of STB liabilities to the depositors is characterized by the following tendency. The aggregate volume of deposits as of 31.07.2008 amounted 13 716 billion tenge, which is 10 times greater than the same indicator as of 01.01.2006. Such growth was obtained as a consequence of sharp increase in amount the deposits from legal entities, the share of which was equal to 92% of the total deposits placed in STB. Increase of the legal entities' deposits during the second half of 2008 is mainly explained by depositing free funds of the national companies. However this source of banks funding may not be permanent since the fluctuations of raw material prices aggravate the volatility of the companies' incomes.

Since 2007 the growth rate of the **individuals' deposits** held in the second-tier banks has started to decline, and by July 2008 the total decrease was equal to 22.5%; the main reason for such negative tendency included a high probability for individuals to loose their funds held in STB on the wave of the financial crisis. However by October 2008 the aggregate deposit base of individuals has increased by 31% (Table 2). Improvement of this indicator is first of all connected with adoption of the Law of the RK "On the financial stability" which provides increase of the coverage limit for individuals' deposits up to 5 million tenge in case of forcible liquidation of the member-bank.

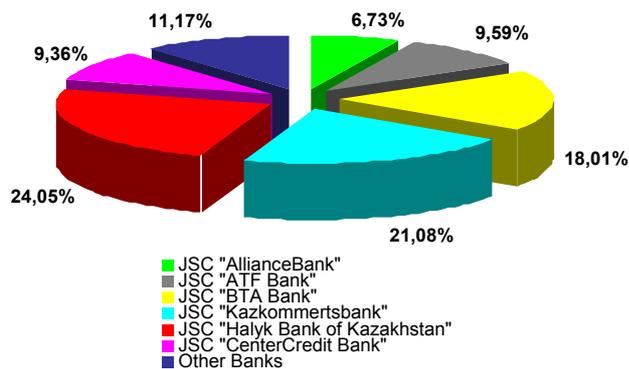
Table 2. Dynamics of deposits with STBs

	January 06	January 07	January 08	July 08	October 08
Deposits in STBs (billion tenge), including:	1 349	2 630	3 384	13 716	4 286
Deposits of individuals in STB (billion tenge)	586	1 039	1 420	1 101	1 444
% change for the period	35.0%	77.3%	36.7%	-22.5%	31.2%
Deposits of legal entities in STBs (billion tenge)	763	1 591	1 964	12 615	2 842
% change for the period	26.1%	108.5%	23.4%	542.3%	-77.5%

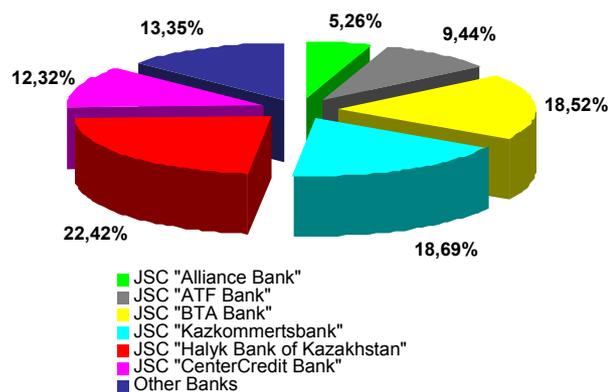
Source: Statistical Bulletin ( not taking into consideration the accounts of non-residents), the National Bank

The six largest banks of Kazakhstan: JSC "Halyk Bank of Kazakhstan", JSC "Kazkommertsbank", JSC "BTA Bank", JSC "Alliance Bank", JSC "CenterCredit Bank" and JSC "ATF Bank" share more than 85% of the deposit market. For the period from January 1, 2008 till October 1, 2008 such banks as JSC "Halyk Bank of Kazakhstan", JSC "Kazkommertsbank", JSC "Alliance Bank" has experienced reduction of individuals' deposit market shares, while JSC "CenterCredit Bank" has significantly increased its market share. JSC "BTA Bank" and JSC "ATF Bank" practically kept the previous positions. Re-distribution of shares in the individuals' deposit market occurred in favor of JSC "CenterCredit Bank" and other banks.

Shares in the Individuals Deposit Market as of 01/01/2008



Shares in the individuals Deposit Market as of 01/10/2008



The measure taken to increase of the coverage amount of the individuals' deposits up to 5 million tenge was important towards consolidation of the depositors' trust. According to the Fund's preliminary estimation the total number of the individuals' accounts in STBs including the deposits up to 5 million tenge constitutes

99.7%, whereas the deposits up to 700 thousand tenge constitutes 98.6%. The total aggregate coverage of such bank accounts constitutes 42.2% and 25.0% respectively. This positive statistics increases the probability for the level of individuals' deposits as of the end of 2008 to remain at the current level.

According to the Fund's forecasts the aggregate deposit base of individuals in STBs in 2009-2011 will grow insignificantly. The level of individuals' deposit base in STBs was determined for the forecasted period by using extrapolation method, the annual increase was equal to 8.6% (Table 3).

*Table 3. Forecast of the Aggregate Deposit Base of Individuals in STBs*

	<b>01.01.2010</b>	<b>01.01.2011</b>	<b>01.01.2012</b>
<b>Deposits of individuals in STBs (billion tenge)</b>	1 670	1 813	1 968

The measures had being taken by the Government allow to hope for maintenance of the financial stability in the country since they aim at prevention of the systemic banking crisis. At the same time the negative dynamics of certain indicators, such as: assets quality and liquidity, in some banks, cause certain concern, since their impairment might result in default of such banks. In this connection the deposit insurance system must be ready for bankruptcy of the banks and accordingly it must take all necessary measures for due fulfillment of its main function – payment of coverage to the depositors. Timeliness and effectiveness of payments, as practice shows, first of all depends on availability and correctness of data base on depositors in the member- banks of DIS. At the end of 2008 the Fund's authorized capital was increased up to 100 billion tenge. As a result the Fund's special reserve amount constituted 70 billion tenge including the mandatory calendar premiums of the member banks that covers the Fund's contingent liabilities to all banks included in the riskiest group according to the differential premium system "BATA" – group E as well as two banks currently attributed to group D. The banks have the tendency for impairment of their financial positions, with the aggregate coverage amount constituting 43 billion tenge and 28 billion tenge\* in each.

\* Calculation of the aggregate reimbursement amount with respect to STBs as of July 1, 2008

## Strategic goals for 2009-2011

For the period of 2009- 2011 KDIF activities will aim at resolution of the following strategic goals:

- effective corporate management;
- readiness for the occurrence of contingency (development of all procedures);
- effective partnership cooperation;
- public and other interested parties awareness of the deposit insurance system;
- professional development of the Fund's employees.

In order to determine the level and quality of the Fund's main goals fulfillment during the previous period the scoring-analysis thereof was made. The results are provided in the **Scorecard of the Fund's Strategic Goals' Fulfillment in 2006-2008**

The analysis showed that some tasks need further development, or must be separated out as individual projects. The results of strategic planning are provided in the **Scorecard of the Fund's Strategic Goals for 2009-2011.**

## Scorecard of the Fund's strategic goals fulfillment in 2006-2008

**Table of designations:**

<b>C</b>	<b>Completed</b>
<b>D</b>	<b>Development process</b>
<b>I</b>	<b>Implemented and needs further development</b>
<b>N</b>	<b>Needs development</b>
<b>S</b>	<b>Satisfactory</b>
<b>G</b>	<b>Good</b>

Objects of the Fund's action	Fund's Initiatives	Fulfillment level	
<b>I</b>	<b>1. Monitoring the compliance with the legislative environment</b> <i>a</i> Amendments to the Fund's Charter <i>b</i> Expanding the Fund's Board of Directors <i>c</i> Adoption of the Corporate Governance Code <i>d</i> Introduction of the internal control system <i>e</i> Specifying the authorities of the Governance bodies (Shareholder and Board of Directors)	I	
		C	
		C	
		I	
		N	
	<b>2. Effective corporate management</b> <i>a</i> Adoption of the Risk Management of JSC "Kazakhstan Deposit Insurance Fund" <i>b</i> Accretion of the Advisory Board's authorities <i>c</i> Development of the internal policies and procedures <i>d</i> Use of the internal control results in the decision-making procedures	C	
		C	
		I	
		N	
		N	
<b>II</b>	<b>1. Fund's cooperation with:</b> <i>a</i> FSA <i>b</i> National Bank of RK <i>c</i> FIAK <i>d</i> Member- banks of DIS <i>e</i> Foreign Deposit Insurance Organizations <i>f</i> International Institutions and Foreign organizations <i>g</i> Service suppliers	S	
		S	
		S	
		G	
		G	
		N	
		S	
	<b>2. Improving the procedures on information sharing with the main partners</b> <i>a</i> Involvement in development of rules and policies with the partners	I	
		S	
	<b>3. International recognition</b> <i>a</i> Holding of the 7th Annual Meeting of the IADI' Asian Regional Committee and International Conference <i>b</i> Analysis and development of the Fund's procedures in accordance with the Core principles for effective deposit insurance systems	D	
		N	
	<b>III</b>	<b>Investment strategy</b> <b>1. Budget execution control</b> <b>2. Establishment of the Fund' investment committee</b> <b>3. Development of the Fund's investment policy and investment strategy</b>	I
			C
I			

Objects of the Fund's action	Fund's Initiatives	Fulfillment level
IV	<b>1. Fund's internal control system compliance</b>	D
	<b>2. Fund's strategic business-processes:</b>	
	<b>a</b> Extension of conditions of member-banks' participation in the DIS	I
	<b>b</b> Development of the mechanism for coverage payment to depositors of a forcibly liquidated bank through:	I
	- establishment of requirements to automated accounting of the deposits in the member bank and creation of depositors' data-base	I
	- provision by the member banks of the data on deposits in standard form	I
	- inspection of data-base on member banks' depositors	N
	<b>c</b> Registration of DIS's member-banks	C
	<b>d</b> Effective investment management	I
	<b>e</b> Development of the procedures for forming special reserve intended for coverage payout includes:	
	- Study of alternative approaches for coverage of special reserve deficit	D
	- Implementation of OBA, Bridge bank, P&A as the efficient methods for problem banks resolution based on the least-cost principle	D
	<b>f</b> Recovery of special reserve through:	
	- Participation in temporary administration appointed for the conservatorship period of the member-bank and/or for the period of withdrawal of the banking license from the member-bank	I
	- Participation in the liquidation commission of the forcibly liquidated member-bank	I
	- Participation in the committee of creditors of the forcibly liquidated bank	I
	<b>g</b> Legal provisions of the internal procedures	I
	<b>h</b> Implementation of Enterprise Risk Management by means of introduction of policies and procedures	C
	<b>i</b> Detection of the Fund's main risk areas and risk management	I
	<b>j</b> Development of the differential premium system of the DIS's member-banks	
	- Creation of the differential premium system "BATA"	C
	- Testing of the differential premium system "BATA"	C
	- Introduction and further development of the differential premium system "BATA"	I
	- Creation and introduction of the information system "BATA"	C
	- Development of the information system "BATA"	N

Objects of the Fund's action		Fund's Initiatives	Fulfillment level
IV	Operating activities	<i>k</i> Public awareness on the issues of deposit insurance through :	
		- Conducting of "Hot Line" campaign on the permanent basis	I
		- Publication of articles and information modules in Mass media, announcement of the population by TV and radio	I
		- Operation and information update on the Fund's Web-site	I
V	Human Resources management	<b>1. Development of the Fund's personnel training system</b>	
		<i>a</i> Participation in seminars and conferences organized by IADI	I
		<i>b</i> Organization of seminars for the Fund's employees	I
		<i>c</i> Participation in the seminars arranged by the regulatory bodies	N
		<b>2. Development of remuneration system of the Fund's employees</b>	C
		<b>3. Development of the employees' evaluation system</b>	C

## **1. Effective Corporate Management**

The Fund has undertaken a number of measures during 2006-2008 in order to increase the effectiveness of the corporate management. Corporate Management Code has been developed and adopted by the Fund to bring the Fund's activities in compliance with the legislation requirements. The Code determines the principles of operation of the Fund and regulates interaction between the Shareholder, Board of Directors and Executive Body of the Fund. Additional independent director was incorporated to the Fund's Board of Directors. Currently two independent directors are represented in the Board of Directors of the Fund.

During the mentioned period the authorities of the Advisory Council were extended for improvement of consistency of the decisions made by the Fund with respect to the members of the deposit insurance system taking into consideration proposals of the most banks.

One of the positive and necessary changes occurred during the reporting period was the introduction of a risk management system of the Fund and adoption of the Regulations on Organization of Risk Management in JSC "Kazakhstan Deposit Insurance Fund".

Some issues connected with effective corporate management need further development. The practice shows that adoption of the internal regulatory acts, approval of business plan and budget of the Fund require a long period of time due to complex procedure of approval. Since the main procedures of the Fund's activities has been properly worked-out and reflected in the corresponding regulations as well as the Fund's Board of Directors was enlarged, there have appeared the preconditions for revision of the authorities' delegation between the Shareholder and BD of the Fund and bringing thereof in compliance with the norms of the Law of the Republic of Kazakhstan "On Joint Stock Companies". In this connection the Fund's Charter need to be amended appropriately.

The additional step towards the improvement of the corporate management effectiveness is revision of the legislative base of the deposit insurance system with respect to specification of the functions and goals, rights and obligations of the organization which provide the required insurance of deposits, for example, regarding the use of alternative sources in case of special reserve deficit, participation in operations optimizing the liquidation proceedings, such as P&A («Purchase&Assumption») and others.

One of the most important conditions for the successful corporate management includes the introduction of the quality management system in the Fund and the

compliance of the Fund's activities with ISO standards as well as reflection of the Fund's internal control results upon the decisions made.

## ***2. Development of Partnership***

The Fund has the following partners: the Financial Supervision Agency, the National Bank, Financial institutions' association of Kazakhstan, DIS member-banks, foreign deposit insurance organizations, international institutions and services suppliers. The level of mutual relations with some of the partners needs to be improved.

### ***2.1. Cooperation with Shareholders, Authorized Bodies and member-banks***

The partners of the Fund in its main activities are: the Financial Supervision Agency, the National Bank and member-banks. Interaction of the Fund with the Financial Supervision Agency and the National Bank are regulated by the Agreements on Mutual Cooperation. The conditions of the banks' participation in the deposit insurance system are determined in the Adhesion Contract. The Fund's relations with the FSA and the Shareholder may be characterized as satisfactory, since they have potentialities for further improvement and development. Analysis of interaction of the Fund with the FSA in 2007-2008 has showed the necessity to solve the following problems: abidance the prescribed deadline on the information submission for differential premium rates calculation; presentation of the new forms of the bank' financial statements; development of the regulations list related to the individuals' deposits insurance requiring joint discussions and approvals for further amendment thereof.

Thereupon in the forthcoming period the Fund will aim at improvement of the interaction with the authorized bodies supervising the financial sector and increase of the information sharing level.

Accretion of the Fund's authorities with respect to the inspection of the member-banks on the proper maintenance of the data bases on depositors is aimed at the efficient fulfillment by the Fund of its main function – payout of coverage to depositors of a forcibly liquidated bank. This field also covers a sphere of interest for FSA inspections and it requires closer cooperation with the supervisors.

In addition, KDIF plans to initiate amendments to the Agreement on Information Sharing between the Fund and the National Bank, and the Financial Supervision Agency with respect to the specification of the list and procedures on information submission.

## 2.2. Cooperation with international organizations

Since 2003 the Fund is a member of International Association of Deposit Insurers. The Fund participates in the activities of the respectable organization actively. The membership in IADI provides KDIF with the access to the best practices in the field of effective deposit insurance system as one of the component of the financial stability system, early warning system and regulation of the problem financial institutions activities.

The Fund's representative is a member of the IADI' Executive Committee and simultaneously of the Audit, Financial and Planning, Research and Guidance Committees, Asian Regional Committee. Moreover, the Fund's representative is IADI's Treasurer.

During the reporting period the Fund has actively taken part in elaboration of a Terms of Reference of Finance and Planning Committee, Budgeting policy of IADI; it has initiated a separation of authorities between the Treasurer and the Chair of the Finance and Planning Committee.

Being the member of IADI, KDIF has participated in the annual meetings of IADI, conferences and "round tables" held by IADI and/or the members.

For improving the cooperation with IADI, in 2009 the Fund is going to hold the 7-th Annual meeting of Asian Regional Committee and International conference of the IADI devoted to "The Primary Responsibilities of Deposit Insurer in the Case of bank Failure".

In accordance with the business procedures adopted by ARC IADI the Annual conference of the Committee shall be devoted to a certain subject within the scope of which the research is proposed to be conducted. The Fund has commenced a research devoted to the subject being of a current interest for Kazakhstan which is "Failed bank's depositors' claims and payouts". In order to get the detailed information on the international experience within the scope of the researched subject the Fund has prepared and distributed the appropriate questionnaire among IADI's members. On the basis of the information received in December 2008, the Fund has prepared the comparative analysis which will be presented at the Annual meeting of ARC IADI and the Conference.

According to the preliminary program of the Annual meeting and the Conference the Fund plans to perform the specified event during three days, the last day will be devoted to acquaintance of the guests with the culture and the national traditions of Kazakhstan as the host-country of the Conference.

According to the Fund's preliminary estimations the number of foreign participants will constitute about 80 persons, including participants from Japan, South Korea, Taiwan, Malaysia, India, Indonesia, Hong-Kong, the Philippines, Singapore, Bangladesh, Vietnam, Russia, China, Mongolia, Uzbekistan, Kyrgyzstan, Tajikistan and Azerbaijan. Moreover, the representatives of countries which are not members of ARC IADI, but which belong to the IADI, like the USA, Canada, Bulgaria, Poland, Tanzania and others, have expressed their interest to participate in the Conference. Also the Fund is going to send the invitations to the representatives of the National Bank and FSA. It is expected that the total number of participants of the Annual meeting of ARC IADI and Conference will constitute up to 100 persons.

Development of the Fund's procedures in accordance with the Core principles for Effective Deposit Insurance Systems is one of the important steps for realization of the Fund's international cooperation goals. The Core principles for Effective Deposit Insurance Systems have been developed by IADI in 2008. Acquainting the members of the Fund's Board of Directors with the principles is also one of the Fund's priority tasks.

Cooperation of the deposit insurance systems with other international financial institutions, besides IADI, such as: IMF, the World Bank, EBRD, ADB and others, must also find its development in Kazakhstan. The organizations are the strategic partners of IADI.

### ***3. Investment strategy of the Fund***

The operating and investment activities of the Fund are regulated by the internal regulatory legal acts approved by the Fund's shareholder.

The Fund annually draws up the Business Plan for the coming year to be approved by the Fund's Shareholder. Based on the best international practice the Fund will develop a business plan and generate the budget in accordance with the present strategic development plan which determines the strategic objectives and goals for development and the main projects of the Fund for the coming period requiring appropriate funding.

The Fund's investment activities aim at preservation and increase of its assets by obtaining the planned investment yield. Before 2005 the Fund's investment policy was conservative one, and the Fund's assets were invested only in the national currency into the deposits of the National Bank of RK, Notes of NBRK, and Securities of Ministry of Finance RK. In 2005 the list of the Fund's financial instruments has been enlarged. The Fund started to invest its assets both in the domestic and external markets within the scope of the financial instruments list approved by the Investment Strategy. The

structure of the Fund's investment portfolio for the last three years is provided in *Appendix № 6*.

The Fund intends to continue the work for improvement of the investment activities efficiency and maintaining the assets quality based on close cooperation and regular consultations with the Fund's Asset Manager that is the Department of Monetary Operations of the National Bank.

## **4. Operating Activities**

The Fund's operating activities aims at resolution of the Fund's strategic task of being prepared for an insured accident occurrence and development of the projects oriented to minimize the associated risks and the potential losses.

### **4.1. Improvement of mechanism for coverage payout to depositors of a forcibly liquidated bank**

According to the Law one of the main functions of the Fund is a payout of coverage. It is essential to timely obtain a register of depositors which is provided by liquidation commission of a bank subject to forcibly liquidation for successful fulfillment of the mentioned function. In this connection the Fund makes all the necessary efforts for improvement of the mechanism on coverage payout to depositors of the bank subject to forcible liquidation, which include: establishment of requirements to data bases on depositors, standardization of the data on depositors to be submitted by the member- banks. The specified requirements of the Fund to the member- banks were fulfilled by them during 2007-2008.

The banks inspection for compliance of the data bases on depositors with the requirements set by the Fund is a priority task of the Fund during the planning period. In addition, the measures for legislative vesting the Fund with authorities for inspection of the member- banks for compliance with the procedures used and that relate to DIS should be taken in full scope.

### **4.2. Elaboration of procedures for establishment of the special reserve**

The Fund needs to have sufficient level of special reserve in order to fulfill the obligations to the depositors in time. In accordance with the Law the main sources for the special reserve generation are as following: the mandatory calendar premiums of the member-banks, penalties to the member-banks for non-fulfillment or undue

fulfillment of the obligations under adhesion contract; the money received from subrogation of the Fund's claims to the liquidated member-bank in the amount of paid coverage; incomes from investment of the Fund's assets; and 50% of the authorized capital by the decision of the Shareholder.

In March 2008 the Fund has decided to reduce the rates of the calendar premiums by 25% with respect to all classification groups in order to support the liquidity of the banking system for the period of financial crisis.

Moreover, due to the increase of the coverage limit up to 5 million tenge, the Fund's authorized capital has been increased up to 100 billion tenge as well. Such measure has strengthened the Fund's financial position and the level of readiness to fulfill its functions.

The sources for special reserves replenishment such as: penalties to the member-banks for non-fulfillment or undue fulfillment of the obligations under adhesion contract and the money received from subrogation of the Fund's claims to the liquidated member-bank in the amount of paid coverage are not permanent and insignificant in the amounts.

#### *4.2.1 Alternative sources for financing special reserve deficit*

In case of special reserve deficit the Law does allow to the Fund to collect additional contributions by the member-banks, and in case of insufficiency thereof, the Fund has the right to get loans from the National Bank for deficient amount of money.

In 2006 the Fund has started to study the alternative sources for financing the special reserve deficit and the development of the necessary conditions and measures for their implementation within Kazakhstan. The Fund has thoroughly studied such instruments as: credit derivatives, in particular Credit Default Swap (CDS), re-insurance of the Fund's risks on bank failure and coverage payout with foreign insurance companies, issue of the debt securities (bonds) by the Fund, borrowings from the National bank of the Republic of Kazakhstan. The application of these instruments will require from the state taking a certain measures for their adaptation to the existing conditions.

According to the preliminary analysis results, it becomes clear that the use of such financial instruments as credit derivatives and re-insurance of the Fund's risks with other insurance companies is limited by the number of objective reasons, for elimination of which the appropriate measures shall be taken by the members of the banking system; for example, obtaining of credit ratings by some banks, and for Fund's part the possibility to forecast a probability of the banks' default for determination of

the agreement validity period, and exemption of the Fund from income tax in the amount of sum paid to the partners upon the risk event occurrence are required. Taking into consideration the current situation in the global financial markets, such instruments are the least profitable and highly exposed to risks.

Nowadays issuance of the bonds by the Fund and borrowings from the National Bank of RK are the most acceptable and adaptable instruments.

However, the issuance of bonds by the Fund and borrowings from the National bank are not the final alternatives, and the Fund will continue studying and enlarging the list of possible sources for funding of the Fund's special reserve deficit.

#### *4.3. Introduction and Development of Methodology on Differential Premium System of mandatory calendar premiums to be paid by the member-banks*

Since 2004 and till 2007 the Fund has been developing the project for introducing the differential premium system of mandatory calendar premiums depending on the extent of financial stability and risk profile of the member banks.

The differential premium system "BATA" came into force on January 1, 2007. The system allows evaluating the financial position and the risk exposure of the member banks on the basis of quantitative and qualitative indicators. The integrated ratings (total cumulative score) and the classification groups of the member-banks can be determined by calculating the indicators' values. The differential premium system comprises five classification groups, the best of which is A group, and the worst (riskiest) one is E group. Each classification group is assigned with the particular calendar premium rate. The higher the levels of financial instability and risk exposure of the member- bank are, the higher the rate of calendar premium will be.

The calculation upon the differential premium rates of the member-banks, which allowed the Fund to reveal the area of the banks' activities that are mostly exposed to risks and to stimulate the banks for taking necessary measures to mitigate those risks, has taken place since the January 2006 and prior to the coming into force the Rules on Determination of the Amount and Procedure of Mandatory Calendar, Additional and Emergency Payment. According to the new system the collection of calendar premiums by the member banks has started on April 1, 2007.

The differential premium rating system requires permanent modification and adaptation to the situation existing within the financial market. The modifications shall take into consideration such factors as: an appearance of new financial products in the market, changes in the prudential norms as well as regulatory requirements and others.

Continuous improvement of the differential premium system was also recommended by Deloitte and Touche LLP.

Improvement of the methodology of differential premium rates calculation is the time-consuming procedure, which includes the following steps:

- collection of the member-banks' proposals on modification of the methodology for differential premium rates calculation;
- generation of new quantitative coefficients (indicators) and selection of assignments for further statistical testing;
- testing the coefficients, selection of the coefficients with the high significance level and low cross correlation;
- determination of the coefficients values, which will become the basis of the scoring system, with the mostly expressed relevance to the estimation criteria using the factor analysis.

In order to determine the qualitative indicators the following undertakings shall be conducted:

- study of qualitative criteria for assessment of a bank performance;
- search for informational sources for the qualitative criteria assessment of the bank performance;
- determination of the weight of qualitative indicators' scores sum within the aggregate sum of quantitative and qualitative indicators scores;
- scoring of the new qualitative indicators.

Commencement of the differential premium system modification is expected in 2009.

#### ***4.4. Implementation of the Fund's functions upon the special reserve recovery***

The Fund implements its function on special reserve recovery by participating in the liquidation commission and in the activities of the creditors' committees of the forcibly liquidated banks until the liquidation commission pays off the debt, which is equal to the amount of coverage paid (or being paid), to the Fund.

Since 2006 the liquidation proceedings have been conducting with respect to JSC "Nauryz Bank Kazakhstan" and the Fund is a member of the creditors' committee. On June 2, 2005 the Agency has withdrawn a license on banking operations from JSC "Nauryz Bank Kazakhstan" and the court decision on forcible liquidation of the bank came into force on December 2, 2005. At the present time the Fund's claims has been settled by 82%.

On March 1, 2007 the court decision on forcible liquidation of JSC "Valyut-Transit Bank" came into force. The Fund is a member of the creditors' committee of JSC "Valyut-Transit Bank". The Fund's employees are also the members of the bank's liquidation commission. As of today the liquidation commission of JSC "Valyut-Transit Bank" has satisfied the Fund's claims in the amount of 15%.

Based on the best international practice, the Fund will develop liquidation procedures through preparation of the proposals on amendments of the liquidation proceedings' regulations.

#### *4.5. Development of proposals on introduction of the effective methods assigned to problem banks resolution and based on the least cost principle*

The Fund understands of the fact that forcible liquidation is the least desirable measure for resolution of the situation with the problem bank. The international practice may suggest several alternative methods for problem banks resolution. In this connection the Fund has studied the international experience relevant to the advanced methods of the problem banks resolution, such as "Bridge Bank", "Purchase&Assumption", "Open Bank Assistance". On the basis of the studied international experience and after generalizing the liquidation problems of JSC "Valyut-Transit Bank" and JSC "Nauryz Bank of Kazakhstan", the Fund has developed proposals to FSA and the National Bank on necessary amendments to the legislation, in particular: the Law of RK "On Banks and Banking Activities in the Republic of Kazakhstan", the Regulation on Forcible Liquidation of Banks in the Republic of Kazakhstan, the Regulation on Sanctions to the Second-tier Banks, the Regulation on Purchase and Assumption operations, the Regulation on Holding of Bank –Agent Selection and Requirements to the Bank-Agent, the Regulation on Granting of Loans and Placement of Deposits in the member-banks assuming obligations on Insured Deposits by the Organization Providing Obligatory Guarantee of Deposits.

The main problem related to the introduction of such methods is a lack of methods for assessing of some banks' assets, in particular, intangible assets, loan portfolio of the bank. Since Kazakhstan does not have the methods for such assets' assessment, the Fund will study the legislation and standards in the field of assessment being in force in RK, and the international experience with respect to the present issue; and the Fund will develop the proposals to be considered by FSA and the National Bank. The purpose of this work is to standardize the approaches for assessing the problem bank's assets.

The probability of resolution (or liquidation) for some of the banks has arisen due to strengthened requirements by the authorized body to the banks in the parts of presence of the principal shareholder in the bank for conducting banking operations on accepting deposits, opening and maintaining of individuals' bank accounts and increase of the minimum authorized capital. Implementation of P&A method would be the optimal method for resolution of such issues.

In order to protect the interests of the depositors, the Fund:

- analyses the banks' performances, determines the banks' ratings and classification groups;
- develops the new qualitative and quantitative indicators for the evaluation of the financial position and risk exposure of the banks;
- notifies the authorized body about the bank's financial condition impairment , moreover the Fund is entitled to request application of impact measures and sanctions to the member-banks upon violation by such bank of the requirements provided for by the legislation of the Republic of Kazakhstan on obligatory deposit insurance.

#### *4.6. Legal provision of the Fund's activities and the methodological operations*

The internal regulatory acts of the Fund are subject to regular revision and improvement, taking into account amendments of the legislation of RK and practical goals set to the Fund, in order to prevent any sanctions, penalties, claims and demands application to the Fund and any losses and other negative effects.

For the period of 2006-2008 the Fund has directly participated in the work for improvement of the regulatory-legal base, governing operation of the obligatory deposit insurance system.

The methodological work for the forthcoming period will be, first of all, oriented to development of the legal base on implementation of the Fund's priority projects, and participation in development of the regulations relevant to DIS activities.

#### *4.7. Development of the informational provision*

Informational support of the Fund's activities is mainly realized through the regular inspection of technical condition of the Fund's equipment, maintenance of the

Fund's domain, administration of the informational system "BATA" (hereinafter referred to as IS "BATA") and other software products.

During the last two years development of the IS "BATA", which had been created for automation of the differential premium rates' calculation is the main project of the informational support to the Fund's activities. In 2007 the work for setting up IS "BATA" was commenced, and it consisted of two stages. The first stage included development of IS "BATA" consisting of: 1) data base of incoming reports which are used for the rates calculation; 2) modules for: loading of the incoming reports; calculation of quantitative and qualitative indicators; generation of outgoing reports. Since the beginning of 2008 the Fund has been using IS "BATA". During 2008 the developer-company has provided the warranty technical support and eliminated any defects revealed by the Fund's employees.

The development of the IS "BATA" is in fact the implementation of the second step of creation thereof. Realization of the second stage covers the following directions:

- development of the data base for incoming reports that are not currently used for calculation of the quantitative and qualitative indicators; integration thereof with the existing data base of IS "BATA" and consideration of the possibility for data export from IS "BATA" to SW "SPSS";

- adaptation of module for incoming reports downloading;

- creation of the set of functions for supporting the system of versions and incoming reports forms.

The reports, which data are not currently used for calculation serve as the informational source for development of the new quantitative and qualitative indicators, and specification of the existing indices. Also it is expected to export member banks' financial statements data from IS "BATA" to the other specialized software product called "SPSS" in order to test new coefficients. The realization of the second stage is also planned for the year 2009.

#### *4.8. Public Awareness on the issues related to the Deposit Insurance*

The Fund's activity to increase the public awareness is of the informative and explanatory nature. This activity is targeted both to the banks' depositors, and to the member-banks, and is conducted through the Fund's advertising agent, which is annually selected by a tender and in accordance with the Law of RK "On State Purchase". Placing the articles and interviews in the printed and electronic mass media,

audio and video clips on radio and TV is the main type of the Fund's informative and explanatory activity.

Each year the Fund carries out the "Hot Line" campaign, which lasts for 2 weeks, all calls are received by the certain virtual number and have been paid for by the Fund. As in 2005 the forcible liquidation of JSC "Nauryz Bank Kazakhstan" has commenced, and in 2007 the liquidation of JSC "Valyut-Transit Bank" was initiated, the Fund's main task for 2006 and 2007 was to notify the depositors of the liquidated banks on payout of coverage for the individual deposits of JSC "Nauryz Bank Kazakhstan", and in 2007 – about commencement of coverage payments for the individual deposits of JSC "Valyut-Transit Bank".

In September 2008 the public consultations on the issues of deposit insurance system operation were launched on the permanent basis. Also in November and December 2008 the Fund's representatives delivered the relevant lectures to the students of the International Business Academy and teachers of JSC "Academy of the Regional Financial Center in Almaty". Some part of the explanatory work was also conducted through the Fund's internet site ([www.kdif.kz](http://www.kdif.kz)).

Within the nearest period the arrangements for holding the seminars organized by RFCA will be continued, and the booklets explaining the functions and tasks of the deposits guarantee system will be prepared for distribution among the STBs' depositors. Besides, the Fund intends to expand and develop some other methods for increase of the social awareness about DIS and, in particular, of the student of the local universities.

## **5. Human Resources Management**

The internal factor that negatively affects the Fund's work is the staff turnover factor which prevents succession of the every day work and which may create inefficiency. So in 2006 staff turnover constituted 27.8%, in 2007 – 61.9%, in 2008 – 43.5%. The Fund has developed the questionnaire for the employees leaving the job with the purpose of further analysis of the staff turnover causes. According to the analysis results it was detected that the main reason of resigning is non-correspondence of the salary to the employee's qualification and the volume of performed work. In order to solve this problem the Fund has developed the Regulations on Awarding Bonuses to the Employees of JSC "Kazakhstan Deposit Insurance Fund".

The Fund provides training of the employees, and their advance training through various seminars conducted both inside the country, and beyond its borders. The new employees of the Fund have the opportunity to attend the introductory seminars.

It is necessary to organize the joint seminars with the regulators and the Fund for comprehensive and detailed development of the Fund's personnel as well as better understanding of the financial system in general and experience exchange among the Fund, the National Bank and FSA.

## **6. Developing the Fund's projects under the expert consulting**

Further development and implementation of the projects:

- on improvement of the differential premium system,
- on introduction of the quality management system and ISO standards,
- on development of the methods for the bank's property assessment

suppose the involvement of advisers. Selection of advisers for the first two projects shall be made in 2009, and the work itself shall be commenced in 2010. Upon development of the differential premium system the Fund applied for consulting services to "Deloitte and Touche" Company. This Company has vast experience in this specific field, and some practices that remain as "know-how" of the Company. In this connection it would be reasonable for the Fund to continue the work with it.

The system of the quality management is the new sphere for the Fund, and implementation thereof without advisers' assistance is rather complicated. Currently there exist companies that provide consultations for personnel training on ISO standards and introduction of the quality management system.

Development of the assessment methods for the problem banks' assets is sufficiently large project. This method shall unify the approaches for evaluation the different assets and shall also be uniform for all organizations participating in restructuring of problem bank. Generally evaluation of the problem banks assets is made by the deposits insurers having the authorities for restructuring thereof. However, due to the poor development of Kazakhstani financial market, that is absence of the secondary markets for such assets as loan portfolio of problem banks and some types of intangible assets, the evaluation is too complicated. In this connection involvement of an expert in the field has a crucial issue. According to the Fund's plan the project for developing the methods on assessment of the problem bank's assets shall be implemented in 2011.

## Scorecard of the Fund's Strategic Goals for 2009-2011

Objects of the Fund's actions	Fund's Initiatives	2009	2010	2011			
<b>I</b>	<b>Effective corporate management</b>	<b>1. Compliance with legislative environment</b>					
		<b>a</b> Amendments to the Fund's Charter	completion	-	-		
		- Specifying the authorities of the Governance bodies	completion	-	-		
		<b>b</b> Amendments to the Law of RK "On the obligatory insurance of deposits placed in the second-tier banks of the Republic of Kazakhstan" with respect to the following:	development	development	development		
		- Tasks and functions of the organization providing obligatory deposit insurance	further development	development	development		
		- Development of the mechanisms for Islamic banks deposit insurance	development	development	development		
		- Generation of special reimbursement reserves	further development	development	development		
		<b>2. Implementation of conditions for effective corporate management</b>					
		<b>a</b> Use of the internal control results in the decision-making procedures	further development	development	development		
		<b>b</b> Introduction of quality management and ISO standards	development	development	development		
		<b>II</b>	<b>Effective partnership</b>	<b>1. Fund's cooperation with:</b>			
				<b>a</b> FSA	satisfactory	good	stable
<b>b</b> National Bank of RK	satisfactory			good	stable		
<b>c</b> FIAK	satisfactory			good	stable		
<b>d</b> Member Banks of DIS	good			good	good		
<b>e</b> Foreign deposit insurance organizations	good			stable	stable		
<b>f</b> International institutions and foreign organizations	satisfactory			good	good		
<b>g</b> Services suppliers	satisfactory			good	good		
<b>2. Development of informative cooperation with the main partners</b>							
<b>a</b> Involvement in development of rules and policies with the partners	development			development	development		
<b>3. International recognition</b>							
<b>a</b> Holding of the 7th Annual Meeting of the Asian Regional Committee of IADI and International Conference	completion			-	-		
<b>b</b> Analysis and development of the Fund's procedures in accordance with the Core principles for Effective Deposit Insurance Systems	development			development	development		

Objects of the Fund's actions		Fund's Initiatives	2009	2010	2011
III	Investment strategy	<b>Development of the Fund's investment policy and investment strategy</b>	development and implementation	development and implementation	development and implementation
		<p><b>1. Fund's internal control system compliance</b></p> <p><b>2. Fund's strategic business-processes:</b></p> <p><b>a</b> Extension of conditions of member-banks' participation in the DIS</p> <p><b>b</b> Development of the mechanism for coverage payout to depositors of the forcibly- liquidated bank through:</p> <ul style="list-style-type: none"> <li>- establishment of requirements to automated accounting of the deposits in the member-bank and creation of depositors data base</li> <li>- provision by the member-banks of the data on deposits in standard form</li> <li>- inspection of data-base on member-banks depositors</li> </ul> <p><b>c</b> Effective investment management</p> <p><b>d</b> Study of alternative approaches for coverage of special reserves deficit and development of the offers for amendment of the legislation of RK</p> <p><b>e</b> Introduction of OBA, Bridge bank, P&amp;A as the efficient methods for problem banks resolution based on the least costs principles, including:</p> <ul style="list-style-type: none"> <li>- assessment of the problem bank property</li> </ul> <p><b>f</b> Fund's special reserve recovery through:</p> <ul style="list-style-type: none"> <li>- Participation in temporary administration appointed for the conservatorship of the member-bank and/or for the period of withdrawal of the license on carrying out of banking operations from the member-bank</li> </ul>	development and implementation	development and implementation	development and implementation
IV	Operating activities				
			further development	further development	further development
			development and implementation	development and implementation	development and implementation
			development and implementation	development and implementation	development and implementation
			development and implementation	development and implementation	development and implementation
			development and implementation	development and implementation	development and implementation
			further development	further development	further development
			further development	further development	development and implementation
			further development	further development	implementation
			further development	further development	implementation
			further development	further development	further development

Objects of the Fund's actions		Fund's Initiatives	2009	2010	2011
IV	Operating activities	- Participation in the liquidation commission of the forcibly liquidated member bank	further development	further development	further development
		- Participation in the creditor's committee of the forcibly liquidated bank	further development	further development	further development
		<b>g</b> Detection of the Fund's main risks and risk management	further development	further development	further development
		<b>h</b> Development of methodology for calculation of the differential premium rates of the mandatory calendar premiums to be paid by DIS' member-banks			
		- Improvement of differential premium system	further development	further development	further development
		- Development of the informational system "BATA"	further development	completion	-
		<b>i</b> Public awareness on the deposit insurance issues	further development	further development	further development
		V	Human Resources Management	<b>1. Development of the advance training system for Fund's personnel</b>	
<b>a</b> participation in seminars organized by the regulatory bodies	further development			further development	further development
<b>2. Developing the Fund's projects under the expert consulting</b>					
<b>a</b> Improvement of the differential premium system under the expert consulting	Expert selection			work with expert	-
<b>b</b> Implementation of the quality management system and ISO standards under the expert consulting	Expert selection			work with expert	-
<b>c</b> Development of the assessment methods for the bank's property under the expert consulting	-			Expert selection	work with expert

**Appendix 1**

**Forecast of the Growth dynamics of Individuals' Deposits and Mandatory Calendar Premiums of STBs in 2009-2010 (in thousand tenge)**

	<b>2008</b>	<i>01.01.2009</i>	<i>01.04.2009</i>	<i>01.07.2009</i>	<i>01.10.2009</i>	<b>2009</b>	<i>01.01.2010</i>	<i>01.04.2010</i>	<i>01.07.2010</i>	<i>01.10.2010</i>	<b>2010</b>
<b>Deposits of individuals</b>	<b>1 538 609 997</b>	1 538 609 997	1 570 539 100	1 603 130 794	1 636 398 828	<b>1 670 357 237</b>	1 670 357 237	1 705 020 349	1 740 402 786	1 776 519 477	<b>1 813 385 658</b>
<b>Mandatory calendar premiums</b>	<b>8 704 013</b>	1 692 471	1 727 593	1 763 444	1 800 039	<b>6 983 547</b>	1 837 393	1 875 522	1 914 443	1 954 171	<b>7 581 530</b>

## Appendix 2

### Forecast of Financial Performance measures of JSC "KDIF" for 2009-2011

thousand tenge

Description	Period		
	2009	2010	2011
<b>Income</b>	<b>5 770 454</b>	<b>6 198 622</b>	<b>6 872 513</b>
Income from investment activities	5 770 454	6 198 622	6 872 513
<b>Expenses</b>	<b>239 486</b>	<b>257 462</b>	<b>281 462</b>
<b>Expenses for the staff</b>	<b>114 152</b>	<b>124 962</b>	<b>134 896</b>
<b>FA and IA Depreciation</b>	<b>3 039</b>	<b>3 191</b>	<b>3 351</b>
<b>Administrative expenses</b>	<b>86 749</b>	<b>91 986</b>	<b>104 026</b>
<b>Expenses for Public Awareness</b>	<b>35 546</b>	<b>37 323</b>	<b>39 189</b>
<b>Financial results (page I - page II)</b>	<b>5 530 968</b>	<b>5 941 160</b>	<b>6 591 051</b>
<b>Corporate income tax</b>			
<b>Net income (after tax)</b>	<b>5 530 968</b>	<b>5 941 160</b>	<b>6 591 051</b>
<b>Profitability, %</b>	<b>2310%</b>	<b>2308%</b>	<b>2342%</b>

**Forecast on Insured Deposits, Calendar Premium Rates  
Number of Member Banks and Volume of Calendar Premiums**

*thousand tenge*

	2009	2010	2011
<b>insured deposits volume</b>	1 670 357 237	1 813 385 658	1 968 661 236
<b>calendar premiums rate</b>	0,44%	0,44%	0,44%
<b>number of member banks</b>	36	36	36
<b>calendar premiums amount</b>	6 983 547	7 581 530	8 230 717

**Forecast on Income from Investment Activities**

*thousand tenge*

years	Fund's assets invested in Government securities	Calendar premiums	Amount received from liquidated assets	% yield	Income for the year, Total
<b>2009</b>	120 803 191	6 983 547	1 754 775	4,45%	5 770 454
<b>2010</b>	135 072 480	7 581 530	1 500 000	4,30%	6 198 622
<b>2011</b>	150 095 171	8 230 717	1 500 000	4,30%	6 872 513

**Forecast of Incomes and Expenses**

*thousand tenge*

	2009	2010	2011
<b>investment income</b>	5 770 454	6 198 622	6 872 513
<b>investemnt income increase</b>		428 169	673 891
<b>expenses</b>	239 486	257 462	281 461
<b>financial results</b>	5 530 968	5 941 160	6 591 052
<b>financial results increase</b>		410 192	649 892

## **Appendix 4**

### **Forecast of the Fund's Staff turnover**

	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Total number of employees</b>	28	35	38
<b>including the main staff</b>	28	32	35

## Appendix 5

### Dynamics of Special Reserve

	50% of Authorized Capital	Calendar premiums	Retained earnings	Amount received from liquidated assets	Total
2009	50 000 000,00	20 942 442,19	3 581 468,79	4 475 997,71	78 999 908,69
2010	50 000 000,00	28 523 972,02	9 112 436,92	5 975 997,71	93 612 406,65
2011	50 000 000,00	36 754 688,88	15 053 596,97	7 475 997,71	109 284 283,56

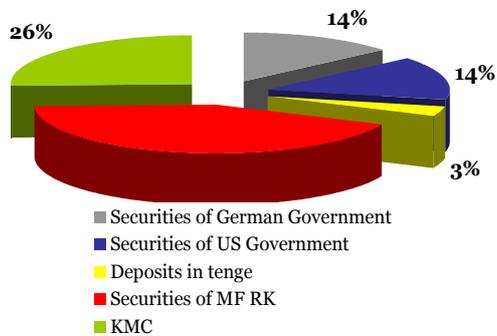
	2009	2010	2011
50% Authorized capital	50 000 000,00	50 000 000,00	50 000 000,00
Calendar premiums	20 942 442,19	28 523 972,02	36 754 688,88
Amount received from liquidated assets	4 475 997,71	5 975 997,71	7 475 997,71
Retained earnings	3 581 468,79	9 112 436,92	15 053 596,97

**Appendix 6**

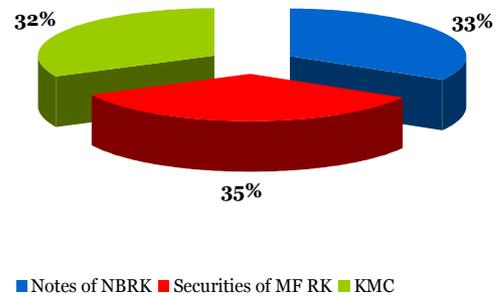
**Fund's Investment portfolio**

	<b>01.01.2006</b>	<b>01.01.2007</b>	<b>01.01.2008</b>	<b>01.01.2009</b>
<b>Funds to be placed in US dollars</b>	-			19 039 087 099
<b>Funds to be placed in tenge</b>				71 187 373 790
<b>State Securities</b>	1 299 075 492			
<b>US Treasuries</b>	1 351 366 284			
<b>Deposits in Tenge</b>	301 706 932		10 115 098 988	
<b>Deposits in Foreign Currency</b>			2 631 549 485	
<b>Notes of the NBRK</b>		4 271 864 743	6 161 149 457	10 998 279 994
<b>Reverse Repo</b>				1 000 000 114
<b>Securities of the MF RK</b>	3 978 409 807	4 384 873 792	4 071 296 217	17 970 440 896
<b>KMC</b>	2 394 840 536	4 140 317 178	934 371 200	966 850 513
<b>Itoro</b>	<b>9 325 399 051</b>	<b>12 797 055 714</b>	<b>23 913 465 346</b>	<b>121 162 032 406</b>

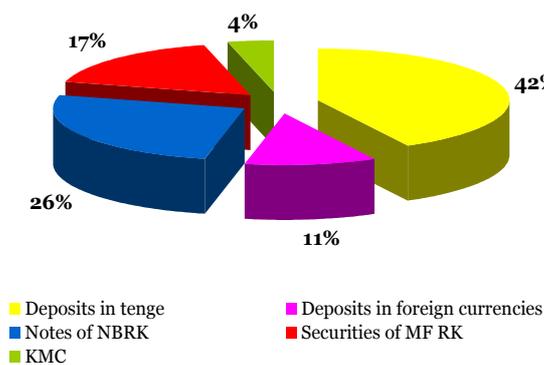
*Portfolio structure as of 01.01.2006*



*Portfolio structure as of 01.01.2007*



*Portfolio structure as of 01.01.2008*



*Portfolio structure as of 01.01.2009*

