



KDIF

ҚАЗАҚСТАННЫҢ ДЕПОЗИТТЕРГЕ
КЕПІЛДІК БЕРУ ҚОРЫ

КАЗАХСТАНСКИЙ ФОНД
ГАРАНТИРОВАНИЯ ДЕПОЗИТОВ



800



ANNUAL REPORT

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List of abbreviations

Agent Bank – A deposit insurance system member bank commissioned to process payouts to depositors

Bank, Member Bank – A member bank of the deposit insurance system

Deposit Insurance Law – Law of the Republic of Kazakhstan dated 7 July 2006 “On compulsory insurance of deposits placed with second-tier banks in the Republic of Kazakhstan”

National Bank, NBK – National Bank of the Republic of Kazakhstan

DIS – Deposit insurance system

Fund, KDIF – Kazakhstan Deposit Insurance Fund

IADI – International Association of Deposit Insurers

Message from the Chairman

Dear Colleagues, Friends and Partners!



The year 2018 has been very eventful and interesting for KDIF, and it can be described as a “make-or-break” year, when, against the backdrop of simultaneously forced liquidation of several banks, the gaps in the current operational procedures for working with depositors and, at the same time, the opportunities for improving the Fund’s activities have become visible.

In view of the general policy of regulatory tightening the banking sector and raising the requirements for banks’ capital base, announced in 2017 by the Head of State and NBK, there were expected a possible exit from the market, in particular through forced liquidation of those banks the shareholders of which would not find resources to increase the capital of their organizations or close merger and acquisition deals.

Under these conditions, the Fund was required to ensure the availability and safety of sufficient resources for payouts. For such purposes, the Fund oversees permanently the financial condition of banks on the basis of an established list of information for monitoring the risk profile of member banks. Taking into account this assessment, a forecast is prepared about the Fund’s expected liabilities for coverage payouts (payment of a guarantee) in the event of the forced liquidation of any bank, and, accordingly, the amount of mandatory calendar premiums of DIS member banks is determined. At the same time, for a more objective assessment of the Fund’s credit risks and elimination of the probability of payment of contributions by banks at a lower rate, further improvement of the rating model and optimization of the process of receiving member banks’ reports and information is required.

For deeper immersion in the activities of banks and ensuring the formation of a reliable register of depositors by banks, which is necessary not only to determine the Fund’s expected liabilities for the payment of guarantee compensation, but also for the operational organization of the payment processes in the insured event, it is necessary to expand the Fund’s access to information constituting banking secret. This measure would allow the Fund to identify gaps and risks in the bank’s activities at an early stage, even before financial difficulties arise for the bank.

In 2018, the payouts commenced to depositors of liquidated banks, Kazinvestbank JSC (license was revoked in December 2016) and Delta Bank JSC (license was revoked in November 2017). In addition, in 2018, licenses were revoked from three DIS member banks: Qazaq Banki JSC, Bank of Astana JSC and Eximbank Kazakhstan JSC. From 24 December 2018, payouts commenced to depositors of the liquidated bank Qazaq Banki JSC, which were conducted by the agent bank, Subsidiary Organization VTB Bank JSC (Kazakhstan). Payouts to depositors of the liquidated banks Bank of Astana JSC and Eximbank Kazakhstan JSC were conducted after December 31, 2018 from the date when the court decision on their forced liquidation came into force.

The Fund in cooperation with the agent banks supported by NBK successfully managed the organization of the payment process: all possible measures were taken to ensure the convenience, efficiency and security of this process for depositors of the liquidated banks. However, the share of depositors with smaller remaining amounts that have not applied for payouts remains high, and therefore the necessity arises to simplify and automate the process of payments.

In view of the events taking place in the banking sector, in order to avoid possible panic of depositors and preserve the stability of the banking system, the Fund was required to carry out a proactive public awareness policy about the deposit insurance and share openly information about the entire court proceedings on problem banks and organization of the payout processes. To ensure the transparency of the Fund's activities and create convenient communication channels, the Fund launched a call center, increased the Fund's presence in the media and in social networks. At the same time, we realized that the Fund' task was not only to increase public awareness about the deposit insurance system, but also to carry out work aimed at increasing the financial literacy rate of bank depositors.

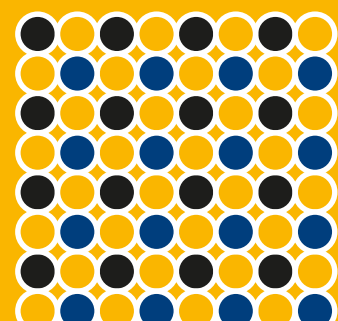
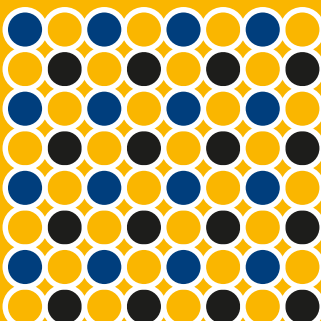
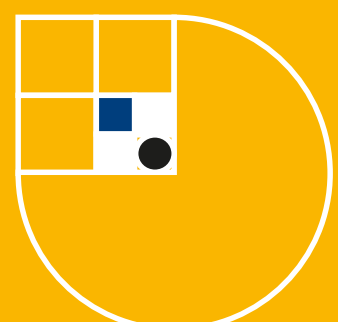
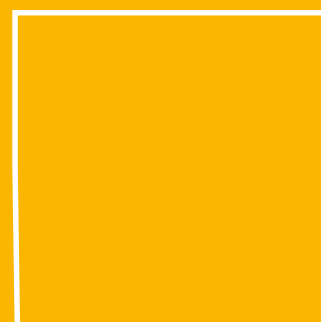
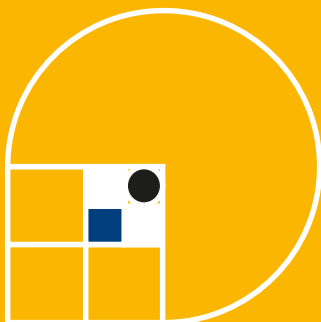
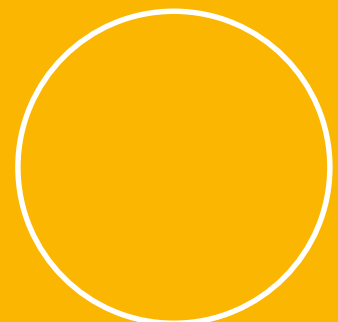
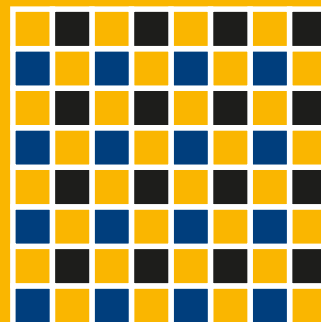
The experience of 2018 opened up a whole range of prospects for the future activities of the Fund and became the starting point for reforming and improving the deposit insurance system for the purpose of maintaining the stability of the financial system and ensuring the protection of rights and legitimate interests of the citizens of the Republic of Kazakhstan. We believe that according to the results of active work in 2019, we will be able to see significant positive changes in the domestic deposit insurance system, the prerequisites to which have been formed last year.

Kind regards,
Nurlan Abdrakhmanov
Chairman, Kazakhstan Deposit Insurance Fund JSC

I. ABOUT KDIF

Kazakhstan Deposit Insurance Fund was established in November 1999, according to the Resolution of the National Bank of the Republic of Kazakhstan No.393 dated 15 November 1999, under the initiative declared by the President of the Republic of Kazakhstan with a view

to maintaining stability of the Kazakhstani financial system in the aftermath of the economic crisis. KDIF operates in the organizational and legal form of Joint Stock Company. The National Bank of the Republic of Kazakhstan is the founding institution and the Sole Shareholder of KDIF.



KDIF Mission

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

Vision

The Fund aspires to:

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

Strategic Objectives

- engagement in safeguarding stability of financial system;
- protection of the rights and legitimate interests of the insured depositors in the event of forced liquidation of a DIS member bank.

Key Principles of Operation

- compulsory membership of banks licensed to accept deposits, to open and maintain bank accounts of individuals and individual entrepreneurs in the deposit insurance system;
- assurance of deposit insurance system transparency;
- mitigation of risks associated with the deposit insurance system operation;
- accumulation of special reserve for payouts on ex-ante basis to reimburse insured depositors – individuals and individual entrepreneurs.

In order to accomplish the tasks entrusted by the legislation of the Republic of Kazakhstan, **KDIF fulfills the following functions:**

- reimburses insured depositors of a deposit insurance system member bank;
- maintains Deposit Insurance System Member Banks Register;
- conducts investment management of proprietary assets;
- accumulates special reserve for payouts on ex-ante basis;
- appoints agent bank on the basis of competitive

bidding procedure;

- engages in temporary administration office designated during the period of conservation of a member bank and (or) following revocation of a member bank's license to conduct all banking operations;
- engages in liquidation commission of a member bank in forced liquidation up to the date of redemption of KDIF's claims in the amount of deposit insurance coverage payout, either accomplished or in progress;
- engages in creditor committee of a member bank in forced liquidation up to the date of redemption of KDIF's claims by liquidation commission in the amount of deposit insurance coverage payout, either accomplished or in progress;
- establishes the order of payment of the member bank premiums, and oversees accuracy and timeliness of allocation;
- defines the terms of Adhesion Contract.

Deposit Insurance Coverage

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

The Fund shall reimburse insured depositors in national currency solely in the amount of deposit balance net of accrued interest (which does not apply to compound interest) within the limit of:

- deposits in foreign currency – **5 million tenge** (in equivalent amount);
- deposits in national currency – **10 million tenge**;
- savings deposits in national currency - **15 million tenge**.

Should a depositor allocate multiple insured deposits with the same member bank which are different in type and currency, such depositor shall be reimbursed within the total coverage limit of 15 million tenge. Deposits and bank accounts of the same individual placed with several member banks shall be reimbursed on a standalone basis.

Corporate Governance

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

In accordance with resolution of the NBK Governor, Deputy Governor of the NBK Mr. Zhanat Kurmanov¹ is empowered to take decisions on all issues that fall within the competence of the Shareholder.

KDIF Board of Directors is comprised of the Chairman of the Board of Directors, Independent Director and the KDIF Chairman².

Kazakhstan Deposit Insurance Fund JSC Board of Directors (as of 01.01.2019)

Mr. Oleg Smolyakov

Chairman of the KDIF Board of Directors, Deputy Governor of the NBK

Mr. Nurlan Abdrakhmanov

KDIF Chairman

Mr. Bisengali Tadzhiyakov

Independent Director

During 2018, 25 meetings of the Board of Directors took place.

The following committees operate under the Board of Directors:

- Committee for Strategy Development, Human Resources, Remuneration and Social Issues, Risk Management;
- Audit Committee.

Accomplishments of the KDIF Board of Directors in 2018

- New Regulation on the committees of the Board of Directors was adopted, according to which the competence of the previous Committee of the Board of Directors was divided between the two above-mentioned committees;
- Revised version of the Methodology for calculation of the maximum recommended interest rates for newly accepted bank deposits of individuals was adopted in view of the introduction of a new line of deposits and setting of differentiated marginal deposit rates;
- Maximum recommended interest rates for newly accepted bank deposits of individuals were ratified (threefold).
- Amendments and additions to the Rules governing the determination of, and establishment of the order of payment in regard to compulsory regular, additional and extraordinary member bank premiums and into the Contract of Adhesion were adopted in terms of:
 - cancellation of reporting by banks on paper and the transition to electronic reporting;
 - exclusion of certain report forms;
 - mitigation of the responsibility of banks for the improper performance of reporting obligations;
 - reporting and payment of premiums by a bank in the process of voluntary reorganization in the form of adherence to another bank.
- Reserve Calculation Methodology for covering financial guarantees related to the payouts in the framework of introduction of IFRS 9 was adopted;
- Amendments and additions to the Rules for establishing compliance of the DIS automated database of insured deposits accounting in member banks with the requirements of the Fund were adopted in terms of auditing of banks for the correct calculation of interest rates on newly accepted bank deposits;
- The results of tenders for selecting an agent bank to conduct payouts to depositors of the following forcedly liquidated banks were approved: Kazinvestbank JSC, Delta Bank JSC, Qazaq Banki JSC, Bank of Astana JSC and Eximbank Kazakhstan JSC;
- The Audit Plan of the Internal Audit Service of Kazakhstan Deposit Insurance Fund JSC for 2018 was approved;
- The reports of the Internal Audit Service and the Risk Manager were reviewed on a periodic basis;
- Arrangement of the 57th meeting of the IADI Executive Council by KDIF JSC was approved;
- Annual Financial Statements of the Fund for 2017 was preliminary approved;
- Amendments and additions to KDIF JSC Business Plan (Annual Budget) 2018 were approved;
- Amendments and additions to the Accounting Policy of the Fund with regard to accounting for financial instruments in accordance with IFRS 9 were approved;
- Amendments and additions to the Investment Policy and Investment Strategy of KDIF JSC in terms of exclusion from the list of financial instruments authorized for investment and financial instruments denominated in foreign currency were adopted;
- Revised version of KDIF Tax Accounting Policy was approved in connection with the enforcement of the new Tax Code of the Republic of Kazakhstan from January 1, 2018
- Report on execution of KDIF Development Plan for 2012–2016 (for 2017) was approved, adjustments were made to the Fund's Development Plan for 2017–2021;
- KDIF JSC Business Plan (Annual Budget) for 2019 was adopted.

1 From 17.04.2019, Mr. Eszhan Birtanov, Deputy Governor of the NBK is empowered to take decisions on all issues that fall within the competence of the Shareholder

2 From 15.05.2019, a new KDIF Chairman was appointed – Mr. Akylzhan Baimagambetov

Advisory Council of Kazakhstan Deposit Insurance Fund JSC

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

The main objectives of the Advisory Council are:

- to develop and review the proposals regarding major directions of improving the mandatory deposit insurance system of the Republic of Kazakhstan from the DIS member banks' standpoint;
- to make preliminary review and analysis of the draft amendments and additions to the Contract of Adhesion, Rules governing the determination of, and establishment of the order of payment in regard to compulsory regular, additional and extraordinary member bank premiums, and other KDIF acts prior to submission to the KDIF Board of Directors for review and approval;
- to make preliminary review of the maximum recommended interest rates for newly accepted bank deposits of individuals submitted on a periodic basis to the KDIF Board of Directors;
- to develop the proposals to eliminate any ambiguities, discrepancies and contradictions that may arise while the DIS member banks fulfill their obligations under the Contract of Adhesion;
- to deliver recommendations associated with prevention of possible cases of the DIS member banks not fulfilling their obligations under the Contract of Adhesion, including payment of premiums and fines.

Members of the KDIF Advisory Council shall be elected annually at the General Meeting of the deposit insurance system member banks. Chairman of the Advisory Council shall be elected annually from among its members. In 2018, a representative of Halyk Bank of Kazakhstan JSC was elected as Advisory Council Chairperson.

In 2018, the KDIF Advisory Council consisted of the representatives of ten deposit insurance system member banks:

- 1) Halyk Bank of Kazakhstan JSC (Chairperson of the KDIF Advisory Council),

- 2) ForteBank JSC;
- 3) Kaspi Bank JSC;
- 4) Eurasian Bank JSC;
- 5) Bank CenterCredit JSC;
- 6) Kazkommertsbank JSC;
- 7) Tsesnabank JSC;
- 8) SB Sberbank JSC;
- 9) ATFBank JSC;
- 10) SO Bank VTB (Kazakhstan) JSC.

In November 2018, amendments to the Regulation on the KDIF Advisory Council were approved, according to which the number of member banks in the KDIF Advisory Council was increased from 10 to 12 banks from January 1, 2019; and the Financial Institutions' Association of Kazakhstan was recognized as a permanent member of the KDIF Advisory Council.

KDIF Advisory Council activities results in 2018

During 2018, nine in-person meetings of the KDIF Advisory Council were held at which the following key issues were discussed:

- problems of the lack of a derivatives market and regulatory decisions regarding the introduction of a new line of deposits and the establishment of differentiated marginal deposit rates;
- review of the maximum recommended interest rates for newly accepted bank deposits of individuals;
- optimization of the reporting collection process and the application of penalties;
- determination of, and establishment of the order of payment in regard to compulsory regular, additional and extraordinary member bank premiums;
- Review of amendments and additions to the Rules for establishing compliance of DIS automated database of insured deposits accounting in member banks with the requirements of the Fund with regard to auditing of banks for the correct calculation of interest rates on newly accepted bank deposits.

KDIF Board of Directors, when conducting the review of issues affecting the interests of the banking sector, made decisions taking into account the position of the KDIF Advisory Board.

2018 in Facts and Figures

2017 (as of beginning of 2018)
Billion Tenge

2018 (as of end of 2018)
Billion Tenge

KEY INDICATORS

689,7	KDIF Assets	806,2
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235,8	Authorized capital	235,8
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459,1	KDIF Special Reserve	495,0
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6,9%	Actual Special Reserve Level	6,9%
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(% of the deposit base of individuals in member banks)

1,0%	Actual Special Reserve Level	1,0%
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(% of GDP)

99,7%	% of accounts of individuals opened within the insurance	99,7%
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35,1	Calendar contributions of member banks	31,5
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38,6	Investment income	44,5
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DEPOSIT INSURANCE SYSTEM

30	Number of member banks	26
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8 221	Retail deposits in member banks	8 765
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+4%	Annual gain in retail deposits	+7%
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PAYOUT LIABILITIES

2	Number of liquidated banks	5
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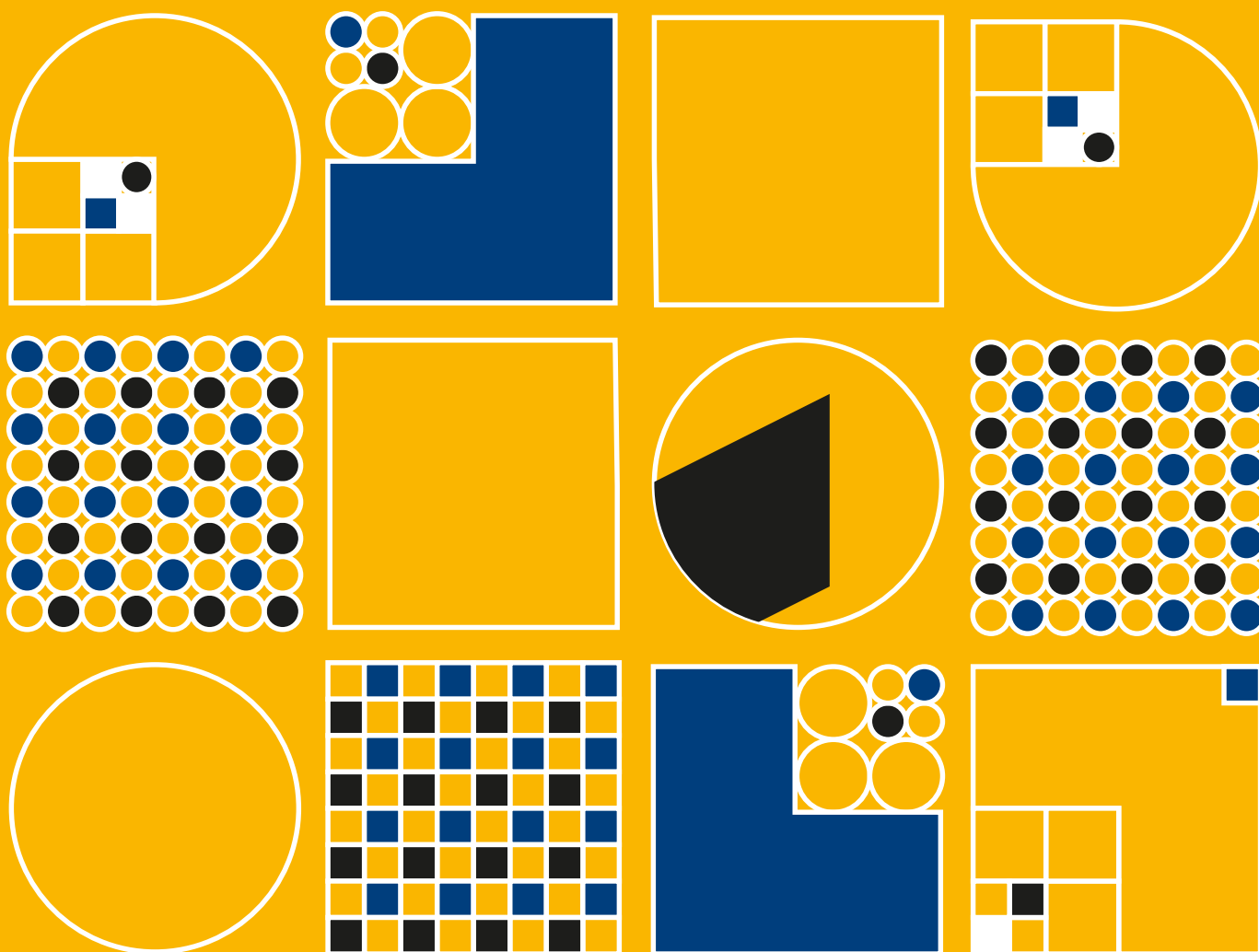
31	Number of individuals who received insured reimbursement	2 688
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0,03	Amount of payouts conducted	12,7
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II. Development Trends of the Deposit Market in 2018

As of January 1, 2019, the total volume of bank deposits amounted to 8.8 trillion tenge. At the beginning of 2018, the volume of retail deposits amounted to 8.2 trillion tenge. Gain in deposits for the year equaled to 543.9 billion tenge, or 6.6%. The increase in the deposit base was due to the growth in the tenge portion of deposits: in 2018, deposits in tenge increased by

671.8 billion tenge (+17.2%). Tenge deposits showed stable growth throughout 2018, with the exception of the third quarter of 2018, marked by problems with Tsesnabank JSC (First Heartland Jysan Bank JSC) and license revocations of Qazaq Banki JSC, Bank of Astana JSC and Eximbank Kazakhstan JSC.



II. Development Trends of the Deposit Market in 2018

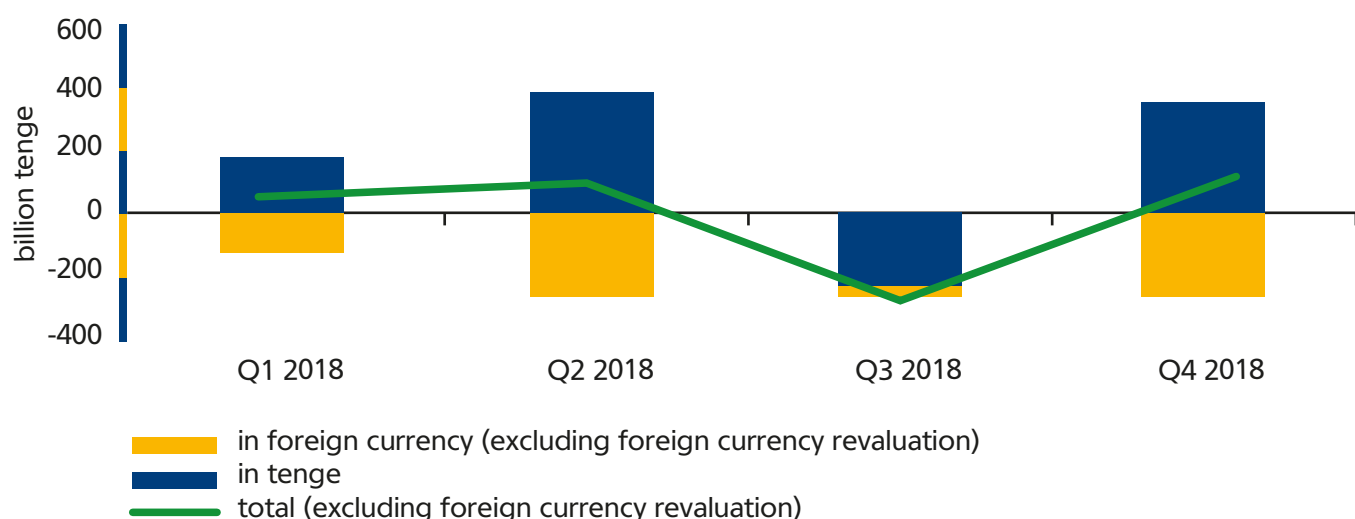
2.1. Deposit Market

In the reporting year, the main factor of the increase in the number of deposits in tenge was the conversion of foreign currency deposits, which was caused by a number of reasons: low return on foreign currency deposits (not more than 1%) against the backdrop of high real return on deposits in national currency, as well as a reduction in the significance of the exchange rate as a determining factor when choosing a savings currency. As a result, the conversion amounted to 671.8 billion tenge (Figure 1). In addition, in 2018, there was an increase in incomes of the population¹, which amounted to 7.9%.

Conversion process of foreign currency deposits into tenge deposits began during the period of dedollarization policy

of the economy and continued actively until the beginning of 2018. The effect of conversion was most prominent among depositors of the mass sector (deposits up to 20 million tenge inclusive, which were placed on 99.9% of all population accounts). The conversion among the major deposits starting from 50 million tenge and above was low. Since the end of 2018, the overflow process of foreign currency deposits in tenge has slowed down, and there has been a decrease in major foreign currency deposits starting from 50 million tenge. Net outflow of deposits in foreign currency excluding foreign currency revaluation amounted to 800.8 billion tenge. Net outflow of the total retail deposits excluding foreign currency revaluation amounted to 129.0 billion tenge.

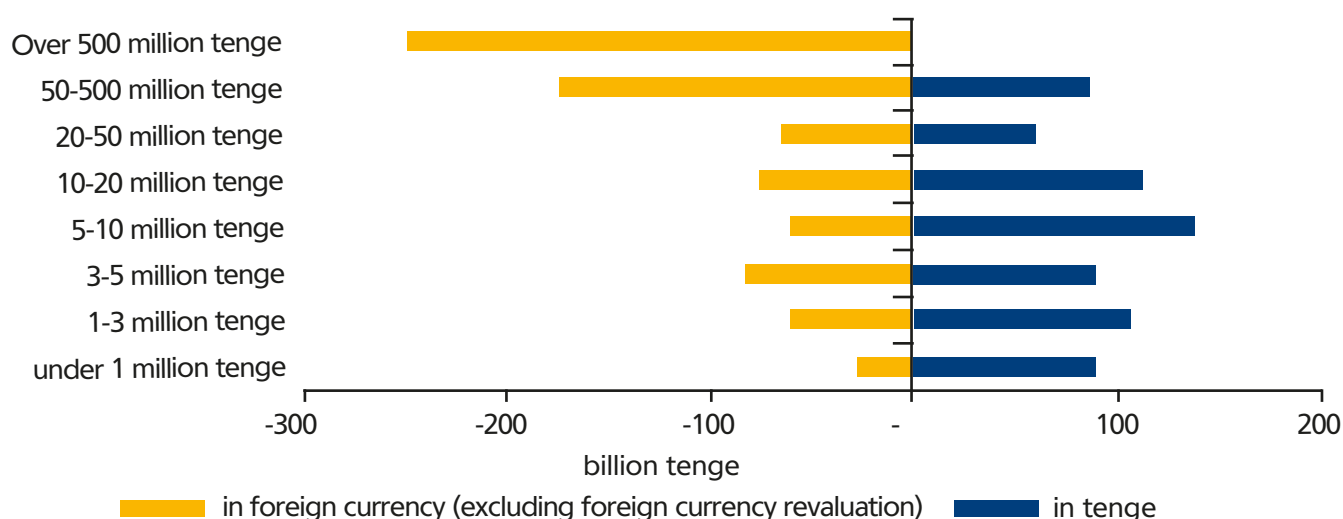
Figure 1 – Inflows and outflows of deposits by currency



The total amount of major deposits in foreign currency decreased, since by 2018 the contract terms on such foreign currency deposits that were concluded during the period of

high remuneration rates had come to an end (Figure 2). In this connection, some investors have transferred their capital to alternative financial instruments.

Figure 2 – Inflows and outflows by levels and currencies for



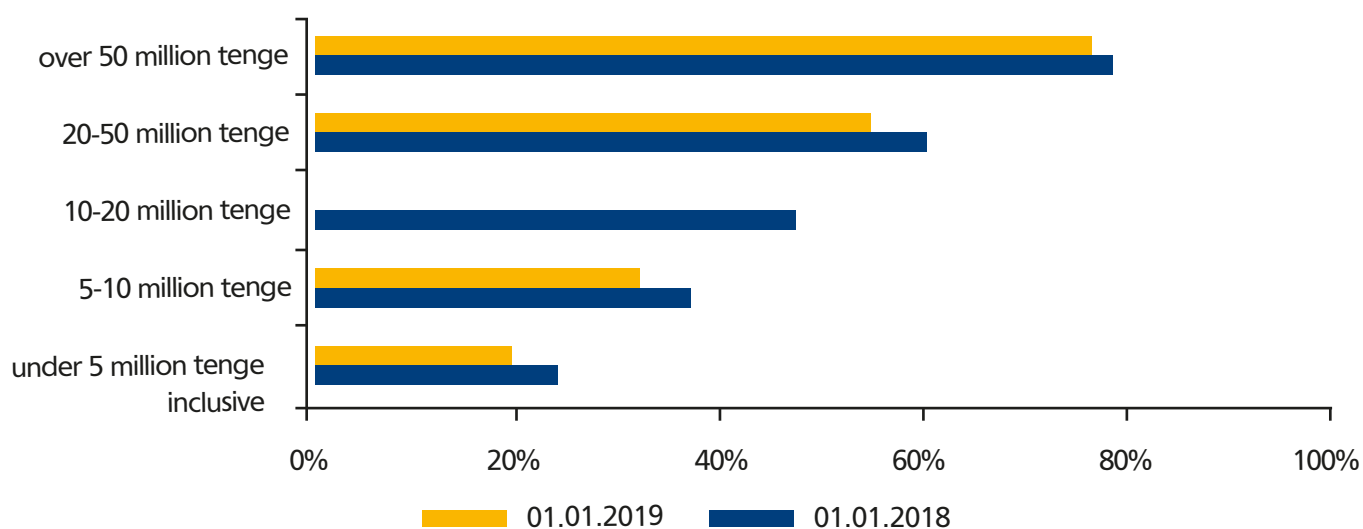
¹ Average monthly nominal wage according to the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

2.2. Dedollarization of Deposit Base

In December 2017, as part of measures to reduce the level of financial dollarization of the economy, the maximum recommended rate for retail deposits in foreign currency was reduced from 1.5% to 1%. The decline in the attractiveness of foreign-currency deposits and the large differential between the maximum rates in tenge and foreign currency (pp 13) against the background of the absence of significant external macroeconomic shocks had a positive effect on the dedollarization of deposits. The total level of dollarization of deposits in

2018 decreased from 52.4% to 47.7%. Dollarization of retail deposits is uneven and varies depending on the segment of the deposit market. At the end of 2018, 74% of the volume of the mass segment deposits were placed in tenge, and by the number of accounts equaled to 95%. Thus, measures to dedollarize deposits in the mass segment had the desired effect. Major depositors (with deposits over 50 million tenge) still preferred to keep their savings in foreign currency: the dollarization level of major deposits at the end of 2018 amounted to 77% (Figure 3).

Figure 3 – Dollarization at different levels of deposits



2.3. Formation of Stable Funding Base

In order to create the conditions for the formation of a stable funding base for the Kazakhstani banking sector and expanding the banks' capacity for medium and long-term lending to the economy, in 2018 a new line of deposit products was introduced in second-tier banks. Amendments were made to the legislation of the Republic of Kazakhstan relating to the formation of a high-quality forward market for deposits:

- 1) introduction of a new type of deposit (savings deposit) to the legislation, as well as the regulatory concept "a deposit that meets / does not meet the urgency conditions" and "a minimum fee for early withdrawal";
- 2) upper limit of the amount of remuneration on demand deposits was set at 0.1%;
- 3) introduction of deposits with a floating rate, where the profitability of a bank deposit depends on the size of the base index (basic rate of the National Bank, inflation rate, TONIA and TWINA rates).

A new line of deposit products became available to the public on October 1, 2018. Retail deposits in tenge began to be classified as non-term, term and savings deposits. Non-term deposits are characterized by low profitability, but at the same time, they are the most mobile, allowing the depositor to withdraw their deposit at any time. Term deposits provide for a partial loss of remuneration in case of early withdrawal, but give a higher yield. Investors can get maximum profit by placing money on a savings deposit, for which strict requirements for early withdrawal of money are defined. In order to increase the attractiveness of savings deposits, their coverage limit was set at 15 million tenge.

Instead of the previously existing uniform level of the maximum recommended rates for all types of deposits in tenge, maximum rates started to be differentiated by periods (3, 6, 12 and 24 months) and types (depending on the conditions of early withdrawal) of

the deposit and the right of replenishment. The basis for calculating the

maximum recommended rates were the values of market deposit rates. The maximum rate will be calculated as the average market rate increased by the size of the spread. The introduction of a differentiated approach to setting remuneration rates was aimed at enhancing the ability of banks to manage interest rate risk and liquidity risk in attracting retail deposits. This approach was also designed to resolve the situation with excessive interest expenses of banks.

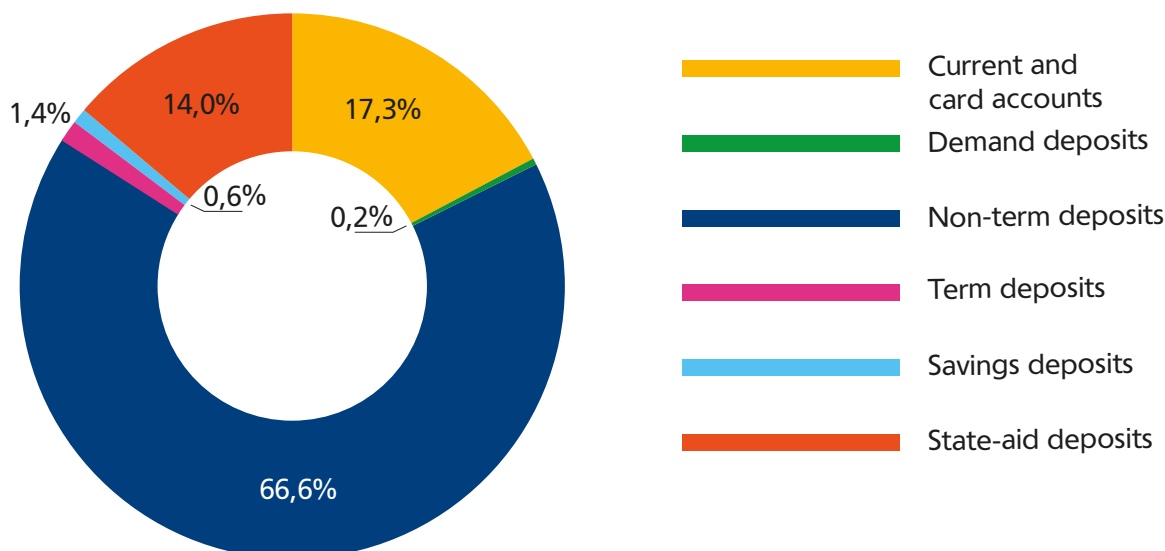
The introduction of a new line of deposits was a necessary step in the current conditions in the banking market. At the beginning of 2018, the deposit base of individuals practically consisted of non-term deposits, which cannot be a stable funding base for banks, since, in fact, they are demand deposits. Thus, as of January 1, 2018, 78.6% of deposits in tenge were placed in non-term deposits, 16.5% - in current and card accounts, and the rest - in escrow and demand deposits.

The introduction of a new deposit line took place during a period of unfavorable market conditions:

- a prolonged weakening of the tenge exchange rate;
- high inflation and devaluation expectations of the public;
- a decline of confidence in the banking system against the backdrop of the forced liquidation of three DIS member banks.

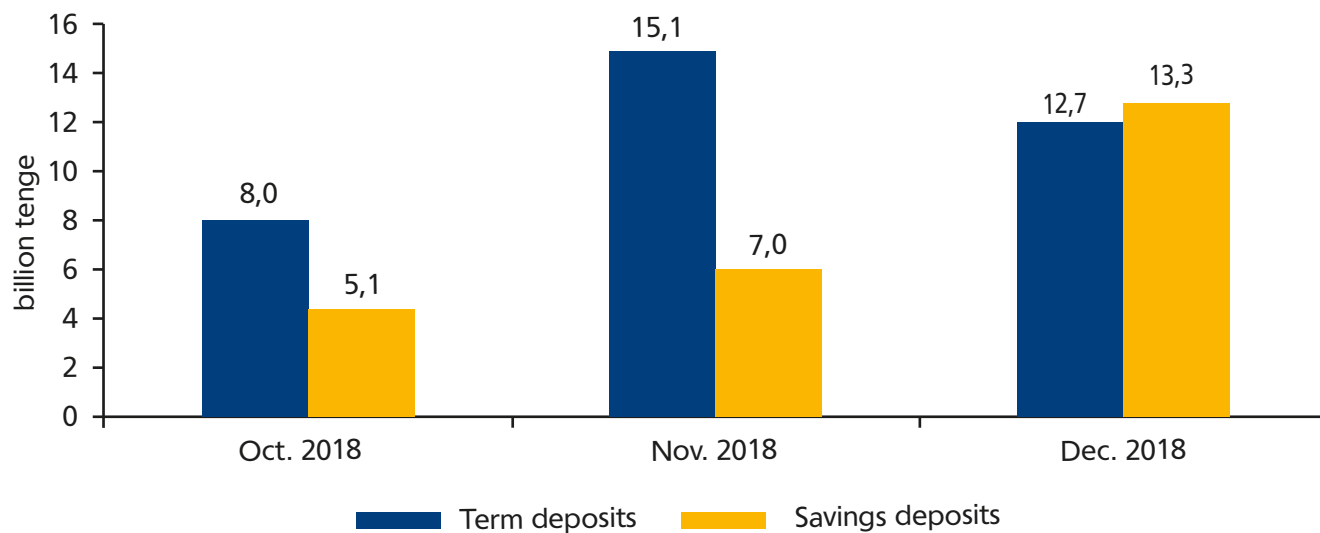
Despite this, according to the results of the fourth quarter of 2018, 89.3 billion tenge was attracted to savings and term deposits. More than half of these deposits, which is 56.6%, was placed for a period of 6 to 12 months, inclusive, and 33.5% - over 1 year. Depositors preferred term deposits with the right to replenish and savings deposits without the right to replenish. However, it is worth noting that at the end of 2018 non-term retail deposits still prevailed in the structure of deposits in tenge (Figure 4).

Figure 4 – Structure of Deposits in tenge as of 01.01.2019



Savings deposits gradually have won and continue to win the confidence and interest of the public. In October, 5.1 billion tenge was attracted to savings deposits, the growth in November was 37.7%, and in December - 91.2% (Figure 5).

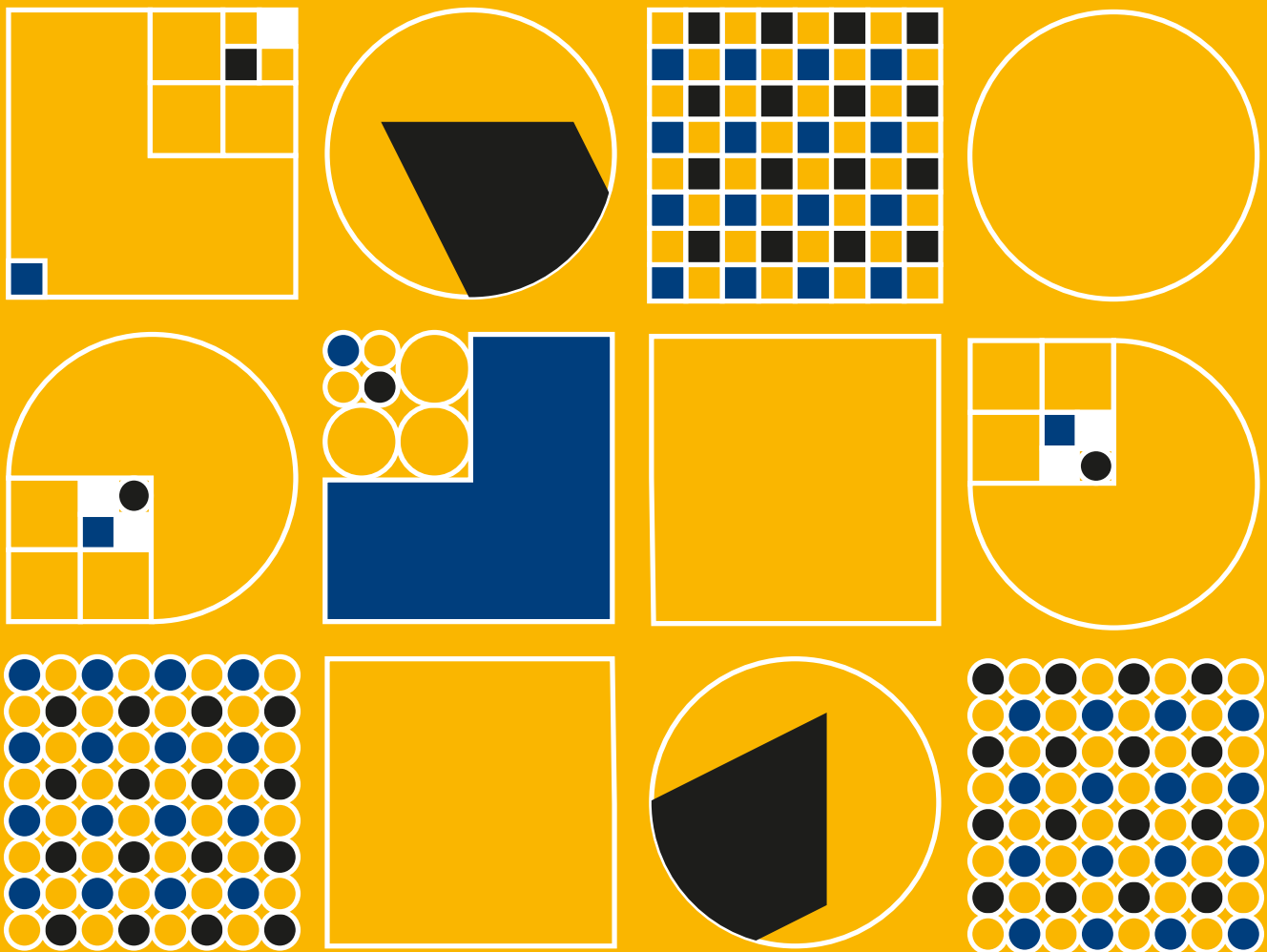
Figure 5 – Attraction of new types of deposits in tenge



III. KDIF Performance in 2018

In 2018, 4 banks were excluded from the Deposit Insurance System Member Banks Register: Qazaq Banki JSC, Eximbank Kazakhstan JSC, Bank of Astana JSC and Kazkommertsbank JSC. As of January 1, 2019, 26 out of

28 second-tier banks operating in Kazakhstan participate in DIS, with the exception of two Islamic banks, Islamic Bank Al-Hilal JSC and Islamic Bank Zaman-Bank JSC.



III. KDIF Performance in 2018

3.1. Effectiveness of Deposit Insurance System

The Fund's insurance covers all 100% of personal accounts, while at the end of 2018, in full, 99.7% of accounts have been covered. The number of bank customers – individuals increased in 2018 from 28.6 million to 32.7 million people; this shows that the public is served simultaneously in several banks. Excluding the number of customers with zero balances in all accounts, the increase in the customer base amounted to 1.1 million people (5.3%).

The sum of the Fund's possible future liabilities on all banks, taking into account the counter demands of banks to its depositors, amounted to 4.0 trillion tenge, or 45.5% of the deposit base, as of January 1, 2019. This indicator increased by 4.5 pp in 2018, which is explained by the conversion of foreign currency deposits into tenge deposits, on which the amount of the Fund's insurance is higher, as well as by the increase in the volume of deposits fully covered by the insurance relative to the total deposit base. 38.9% of retail deposits were placed at the beginning of the year on deposits not exceeding the size of the Fund's

insurance, and 40.4% at the end of the year.

In the Fund's special reserve, as of January 1, 2019, 495.0 billion tenge was accumulated, and taking into account 70% of the authorized capital, 604.5 billion tenge (\$1.6 billion) was accumulated, which covers about 7% of household deposits.

Compared to other countries, Kazakhstan has a significant amount of accumulated reserve of the DIS; in absolute terms it is comparable to the level of such European countries as Portugal, Romania, the Czech Republic and the Netherlands (\$1.9 billion, \$1.7 billion, \$1.4 billion and \$1.1 billion, respectively). Another demonstrative comparison is the ratio of the amount of special reserve to the country's GDP. In Kazakhstan, this figure is 1.0%; in Portugal – 0.9%, in Romania – 0.8%, in the Czech Republic – 0.7%, in the Netherlands – 0.1%, in the USA – 0.5%. A significant amount of special reserve is associated with the current mandate of the Fund, which corresponds to Pay Box+, according to which the Fund's reserve is used mainly only to reimburse insured deposits.

3.2. Formation of Special Reserve

Calculation of calendar premiums of the DIS member banks is carried out by KDIF on a quarterly basis through BATA (BATA IS), the information system for calculation of differential mandatory calendar premium rates of member banks. The premium amount depends on the financial condition of the member bank and the assessment of the risk profile of its activities. According to the results of the calculations, the member bank is given corresponding points, on the basis of which its classification group is defined, each of which has its own premium rate: the lower the level of financial stability and the higher the risk level of the bank, the higher the rate of its mandatory calendar premium.

Bank Premiums

The accumulated amount of calendar premiums of the member banks by the the end of 2018 reached 251.4 billion tenge. Cumulative amount of calendar premiums paid by the member banks in 2018 exceeded 31.5 billion tenge. The amount of premiums received from the member banks in 2018 was 3.9 billion tenge less than in 2017. This is due to the fact that in 2018 the number of the DIS member banks has decreased. In addition, in the reporting year, 6 member banks, due

to the improvement of their positions, have moved to groups with lower premium rates. According to the results of the 4th quarter of 2018, the member banks were distributed among the classification groups as follows: the share of the group "A" composed 15.4% (4 banks), the share of the group "B" reached 38.5% (10 banks), the share of the group "C" totaled 34.6% (9 banks), the share of the group "D" equaled to 3.8% (1 bank) and the share of the group "S" totaled 7.7% (2 banks) (Figure 6, Table 1).

Figure 6 – Allocation of the DIS member banks as per classification groups of the BATA IS

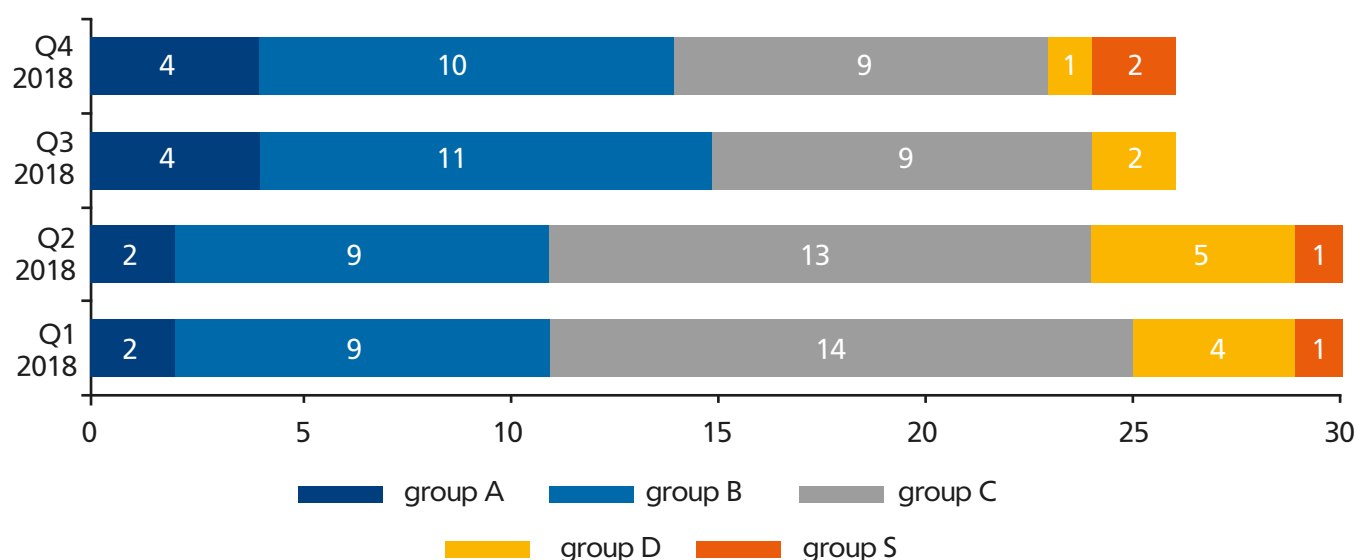


Table 1 – Mandatory calendar premium rates

Classification group	A	B	C	D	E	S
Calendar premium rate attributed to the member bank (% of the amount of all retail deposits of the member bank)	0,04	0,08	0,11	0,19	0,38	0,50
The number of member banks assigned to the classification group	4	10	9	1	0	2

Assets Investing

The Fund's assets as of the end of 2018 amounted to 806.2 billion tenge, of which the assets of the special reserve amounted to 553.4 billion tenge. The main objectives of investing the Fund's assets are to safeguard assets and minimize the risk of its losing, therefore the

Fund's assets are placed in highly liquid securities with high ratings not lower than BB- /Ba3, including securities of the Ministry of Finance of the Republic of Kazakhstan, NBK Notes, bonds of the U.S. Government, bonds of EBRD, IFI, Bonds of SWF Samruk-Kazyna JSC, KEGOC JSC and Baiterek NMH JSC.

Table 2 – KDIF Special reserve portfolio

Description	December 31, 2018	Proportion of FI in the portfolio
PK Bonds of Ministry of Finance of the Republic of Kazakhstan	144 857,0	27%
NBK Notes	161 272,7	30%
Deposits in NBK	21 079,7	4%
Bonds of the U.S. Government	116 587,0	23%
Bonds of EBRD, IFI	82 208,4	15%
Bonds of SWF Samruk-Kazyna JSC, KEGOC JSC and Baiterek NMH JSC	11 378,6	2%
Unplaced money in tenge	0,6	0%
TOTAL	537 384,0	100%

In October 2018, changes were made to the KDIF Investment Strategy in terms of exclusion from the list of financial instruments authorized for investment and financial instruments denominated in foreign currency. These changes are due to the fact that the Fund reimburses payouts only in national currency. In addition, the security yield in foreign currency is 1-1.5%, while the security yield in tenge is within 10%.

In order to increase the efficiency of investments Islamic bonds of International Financial Institutions were excluded from the authorized list of financial instruments and the bonds of International financial institutions, Eurasian Development Bank, subjects of the quasi-public sector, Development Bank of Kazakhstan JSC, KEGOC JSC, Mortgage Institution "Baspana" JSC, as well as bonds of other entities with a credit rating not lower than BB/Ba3 were included in it.

Introduction of IFRS 9

In 2018, in accordance with the best international practice, KDIF improved the accounting policies in terms of classification and evaluation of financial instruments, as well as accounting of reserve. In particular, from January 1, 2018, IFRS 9 "Financial Instruments" has become mandatory for application, according to which it is necessary to form provisions for the impairment of financial assets and liabilities on the basis of expected credit losses. Assessment and

formation of provisions to cover expected losses allow the insurer to fulfill quickly its obligations in case if insured event occurs.

The Fund, jointly with Deloitte LLP, has developed the Reserve Calculation Methodology for covering financial guarantees related to the payouts (Methodology 1) and the Methodology of calculating expected credit losses for financial assets (Methodology 2). Methodology 1 allows assessing the amount of expected credit losses, which is determined by estimating the probability of default for each individual member bank and the share of non-recoverable resources, taking into account the return of funds paid by KDIF in the process of forced liquidation of banks. The probability of default is estimated based on the historical data using quantitative and qualitative indicators that are most correlated with insured events implemented in the past. Methodology 2 allows assessing the significance of changes in credit risk for financial instruments from the moment of initial recognition and calculating their impairment.

The transition to IFRS 9 was applied retrospectively, in this regard, the expected credit losses of the Fund as of January 1, 2018 were defined as per liabilities in the amount of 20.6 billion tenge, as per assets – 94.8 million tenge, and as of January 1, 2019 – 55.9 billion tenge and 175.7 million tenge, respectively.

3.3. Liquidation of Banks and Payout Process Liquidation of Banks

In 2018, the forced liquidation of Kazinvestbank JSC and Delta Bank JSC began, whose licenses for banking operations were revoked in 2016 and 2017, respectively. Also, licenses were revoked from three DIS member banks: Qazaq Banki JSC, Bank of Astana JSC

and Eximbank Kazakhstan JSC. In addition, the process of forced liquidation of Nauryz Bank Kazakhstan JSC, commenced in November 2005, was completed. In total, as of the end of 2018, 5 banks were in the process of forced liquidation, and 2 banks were expecting the entry into force of a court decision on their liquidation.

Table 3 - The amount of payouts to depositors of liquidated banks

	License revocation date	Court decision date	Effective date of the court decision	Total number of depositors	The amount of payouts to depositors (million tenge)
Nauryz Bank Kazakhstan JSC	02.06.2005	16.11.2005	02.12.2005	163 504	772, 1
Valut-Transit Bank JSC	26.12.2006	13.02.2007	01.03.2007	267 285	18 340,9
Kazinvestbank JSC	27.12.2016	18.08.2017	24.01.2018	70	2,1
Delta Bank JSC	03.11.2017	13.02.2018	25.04.2018	2 402	158,1
Qazaq Banki JSC	28.08.2018	24.10.2018	12.12.2018	18 001	20 501,2
Total				451 262	39 774,4

In 2018, the Fund's role in the work of the liquidation commissions increased. As of the end of 2018, KDIF employees participated in the liquidation of Valut-Transit Bank JSC, Delta Bank JSC and Qazaq

Banki JSC, including as managers of the liquidation commission, and they were also appointed to the temporary administration offices of Eximbank Kazakhstan JSC and Bank of Astana JSC.

Table 4 - As of the end of the reporting year, KDIF had the following requirements to the liquidation commissions:

	The amount of the Fund's requirements to the liquidation commissions		Satisfied by the liquidation commissions	
	on amounts of conducted payouts (in process)	on unpaid mandatory calendar premiums, penalties for late payment (if any)	on amounts of conducted payouts (in process)	on unpaid mandatory calendar premiums, penalties for late payment (if any)
Nauryz Bank Kazakhstan JSC	772,1	5,9	772,1	-
Valut-Transit Bank JSC	18 340,9	28,1	9 813,0	-
Kazinvestbank JSC	2,1	8,4	2,1	0,2
Delta Bank JSC	158,1	1,7	158,1	-
Qazaq Banki JSC	20 501,2	145,7	-	-
Total	39 774,4	189,8	10 745,2	0,2

Thus, as of January 1, 2019, the requirements of the Fund to the liquidation commissions for payouts were satisfied:

- for 49% on Valut-Transit Bank JSC (in 2018 for 155 million tenge); - in full on Nauryz Bank Kazakhstan JSC, Kazinvestbank JSC and Delta Bank JSC.

Also, the requirements for unpaid calendar premiums of 146 thousand tenge on Kazinvestbank JSC were partially satisfied.

Payout Process

In 2018, payouts started to depositors of liquidated banks, Kazinvestbank JSC and Delta Bank JSC. Payouts to depositors of liquidated bank Qazaq Banki JSC was conducted by the agent bank, Subsidiary Organization VTB Bank (Kazakhstan) JSC starting from December 24, 2018.

In order to ensure an expeditious, convenient and secure payout process for depositors of liquidated banks, the Fund worked closely with agent banks to fully discuss and resolve

operational issues; in addition, the Ministry of Internal Affairs of the Republic of Kazakhstan was involved in promoting security and patrolling of agent bank offices by crews, and the Ministry of Health of the Republic of Kazakhstan was engaged for the purpose of prompt response in the event

of emergency calls to branches and offices of the agent bank.

As of January 1, 2019, the total amount of insured liabilities paid to depositors of liquidated banks amounted to 31.2 billion tenge.

Table 5 – Payout Process

	Total number of individual depositors	KDIF liabilities (million tenge)	The number of depositors who applied for payout	Payout amount (million tenge)	Portion of applied depositors	Payout portion
Nauryz Bank Kazakhstan JSC	163 504	772,1	3 639	679,9	2%	88%
Valut-Transit Bank JSC	267 285	18 340,9	63 227	17 914,8	24%	98%
Kazinvestbank JSC	70	2,1	10	1,9	14%	91%
Delta Bank JSC	2 686	158,1	192	70,0	8%	44%
Qazaq Banki JSC	18 001	20 501,2	2 496	12 582,0	14%	61%
Total	451 546	39 774,4	69 564	31 248,6	15%	78%

3.4. Public Relations

Effective outreach activities and raising public awareness about the deposit insurance are one of the long-term priorities of the Fund. According to the IADI Core Principles for Effective Deposit Insurance Systems, in order to protect depositors and maintain financial stability, it is crucially important to ensure that the public is constantly informed about the benefits and limitations of the DIS.

Provision of information to the public concerning KDIF activities and raising awareness about the deposit insurance in 2017–2018 has become particularly relevant due to:

- 1) the revocation of licenses and (or) further payout in 5 banks (from February to December);
- 2) the launch of a new deposit line and the emergence of savings deposits on the Kazakhstani market.

Cooperation with banks

During the year:

- KDIF produced the edition of a triplet (2 million copies) and distributed it in branches of all deposit insurance system member banks;

- KDIF conducted the training of bank managers.

Development of Relations with the Mass Media

In 2018, during the preparation and commencement of payouts to depositors of liquidated banks, the Fund published to the fullest extent possible information in the mass media about the course of court proceedings, the estimated timing of court decisions, and the payout procedure in order to ensure an expeditious, convenient and secure payout process. During the year, the Fund posted 14 press releases: on the current situation in the banks, revoked of the license; on the commencement and process of payouts to depositors; interviews of KDIF representatives for Atameken Business Channel, Channel 31, Khabar-24, KTK, Channel One Eurasia and Almaty TV channels were organized for each newsworthy information. During the news surge about the licenses revocation of Delta Bank JSC, Qazaq Banki JSC and Bank of Astana JSC, infomercials about deposit insurance were broadcasted on the top-rated radio stations Avtoradio-Kazakhstan and Kazakh radio. The total number of broadcasts was 738;

total timeline was about 250 minutes.

As part of informing bank depositors about the new deposit classification and about the emergence of savings (irrevocable) deposits with excess return on the Kazakhstani deposit market, articles "New Type of Deposit" (in Delovoy Kazakhstan) and "Retail

Deposits Become Easier, More Understandable, More Profitable" (in Kazakhstanskaya Pravda on the special page of the NBK) were published in collaboration with the NBK and free of charge. Interviews were organized for Atameken Business Channel, Channel 31, Khabar-24 TV channels; a large interview was organized with the KDIF Chairman in the TV program "Economics" on Khabar-24 devoted to the new deposit line. To provide information to the public concerning the stability of the DIS during the period of instability in the deposit market, an article "Who and How a Safety Cushion Created for Depositors" was prepared and published in the business paper Kapital.kz.

In addition, during the VIII Congress of Financiers, the Fund organized a briefing for business media representatives as Kursiv.KZ, Kapital.KZ, Prodengi.KZ by the KDIF Chairman Mr. Nurlan Abdrakhmanov with the participation of General Director of Deposit Insurance Agency

of the Russian Federation Mr. Yury Isaev, and the IADI Secretary General Mr. David Walker. The problems of banks, revoked of the license, and further payouts to depositors, as well as the current situation in the deposit market were discussed at the briefing. Following the briefing, the detailed editorial materials were published.

Consulting Bank Depositors

During the year, the Fund's experts provided responses to the depositors' questions received to the "hot line" and in the chat on www.kdif.kz.

In order to provide full and continuous consultations to depositors of Qazaq Banki JSC and Bank of Astana JSC, KDIF launched a fully functional call center using the short number 1460; recruitment and training of operators were carried out. Based on the Fund's materials, the training of call center specialists of agent banks, Subsidiary Organization VTB Bank Kazakhstan JSC and Eurasian Bank JSC was conducted.

In June, the Telegram Chat @KDIF_ASK was launched, which allowed to consult and to keep in touch with depositors of problem banks on a permanent basis.

3.5. International Cooperation

IADI was founded in 2002 under the Bank for International Settlements (BIS) in Basel, Switzerland, and is a prestigious and effective international platform for the exchange of practical experience and theoretical knowledge of deposit insurance organizations, state central banks and interested international financial institutions all over the world in deposit insurance and settlement of problem banks with the aim of strengthening financial stability on an international scale, as well as a widely recognized authority that establishes international standards in the field of deposit insurance, placed in both traditional and Islamic banks. As of the end of 2018, IADI consisted of 87 permanent members of deposit insurance organizations, 10 associate members of central banks or other financial regulatory authorities, as well as 14 partner organizations of the Association.

KDIF has been a permanent member of IADI since 2003.

One of the main areas of discussion within IADI in 2018 was the role of deposit insurance organizations in working with banks with unstable financial position and taking measures to minimize systemic crises in the financial sector.

Another important area of discussion within IADI is the issue of consumer rights protection and the formation of financial literacy of the public. The availability of an insurance should not be the reason that depositors can place their savings in any bank without considering its reliability. Therefore, the task of deposit insurance organizations is not only informing about the deposit insurance, but also conducting explanatory work aimed at increasing the public's responsibility for decisions about investing their money.

In order to improve the financial literacy, in 2019 the Fund plans to focus on issues related to: 1) rational savings planning, 2) understanding of financial risks, and 3) explaining the criteria that should be guided when choosing the bank and deposit.

In the course of year, KDIF employees delivered presentations on the experience of Kazakhstan at events organized by IADI:

- in March 2018 at the 10th Round Table of the Deposit Insurance Corporation of Japan (DICJ) in Kyoto, Japan on the topic "Deposit Activity Index as a New Indicator of the Financial Condition of Commercial Banks";
- in April 2018 at the IADI Asia-Pacific Regional Committee International Conference in Hanoi, Vietnam on the topic "Improving the KDIF BATA system for differential mandatory calendar premium rates";
- in May 2018 at the IADI International Conference in Istanbul, Turkey on the topic "The current crisis management system in Kazakhstan".

Strengthening Bilateral Cooperation

As part of strengthening bilateral cooperation, on April 17, 2018, KDIF the Indonesian Deposit Insurance Corporation (IDIC) signed a Memorandum of Understanding for Mutual Cooperation and

Information Exchange. The IDIC experience is interesting for the Fund in terms of studying the practice of Indonesia in insurance of savings in Islamic banks.

Also, within the framework of the existing Memorandums of Understanding for Mutual Cooperation:

- in February 2018, the Fund employees undertook internships at the Deposit Insurance Agency of the Russian Federation (DIA) in Moscow, for the purpose of studying the experience of the DIA in organizing liquidation proceedings;
- in October 2018, the DIA representatives visited the KDIF office in Almaty to conduct training for the Fund employees in relation to return of forcibly liquidated bank assets, organization of the payout process to depositors, and conducting public awareness campaigns among the population;
- during the 2-3 quarters of 2018, the project with the Korean Deposit Insurance Corporation (KDIC) on development of recommendations aimed at improving the KDIF payout system to depositors through the introduction of online payouts was implemented. Payouts to depositors of liquidated banks that started at the end of 2018 showed that this issue is becoming very relevant. The solution of this problem will allow in the future to avoid a situation where depositors who have small amounts of money in their accounts do not come to take balances on their deposits, which affects the Fund's failure to fulfill its functions.

Harmonization of Deposit Insurance Systems of the Eurasian Economic Union Member States

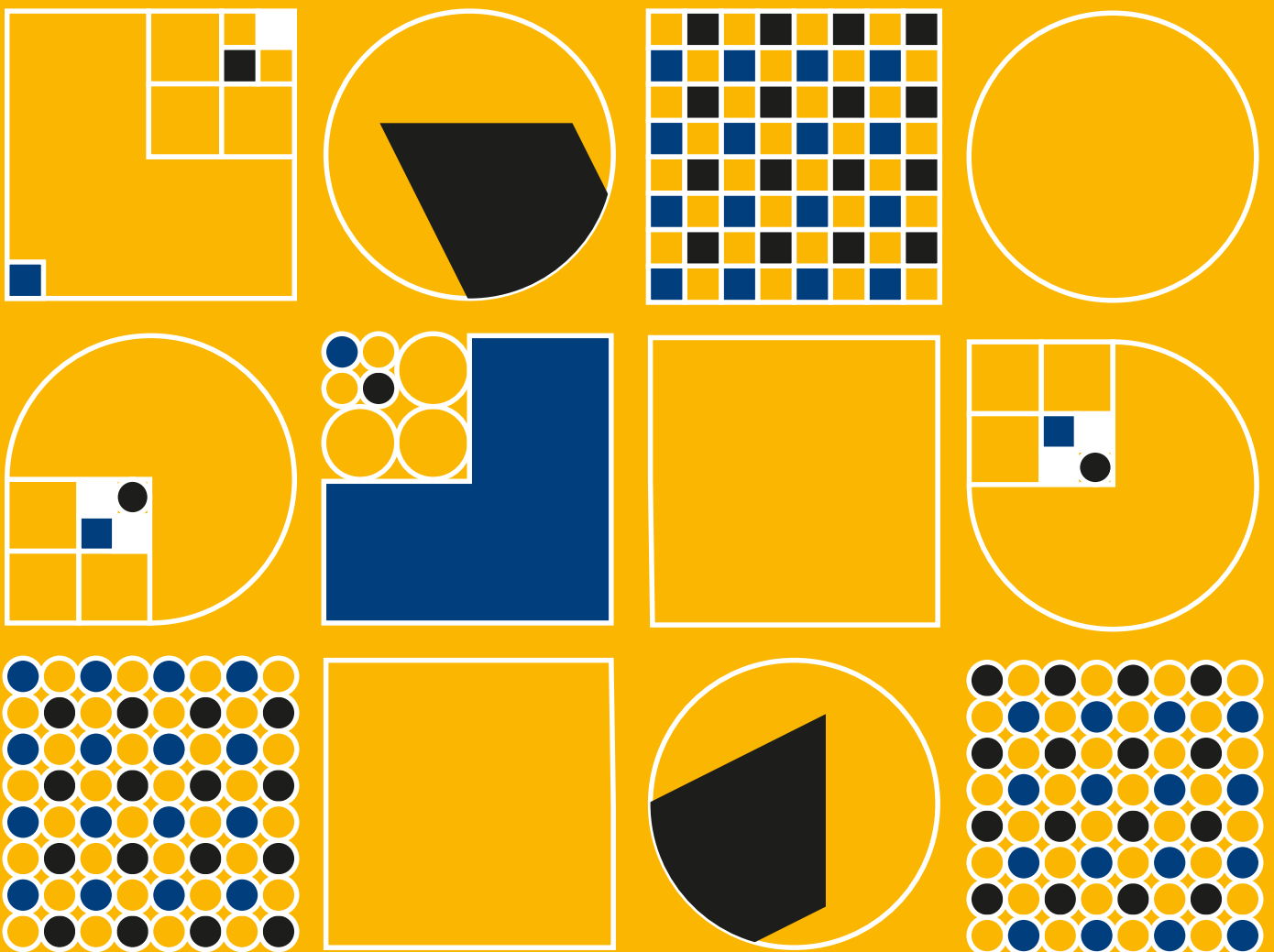
In September 2018, KDIF took part in a Meeting of the Working Group on the harmonization of deposit insurance systems of the Eurasian Economic Union (EAEU) member states in Moscow.

The working deposit insurance model within the EAEU member states, in accordance with the provisions of the EAEU Treaty dated May 29, 2014, involves the insurance of all deposits attracted on the territory of any country (both by own banks of a given country and branches of foreign banks operating in the country). In connection with the agreements on the accession of the Republic of Kazakhstan to the

World Trade Organization, opening branches of foreign banks in Kazakhstan will be permitted at the legislative level starting from the end of 2020. In this regard, the work on the harmonization of deposit insurance systems of the EAEU member states and the establishment of an information exchange mechanism between financial regulators in the EAEU member states is becoming especially important.

During the Meeting, initiatives were formulated to create a unified database of deposit insurance systems of the EAEU member states and a mechanism for the rapid information exchange between the deposit insurance organizations of the EAEU member states. An agreement on signing a Memorandum of Cooperation was reached in order to harmonize the deposit insurance systems of the EAEU member states.

IV. Prospective Lines of Development for 2019



IV. Prospective Lines of Development for 2019

4.1. Enhancing of KDIF Powers

At the present stage, KDIF's participation in ensuring the stability of the financial system of Kazakhstan is limited due to the lack of appropriate powers. The Fund, being a member of the system of maintaining financial stability, gets involved only at the stage of resolving failed banks as a representative in the temporary administration offices and liquidation commission of banks, a subsidiary payer on the transfer of assets and liabilities from an insolvent bank to another bank (P&A) or source of payouts, at that without the right to participate in decisions on resolving the problem bank.

At the same time, the Fund, as the guarantor of deposits of the public, takes the most risks in the event of the forced liquidation of the bank. Decisions on the forced liquidation of banks were based, inter alia, on the least costs principle. However, the actual situation shows the opposite – the Fund's resources are not fully returned, and taking into account the duration of the liquidation process, economic losses increase. Forced liquidation of the bank and, as a result, the execution of payouts by the Fund is the least effective method of resolving problem banks. Enhancing KDIF powers, including in terms of granting KDIF the right to take decisions on the resolution of problem banks, will make it possible to introduce the least cost method when using the funds of the deposit insurance system, according to which the cost of bank resolution measures shall not be higher of the costs during its liquidation.

4.2. Improvement of the Payout Mechanism

Based on the current practice and in accordance with the existing legislation, the waiting period for payouts from the moment of a bank license revocation is at least 4 months (excluding the period of suspension of a license and suspension of expense transactions on issuing deposits by bank), which may increase by times in the event of an appeal against the court decision.

The effective starting dates of payouts to depositors are long and cause social tensions, which creates a risk of erosion of public confidence in the financial system as a whole and the deposit insurance system in particular, which in turn may affect the efficiency of the Fund's implementation of the task of ensuring the financial system stability and protection of the rights and legal interests of depositors.

From the Fund's experience, the depositors' waiting period for payouts were as follows (the period from the date of revoking the banking license to the date of commencement of payouts): for Kazinvestbank JSC – 14 months; Delta Bank JSC – 6 months; Qazaq Banki JSC – 4 months.

KDIF suggests to calculate the period, during which payout to depositors shall be started, from the date of bank's license revocation to conduct all banking

operations, that is, much earlier than the date when the court decision on the forced liquidation of a bank comes into force. Such practices are used in the United States of America, European Union countries, the United Kingdom, Korea, Singapore and Malaysia. In the CIS countries, this approach is used in the Russian Federation and Belarus.

The fastest possible return of savings to depositors of an insolvent bank will reduce social tensions and public's distrust in the banking sector because of potential losses due to the bank's default in the event of a crisis. The Fund plans to work in this direction.

4.3 Automation of the Payout Process

The requirement of legislation on the physical presence of the depositor when submitting application and repeatedly (if necessary) when receiving reimbursement, as well as the limited rights of the depositor to choose the service channel when receiving reimbursement, create not only inconvenience for the depositor, but also cause the problem of «dormant accounts». Dormant accounts mean small amounts of reimbursement that are often not claimed by bank customers. Moreover, given that they are not subject to exclusion from the balance sheet of a liquidating bank, the Fund cannot fulfill its obligations on payouts in full. Thus, for instance, among the depositors of Qazaq Banki JSC, 57% of depositors have deposits in the range of 5 thousand tenge, including 40% of depositors with no more than 1 thousand tenge.

It should be noted that the problem of the absence of demand for small reimbursement amounts of deposits is widespread also in other countries. One of the solutions to this problem is to create an automated online payout system. Implementation of such a system greatly facilitates the procedure for depositors to receive reimbursement, while at the same time, it allows optimizing the payout process in terms of timeliness, correctness and transparency of the system.

Next year, KDIF plans to start working on the study and implementation of an automated online payout system.

4.4. Improvement of the Risk Profile Assessment of Deposit Insurance System Member Banks

KDIF is constantly working to improve and develop the methodology for calculation of differential premium rates of member banks. Considering recent trends in the financial market, as well as changes in the banking legislation of the Republic of Kazakhstan, the Fund decided to reconsider its approach to assessing the risk profile of member banks.

When reviewing the methodology for calculation of differential mandatory calendar premium rates of the DIS member banks, the Fund follows the IADI recommendations and best practices of countries

with a developed deposit insurance system, such as Canada, Korea, Malaysia, Poland, etc. Changes in the methodology are aimed at improving the quality of information on financial condition of banks received by the Fund.

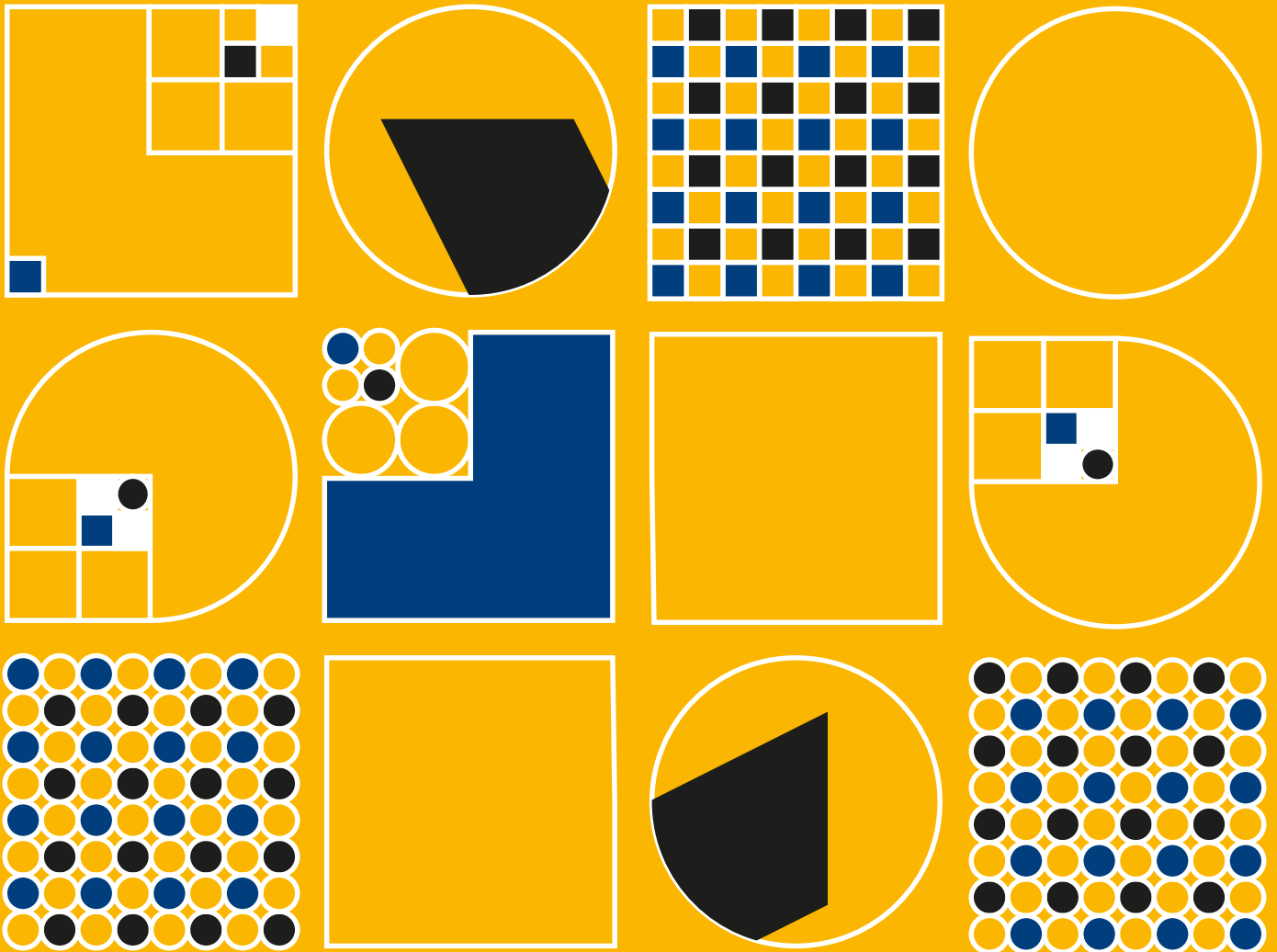
It is planned to consider the possibility of a qualitative improvement of the methodology due to the integration with the results of the supervisory activities of the authorized body over second-tier banks. Improvement of the methodology for assessing the financial condition of banks, owing also to the information received from the supervisory authority, will increase the compliance of the formed reserves with the risk profile of member banks. Besides, this will allow KDIF to identify increases in the credit risk of member banks at an earlier stage.

4.5. Optimization of the Collection Process of

Member Banks' Reports and Information

The Fund's current practice in collecting information from member banks shows that when submitting reports to the Fund banks face periodically problems such as technical failures, operational risks and personnel errors. The process of collecting and processing reports in general is not automated. In cooperation with the National Bank, KDIF plans to collect all information from member banks on the integrated platform of the National Bank. These measures will reduce the volume of reports from member banks, reduce errors when filling out reports by banks, and improve the quality and speed of processing the information received.

V. FINANCIAL STATEMENTS



VI. Financial Statements

Independent Auditors' Report

To the Shareholder and Management of Kazakhstan Deposit Insurance Fund JSC

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of Kazakhstan Deposit Insurance Fund JSC (hereinafter referred to as "the Fund") as at 31 December 2018, as well as its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs).

Subject of audit

We have conducted the audit of the financial statements of the Fund, which includes:

- Statement of Financial Position as at 31 December 2018;
- Statement of profit or loss and other comprehensive income for the year then ended;
- Statement of changes in owner's equity for the year then ended;
- Statement of cash flows for the year then ended;
- Notes to financial statements, including significant accounting policies and other explanatory information.

Basis for Opinion

We have conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibility under those standards is described in the Auditor's Responsibility for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled other ethical obligations in accordance with the IESBA Code.

Other information

Management is responsible for other information. Other information includes Annual Report (but does not include Financial Statements and our Audit Report on these Statements).

Our opinion on the Financial Statements does not apply to other information, and we do not provide a conclusion, expressing confidence in any form, regarding this information.

In connection with our audit of the financial statements, our responsibility is to familiarize ourselves with the above other information and consider whether there are significant discrepancies between other information and financial statements or our knowledge gained during the audit, and whether there is any other information of other possible material misstatements. If, on the basis of the work we have carried out with respect to other information, we draw the conclusion that such other information contains a material misstatement, we are obliged to report this fact. We have not found any facts that need to be reflected in our report.

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

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, and for disclosing, where appropriate, matters related to going concern, and using the going concern basis for financial reporting unless management either intends to liquidate the Fund, or to cease its operations, or has no other realistic alternatives but to do so.

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance that the financial statements are free from material misstatements due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance means a high degree of certainty, but does not guarantee that the audit conducted in accordance with ISAs always identifies significant misstatements, if any. Misstatements can be caused by fraud or errors, and are considered material if, individually or cumulatively, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

As part of the audit conducted in accordance with ISAs, we exercise professional judgment and maintain professional

skepticism throughout the audit. In addition, we perform the following:

- identify and assess the risks of material misstatement in the financial statements, whether due to fraud or errors; design and perform audit procedures in response to those risks; obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. Detection risk of material misstatement resulting from fraud is higher than the detection risk of material misstatement due to errors, since fraud may involve collusion, falsification, deliberate omission, misrepresentation of information or override of internal control;
- obtain an understanding of the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, and relevant disclosure prepared by management;
- make a conclusion with respect to the appropriateness of management's application of ongoing concern assumption, and based on the audit evidence obtained we make a conclusion whether there is a material uncertainty due to certain events or conditions that can result in significant doubts about the Fund's ability to continue as a going concern. If we come to a conclusion that a material uncertainty exists, we should draw attention in our audit report to the relevant disclosure in the financial statements or, if such disclosure is inadequate, we should modify our opinion. Our conclusions are based on the audit evidence obtained before the date of our audit report. However, future events or conditions may result in the loss of the Fund's ability to continue as a going concern;
- evaluate the overall presentation of the financial statements, its structure and content, including disclosures, and we also evaluate whether the financial statements present the underlying transactions and events so as to ensure their fair presentation.

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

April 3, 2019
Almaty, Kazakhstan

Approved by:

Dana Inkarbekova
Managing Director
PricewaterhouseCoopers LLP
(General State License of the
Ministry of Finance of the Republic
of Kazakhstan No. 0000005 dated
October 21, 1999)

Signed by:

Aigul Akhmetova
Auditor-Executive, Director
(Auditor Qualifying Certificate No.
00000083 dated August 27, 2012)

Signed by:

Adam Tselinsky
Audit Engagement Manager
Partner of Audit Services (Certificate of
the Institute of Chartered Accountants
No. 2647000;
Special Power of Attorney
No. 30-16 dated July 1, 2016)

Kazakhstan Deposit Insurance Fund JSC Statement of Financial Position

(in thousands of tenge)

	31 December 2018.	31 December 2017 (recalculated)	01 January 2017 (recalculated)
Assets			
Cash and cash equivalents	35 030 860	176 839 706	64 459 519
Investments in debt securities measured at amortized cost	764 866 793	-	-
Available for sale investment securities	-	506 377 544	514 593 726
Accounts receivable	5 726 800	5 538 770	3 638 133
Other assets	521 827	915 054	914 417
Intangible assets	9 808	11 712	12 243
Property, plant and equipment	29 547	37 097	33 273
Total Assets	806 185 635	689 719 883	583 651 311
Liabilities			
Estimated liabilities	55 963 528	20 517 849	11 464 769
Liabilities to depositors on payouts	8 001 574	-	-
Other liabilities	1 478 332	93 398	614 843
Total Liabilities	65 443 434	20 611 247	12 079 612
OWNERS' EQUITY			
Equity capital	235 794 400	235 794 400	214 358 600
Retained earnings	7 574 825	4 453 805	4 084 503
Available for sale securities revaluation deficit	-	(32 418 847)	(44 067 323)
Share premium	133	6	-
Special reserve	495 014 899	459 135 686	395 247 203
Other reserves	2 357 944	2 143 586	1 948 716
TOTAL OWNERS' EQUITY	740 742 201	669 108 636	571 571 699
TOTAL LIABILITIES AND OWNERS' EQUITY	806 185 635	689 719 883	583 651 311

Approved and signed on April 3, 2019.

(Abdrakhmanov N.A.)
Chairman

(Amirbekova E.M.)
Chief Accountant

Kazakhstan Deposit Insurance Fund JSC Statement of profit or loss and other comprehensive income

(in thousands of tenge)

	2018	2017 (recalculated)
Interest income calculated using the effective interest method	44 530 215	39 051 042
Other similar income	13 741	-
Income from contributions of member banks and proceeds from liquidation commission of forcibly liquidated banks	31 803 844	35 363 538
Expenses for reimbursement to depositors of forcibly liquidated banks	(20 681 926)	(29 457)
Gains less losses from derecognition of financial assets measured at amortized cost	(178)	100 822
Net foreign exchange gain (loss)	20 241 169	(379 454)
Loan loss allowance	(61 368)	-
Provision for estimated liabilities	(35 445 679)	(9 053 079)
Other operating income	5 330	1 464
Administrative and other operating expenses	(672 432)	(603 310)
Profit before tax	39 732 716	64 451 566
Income tax expense/(benefit)	(403 789)	1 089
PROFIT FOR THE YEAR	39 328 927	64 452 655
Other comprehensive income		
Items that may subsequently be reclassified to profit or loss:		
Available for sale investments		
Gains less losses for the year	-	11 648 476
Other comprehensive income for the year	-	11 648 476
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	39 328 927	76 101 131

Kazakhstan Deposit Insurance Fund JSC Statement of changes in owner's equity

(in thousands of tenge)

	Due to the owners of the Fund						
	Equity capital	Share premium	Available-for sale securities revaluation deficit	Reserve capital	Special reserve	Retained earnings	Total
Balance as of 31 December 2016, reported earlier	214 358 600	-	(44 067 323)	1 948 716	395 247 203	15 549 272	583 036 468
Voluntary change in accounting policies						(11 464 769)	(11 464 769)
Adjusted balance as of 1 January 2017	214 358 600	-	(44 067 323)	1 948 716	395 247 203	4 084 503	571 571 699
Profit for the year (recalculated)	-	-	-	-	-	64 452 655	64 452 655
Other comprehensive income	-	-	11 648 476	-	-	-	11 648 476
Total comprehensive income for 2017	-	-	11 648 476	-	-	64 452 655	76 101 131
Issuance of shares (Issuance of ordinary shares)	21 435 800	-	-	-	-	-	21 435 800
Contributions from owners	-	6	-	-	-	-	6
Transfer to reserve capital	-	-	-	194 870	-	(194 870)	-
Formation and redistribution of special reserve	-	-	-	-	63 888 483	(63 888 483)	-
Adjusted balance as of 1 January 2018	235 794 400	6	(32 418 847)	2 143 586	459 135 686	4 453 805	669 108 636
Переход на МСФО (IFRS) 9:							
- переоценка ожидаемых кредитных убытков	-	-	-	-	-	(114 336)	(114 336)
- Реклассификация входящих остатков	-	-	32 418 847	-	-	-	32 418 847
Скорректированный остаток на 1 января 2018 года	235 794 400	6	-	2 143 586	459 135 686	4 339 469	701 413 147
Profit for the year	-	-	-	-	-	39 328 927	39 328 927
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for 2018	-	-	-	-	-	39 328 927	39 328 927
Gratuitous transactions with the parent company	-	127	-	-	-	-	127
Transfer to reserve capital	-	-	-	214 358	-	(214 358)	-
Formation and redistribution of special reserve	-	-	-	-	35 879 213	(35 879 213)	-
Balance as of 31 December 2018	235 794 400	133	-	2 357 944	495 014 899	7 574 825	740 742 201

Kazakhstan Deposit Insurance Fund JSC Statement of Cash Flows

(in thousands of tenge)

	2018	2017
Cash flows from operating activities		
Proceeds from mandatory calendar contributions	35 090 521	32 684 326
Proceeds from liquidation commission	315 131	240 000
Receipt of interest on deposits	6 978 769	9 640 824
Interest received on debt securities measured at amortized cost	24 397 799	-
Interest received on available-for-sale securities	-	24 213 815
Interest received on reverse REPO transactions	-	65 942
Transfer to agent banks for payouts to depositors	(15 145 045)	-
Payouts to depositors	(31 407)	(30 617)
Other operating income received	27 417	146 410
Staff costs paid	(305 324)	(305 509)
Administrative and other operating expenses paid	(329 099)	(275 296)
Net cash received from operating activities	50 998 762	66 379 895
Cash flows from investing activities		
Acquisition of investments in debt securities at amortized cost	(2 077 872 551)	-
Proceeds from redemption of debt securities at amortized cost	1 886 118 680	-
Acquisition of available-for-sale investment securities	-	(594 904 848)
Proceeds from disposal and redemption of available-for-sale investment securities	-	619 485 047
Acquisition of property, plant and equipment	(5 871)	(15 707)
Net cash (used in)/ received from investing activities	(191 759 742)	24 564 492
Cash flows from financing activities		
Issuance of ordinary shares	-	21 435 800
Net cash received from financing activities	-	21 435 800
Effect of changes in currency exchange rate on cash and cash equivalents	(1 047 866)	-
Net (decrease)/ increase in cash and cash equivalents	(141 808 846)	112 380 187
Cash and cash equivalents as at the beginning of year	176 839 706	64 459 519
Cash and cash equivalents as at the year-end	35 030 860	176 839 706

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