FOREWORD

The Kazakhstani deposit insurance system established upon the initiative of Nursultan Nazarbayev, President of Kazakhstan, appeared to be a well-timed initiative for bringning back the confidence of the general public in the banking institutions. The system was established on the base of the best international practices.

The Kazakhstan Deposit Insurance Fund, whose principal mission is to further financial stability and protect the depositors, has strengthened its position for 5 years of operation. The Fund's assets increased to Tenge 8 bln, 34 banks out of 35 operating in Kazakhstan have become the members of the deposit insurance system. The growth of individuals deposits with the tier-two banks testify for the increased confidence of the general public in the domestic banking industry: during the last 5 years total deposits increased by 6 times, and the amount of insured deposits multiplied by 8.

Since 2003 Kazakhstani Deposit Insurance Fund has been the member of the International Association of Deposit Insurers (IADI) that facilitates cooperation with international deposit insurance institutions, effective exchange of experience and helps getting recommendations for improvement of the domestic deposit insurance industry.

Future trends of the deposit insurance system of Kazakhstan will be focusing on the development and effective implementation of its key functions. The main objective for the KDIF is to ensure transition from the “pay-box” system to the risk-minimizing system. To meet these challenges is possible only by joint coordinated efforts with the National Bank and Financial Supervision Agency - the primary players of the financial safety net.

Availing myself of this opportunity, I would like to express my high appreciation to all members of the domestic financial system as well as to our collegues from the International Association of Deposit Insurers (IADI) of their assistance in achieving our common goal – strengthening of financial stability.

Sincerely,

Bakhyt Mazhenova,
General Director
Kazakhstan Deposit Insurance Fund

CONTENTS

FOREWORD 1

REPUBLIC OF KAZAKHSTAN:
OBSERVATION OF MACROECONOMIC
AND FINANCIAL PERFORMANCE 3

DEPOSIT INSURANCE SYSTEM IN KAZAKHSTAN 5

ACTIVITIES OF THE KAZAKHSTAN
DEPOSIT INSURANCE FUND 8

Background 8

Goal and Functions 8

Organizational framework 9

Coordination with member-banks 10

Funding 11

Investment Policy 12

Public awareness 13

International cooperation 14

PROSPECTS OF THE KAZAKHSTAN
DEPOSIT INSURANCE SYSTEM 15

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT 16

REPUBLIC OF KAZAKHSTAN: OBSERVATION OF MACROECONOMIC AND FINANCIAL PERFORMANCE

During 1993-1998, as the result of tight macroeconomic policy pursued by the Government and the National Bank of Kazakhstan, the situation in the financial sector of Kazakstan improved. The inflation went down from 2 165% in 1993 to 1,9% in 1998. However, the financial crisis of 1998-1999 undermined the financial system stability: competitive ability of the Kazakhstan's export declined, inflation increased dramatically (17,8%), the demand for foreign exchange boomed, the number of bankruptcies increased. A number of measures had been taken in 1999 to resolve this problem, the switch to floating exchange rate of Tenge being the most cardinal measure. Together with that certain arrangements have also been made to protect people's deposits with the tier-two banks.

The monetary policy pursued during 1999-2004 was conductive to stabilization of macroeconomic situation: strenghthening of the domestic currency, and maintaining the inflation at the stable annual rate of 6-8%. *(See Table 1)*

Table 1. Key Macroeconomic Indicators of the Republic of Kazakhstan

		1999	2000	2001	2002	2003	2004
Gross Domestic Product	KZT bln.	2 016	2 600	3 251	3 776	4 450	5 543
GDP per capita	KZT thousand		155,4	194,3	225,6	265,5	330,8
GDP per capita	USD thousand		1,2	1,5	1,7	2,0	2,5
Industrial Output	KZT bln.	1 113	1 762	1 985	2 292	2 794	3734
Fixed Capital Investments	KZT bln.	277	519	776	1 193	1 259	1531
Deficit/Proficit of the Country's Budget	As % of GDP	-3,9	-0,6	-0,1	-0,1	-1,1	-0,3
Official Unemployment Rate	%	3,9	3,7	2,9	2,6	1,8	1,5
Nominal Average Monthly Salaries & Wages	KZT		13 761	21 183	24 388	28 192	32 652
Trade Balance	USD mln.	340	2 440	1 320	2 301	4 088	6 786
Gross External Debt	USD mln.	12 081	12 685	15 157	18 197	22 884	32 017
Inflation							
end-period	%	17,8	9,8	6,4	6,6	6,8	6,7
average	%					6,4	6,9
Foreign Exchange Rate:							
end-period	KZT/USD	138,22	144,31	149,59	155,08	145,08	130,04
average	KZT/USD	119,52	142,13	146,74	153,28	149,58	136,06

In 1996, the Standard & Poor's have assigned its rating to Kazakhstan for the first time. Since then the Agency has been publishing both sovereign ratings and the ratings of Kazakhstan's issuers on a constant basis. In October 2004 the Kazakhstan's sovereign rating was fixed at BBB - stable projections. *(See Table 2).*

Table 2. Kazakhstan's Sovereign Rating

Years	Rating Agencies	Rating
2000	Moody's	B2
2001	Moody's	Ba2
2002	Standard & Poor's	BB
2003	Standard & Poor's	BB+
2004	Standard & Poor's	BBB

The banking industry of Kazakhstan has evolved into the most dynamic and stable component in the country's financial sector as the result of reiterated reforms. At present it is in compliance with the basic international banking standards. Thus, since 2003 all banks have been operating based on the international accounting standards (IAS).

From 2000 to 2004, assets of the tier-two banks multiplied by eight and exceeded KZT 2,5 trillion (equivalent of USD 20 bln.). The share of bank assets in the country's GDP went up from 16,9% to 45,1% for the same period.

The banking sector's owned capital has increased by 5 times and exceeded USD 2,5 bln. in foreign currency equivalent (KZT 347,6 bln.) as of January 1, 2005. Its share in the GDP went up from 3,4 to 6,3%. At the same time the growth rates of this indicator are behind the growth rate of assets for the period of 2000 - 2005: owned capital to assets ratio went down from 20,2% to 12,92%.

Total loans provided by banks to the Kazakhstani economy have multiplied by 10 for the last 5 years and amounted to KZT 1 484,29 bln. (USD 11,4 bln.) as of January 1, 2005. The share of loans in the GDP for the same period has increased from 7,4% to 26,8%.

The financial result of banks' operation is the net income which increased by 3,3 times for 5 years and amounted to KZT 31,5 bln. or USD 242,31 mln. on the system as a whole as of January 1, 2005.

Table 3. Banking Sector

	01.01.00	01.01.01	01.01.02	01.01.03	01.01.04	01.01.05
Nr. of Tier-Two Banks	55	48	44	37	35	35
Total Assets	341,1	527,9	784	1 144,97	1 677,9	2 689,7
Owned capital	69	97,6	122,2	161,2	233,5	347,6
Liabilities	272,1	433,3	661,8	983,77	1 444,4	2 342,1
Net Income	9,5	7,1	7,4	20,6	28,8	31,5
Loans to Economy	148,83	276,20	489,80	672,40	978,10	1 484,29
Deposits Taken	172,40	294,00	446,00	610,00	739,00	1 255,44

DEPOSIT INSURANCE SYSTEM IN KAZAKHSTAN

After the Russian crisis of 1998, the need of a mechanism that would ensure protection of the people's bank deposits became a priority for the banking industry of Kazakhstan. The system of mandatory collective deposit insurance ("the System" – hereinafter) started up in Kazakhstan from November 1999. It is designated for deposit pay offs to depositors in the event of forcible liquidation of banks. The local experts based their efforts on the advanced methods of other countries in this area taking into account the specifics of the domestic financial market.

The participants of the System are:

- **JSC "Kazakhstan Deposit Insurance Fund"** (the KDIF) – an institution in charge of Mandatory collective insurance of deposits of individuals;
- **National Bank of the Republic of Kazakhstan** – a sole founder and shareholder of the KDIF;
- **Financial Supervision Agency of Kazakhstan** – the state agency in charge of regulation and supervision of financial market and financial organizations and regulation of the System;
- **Tier-two banks of the Republic of Kazakhstan** – member-banks whose obligations to repay deposits are insured;
- **depositors –** individuals holding insured deposits with the member-banks.

The deposit insurance system is a collective system – the member-banks are jointly responsible for the reimbursement of deposits held with a bank under forcible liquidation.

Originally, **in 2000**, only the banks which were regarded by the National Bank as complying with the requirements set for transition to international accounting standards (IAS) could join the system. 16 top banks of Kazakhstan were participants of the system. For each member-bank, depending on its financial condition, a rate of regular premiums has been established which is payable for the past quarter.

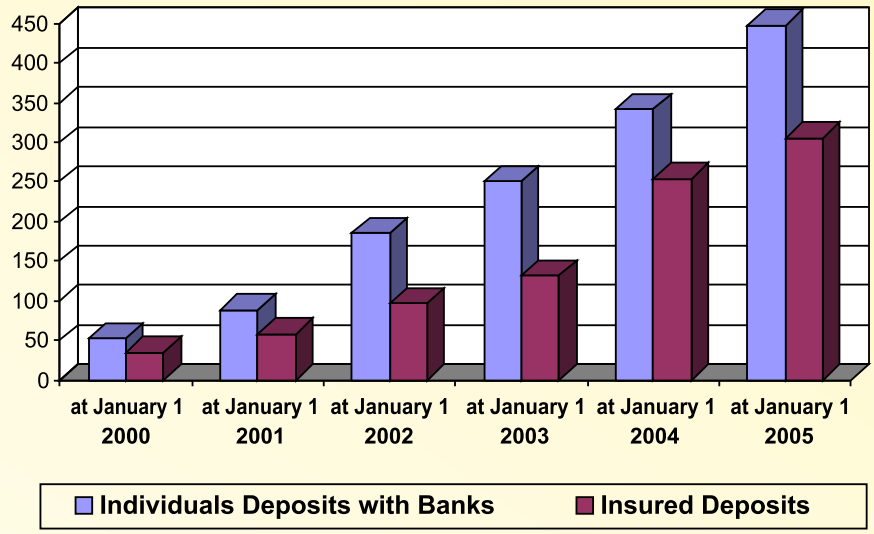
The rate was ranging from 0,125% to 0,37% of insurable deposits. Under the law, only KZT time deposits were subject to insurance (and from September, 2000 – also USD and Euro deposits) and demand deposits in KZT. At this time a complicated scheme of reimbursement was existing where the descending scale of pay off was in force, starting with KZT 200 000. The maximum pay-off amount to one depositor of a participating bank was KZT 1 mln.

In 2003 the requirements have been introduced for the mandatory membership in the System of all banks having the National Bank's license for taking deposits from individuals. From September 1, 2003, the amendments to the laws were made under which all deposits of individuals are subject to insurance except time and conditional deposits exceeding the equivalent of USD 50 000. The reimbursement amount on the insured deposits was established as equal to the principal amount without accrued interest (but not exceeding KZT 400 000).

In 2004 as part of the economy dedollarization policy, the amendments have been made to the laws under which the maximum amount of insured time and conditional deposits should not exceed KZT 7 mln.

At present, the System is functioning successfully and its reserve fund is growing steadily. The deposits of individuals with the tier-two banks have multiplied by 6 for 5 years: from KZT 53 bln. in 2000 to KZT 341 bln. in 2004. Alongside with that the amount of insured deposits multiplied by 8: from KZT 35 bln. to KZT 305 bln., respectively *(Graph 1)*.

Graph 1. Individuals Deposits With the Tier-Two Banks, KZT bln



The share of insured deposits in the total deposits of individuals made up 68% as of January 1, 2005. About 32% fall at uninsured deposits. This category is comprised of the VIP-deposits, i.e. time and conditional deposits which amount to or exceed KZT 7 mln. (or the foreign currency equivalent), deposits of CEO and their close relatives as well as of the bank shareholders with 5% or more of voting shares and their close relatives.

The growth in deposits is an evidence that the general public's confidence in the banking industry increases.

One of the main reasons for the growth of insured deposits, inter alia, is an increased number of member-banks. At January 1, 2005, 34 banks out of 35 existing banks are the members of the System *(See Table 4)*.

Table 4. Number of Banks Participating in the Deposit Insurance System

	2000	2001	2002	2003	2004
Number of Member - Banks	16	21	22	31	34

As of January 1, 2005, about 90% of time and conditional deposit accounts not exceeding KZT 400 000 (or the foreign currency equivalent) are fully insured by the System. Almost all individual depositors having demand deposits and current account balances with the tier-two banks would be insured in the event of forcible liquidation of a member-bank *(See Table 5)*.

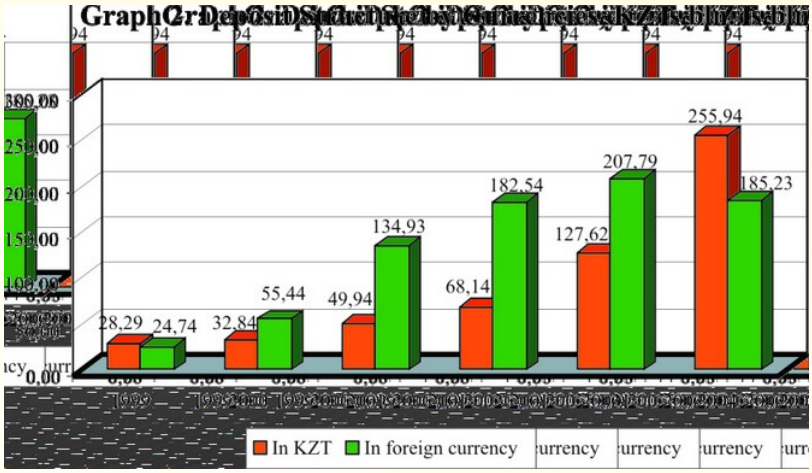
Table 5. Deposits: Time, Conditional, Demand and Current Account Balances as of January 1, 2005

Type of Deposit	**Number of Accounts**		**Deposit Amount**		**Average Amount of Deposit**
		%	KZT thousand	%	KZT thousand
Time and Conditional Deposits	1 197 671	100%	370 972 087	100%	309,7
of which:					
subject to insurance	1 191 779	99,5%	230 402 433	62,1%	193,3
not subject to insurance	5 892	0,5%	140 569 654	37,9%	23 857,7
Demand Deposits	1 692 424	100%	16 688 766	100%	9,8
of which:					
subject to insurance	1 691 236	99,93%	15 429 761	92,5%	9,1
not subject to insurance	1 188	0,07%	1 259 005	7,5%	1 059,8
Current Account Balances	6 761 646	100%	60 315 400	100%	8,9
of which:					
subject to insurance	6 748 674	99,8%	59 625 495	98.9%	8,8
not subject to insurance	12 972	0,2%	689 905	1,1%	53,2

In 2000 – 2003, the rates of growth of foreign currency deposits significantly surpassed those of KZT deposits. However, strengthening of Tenge in the last 2 years changed the situation in the deposit structure. This was due to considerable inflow of foreign exchange owing to:

- growth in export proceeds;
- external borrowings of the tier-two banks and the corporate sector.

As a result, the share of individuals' deposits denominated in KZT increased from 38% to 58% in 2004.



ACTIVITIES OF THE KAZAKHSTAN DEPOSIT INSURANCE FUND

Background

By the time when the Deposit Insurance System was established, i.e. in 1999, the banking and financial industry of Kazakhstan had already demonstrated its reliability although it suffered the consequences of the Russian financial crisis. Kazakhstan was one of the first among the CIS-countries to get a sovereign credit rating and it maintained the rating positive.

To increase the general public's confidence in the domestic financial system and draw the people's savings to the banking system, Nursultan Nazarbayev, President of Kazakhstan, in his speech at the first Congress of the Kazakhstani Financiers in May 1999, suggested that a set of systemic measures should be developed and implemented, the establishment of the Collective Deposit Insurance System being one of them. The National Bank, together with the top banks, had to design and start up such a system in the shortest possible time. In November 1999, the Rules for Mandatory Collective Insurance of Time Deposits of Individuals with the Tier-Two Banks were implemented, and on November 15, 1999 the Closed Joint Stock Company "Kazakhstan Deposit Insurance Fund" was established. The National Bank of the Republic of Kazakhstan is the founder of the KDIF and it invested KZT 1 bln. in the KDIF's authorized capital.

On March 29, 2000 the Law of the Republic of Kazakhstan "On Banks and Banking Activity in the Republic of Kazakhstan" of August 31, 1995 №2444 was supplemented by Article 52 «The System of Mandatory Collective Deposit Insurance».

Goal and Functions

The primary goal of the KDIF is to protect interests of depositors in the event of forcible liquidation of a member-bank. Pursuant to the goal, the KDIF pays off the insured deposits to the depositors of a bank under forcible liquidation. Besides, the KDIF fulfills the following functions:

- makes decisions concerning admission of banks to the System and their expulsion;
- builds up its reimbursement reserves;
- manages the Fund's assets;
- fixes the deadlines by which the banks have to pay regular premiums;
- informs and advises the general public of the deposit insurance matters;
- selects an agent bank on a competitive basis for deposit reimbursement;
- participates in the development of deposit insurance regulations, etc.

Organizational Framework

Management Bodies

The **Shareholder** – the National Bank of Kazakhstan – represents the supreme management body of the Fund.

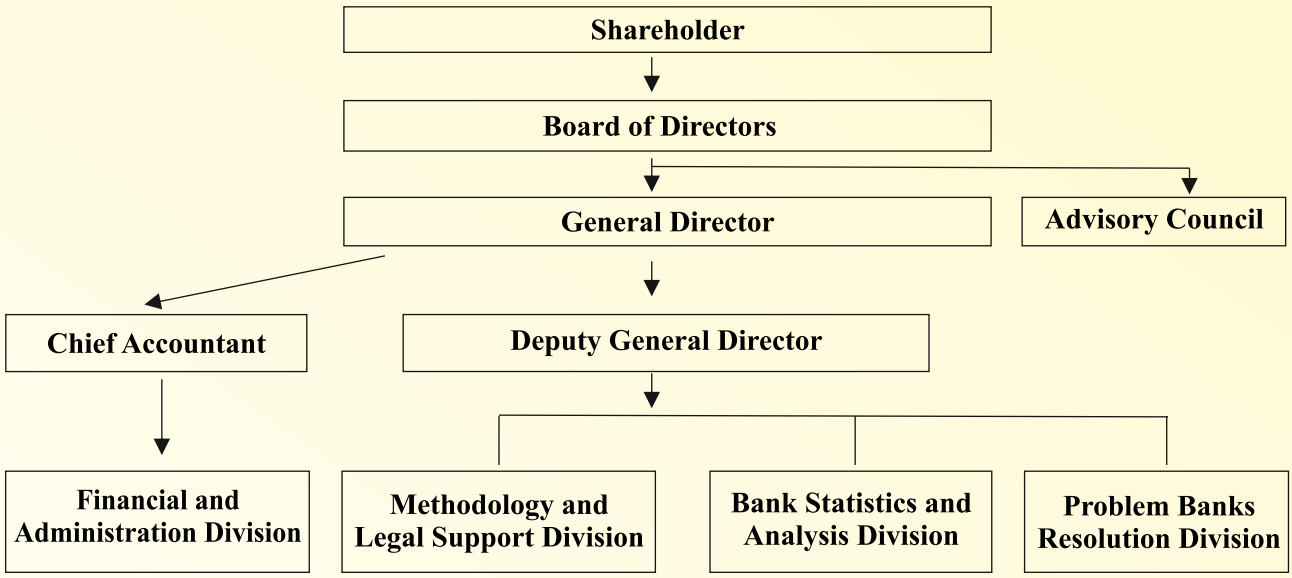
The **Board of Directors,** which is comprised of the representatives from the National Bank, Financial Supervision Agency, Ministry of Finance, Financial Institutions' Association of Kazakhstan, and the General Director, exercises general guidance of the Fund.

The **General Director,** who exercises guidance of the KDIF's day-to-day operation, represents the executive authority of the Fund.

The Advisory Board is made up of the representatives from member-banks. The Advisory Board submits its proposals and recommendations to the Fund, provides advisory services, assists in the development of the Fund's internal regulations on the matters of mandatory collective deposit insurance.

The **Auditing Commission,** which is a controlling authority appointed by the Shareholder for the term of 2 years, examines the Fund's operations, both at its own initiative and on behalf of the Shareholder.

The KDIF's Organizational Framework



Functions of Departments

Financial and Administration Division maintains the records of financial and economic performance of the Fund, exercises control over asset placements, preparation of financial, statistical and tax reports of the KDIF and also accounts for financial and other resources coming to the Fund.

Methodology and Legal Support Division is engaged in legal and contractual support of the Fund's operations, elaboration of its legal and regulatory framework, review and development of asset valuation methods, implementation of advanced methods of receivership, liquidation and reorganization of a problem member-bank.

Bank Statistics and Analysis Division ensures that statements and reports provided by member-banks are collected, processed and analyzed, exercises control over the payment of regular premiums, monitors and reviews financial condition of member-banks as well as ensures PR- and international cooperation activity of the KDIF.

Problem Banks Resolution Division participates in the temporary administration of a member-bank in case of its receivership, general banking license revocation, and takes part in the work of the liquidation commission of a member-bank under forced liquidation.

Coordination with member-banks

At present the deposit insurance system of Kazakhstan is mandatory. From January 1, 2004, only those banks, which participate in the deposit insurance system, take deposits, open and maintain bank accounts of individuals. Voluntary or forced withdrawal of a bank from the system entails automatic revocation of the bank's license for taking individuals deposits by the Financial Supervision Agency of Kazakhstan.

A bank becomes a member of the Deposit Insurance System from the day when the membership certificate is issued. From the time a bank joins the system it assumes certain obligations such as complying with the maximum deposit rates, providing regular information of financial condition, advising the general public of the System, etc.

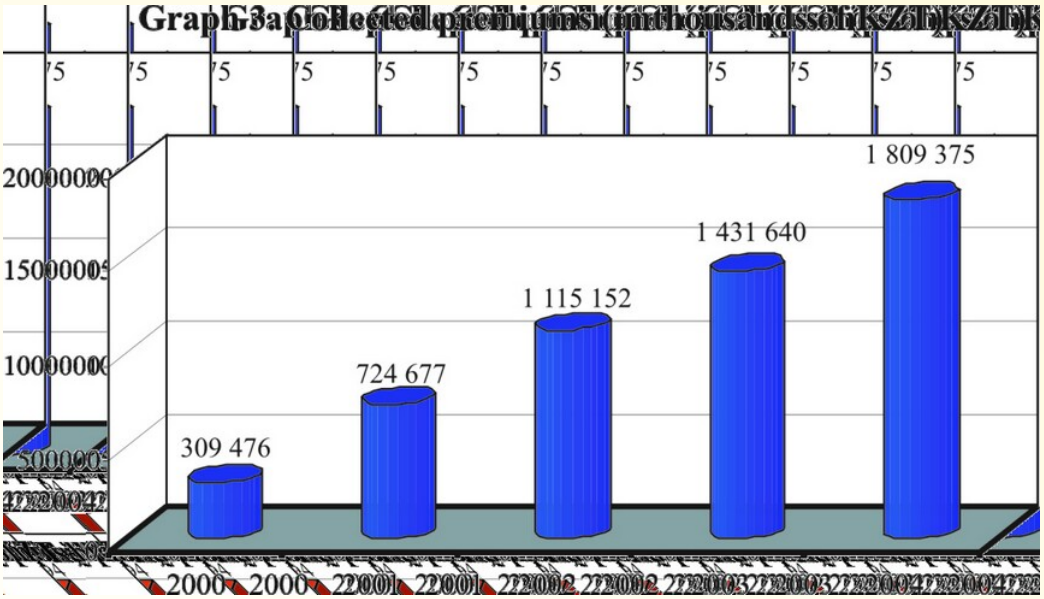
The KDIF fixes the deadlines for mandatory regular premiums which have to be paid by member-banks on a quarterly basis. The regular premiums for the banks which have been with the System over 2 years amount to 0,16% of the total insured deposits, and for those banks whose membership in the system lasts for less than 2 years – 0,25%.

A bank is expelled from the System in the event of its forcible liquidation. The KDIF is entitled to expel a member-bank from the System when the bank's license for taking deposits from individuals was revoked or when a bank violates on a regular basis the terms and conditions of the Agreement entered into between the bank and the KDIF.

A member-bank whose banking license has been revoked is to present to the KDIF a list of depositors whose deposits are subject to insurance. Depositors of a bank under forcible liquidation are paid off through an agent bank. An agent bank is selected by the KDIF among member-banks on a competitive basis.

The KDIF conducts seminars for bank employees to explain how the System operates, what amendments to the legislation concerning the System operation have been made, and it issues booklets where the answers to the most frequently asked questions are provided and disseminates them among depositors through member-banks.

As the volume of guaranteed deposits as well as the number of member-banks increase, the amount of regular premiums transferred by member-banks grows every year having amounted to KZT 1 809 375 thousands in 2004, which represents a 6 times increase compared to 2000.
(Graph 3).



Funding

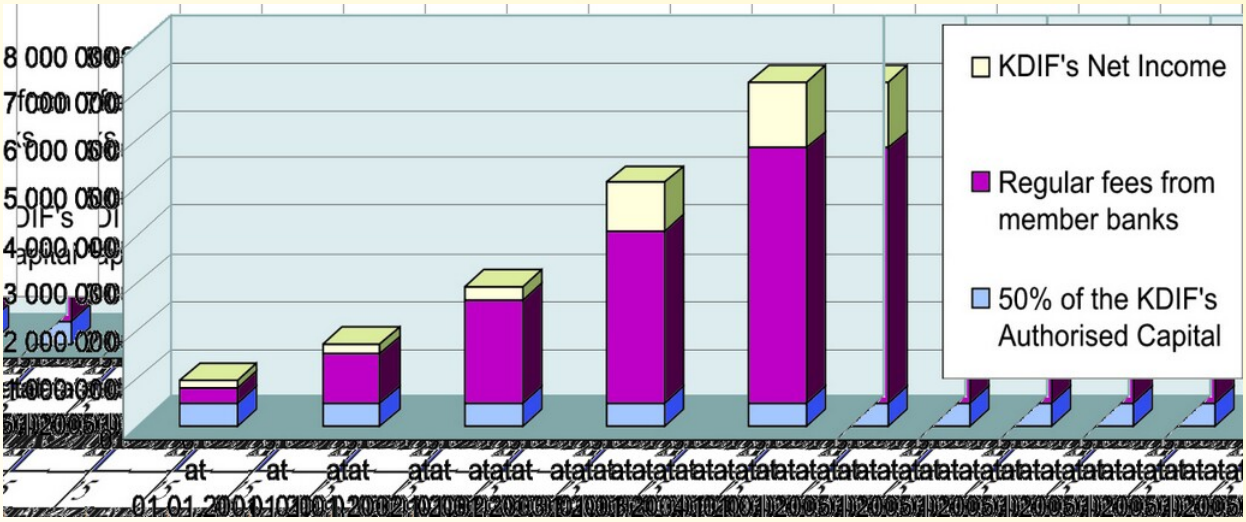
In order to pay off the reimbursement in the event of forcible liquidation of a member-bank, the KDIF builds up a specific reserve on an accumulative basis using:

- Regular premiums of member-banks;
- Fine for untimely or incomplete payment of regular premiums and other penalties imposed on member-banks;
- Monies received as the discharge of the KDIF's claims on the amounts of paid off deposits of a member-bank under forcible liquidation;
- Net income from the KDIF assets investments.

Besides, where the reimbursement reserves are inadequate the funds from the authorized capital may be used up to 50% of the authorized capital, and where the available amounts are not sufficient to pay off the insured deposits, the member-banks pay special premiums.

As of January 1, 2005 the KDIF reserve for reimbursement of the deposits amounted to KZT 6,8 bln *(Graph 4)*.

Graph 4. Funding(in thousands of KZT)



Reimbursement of the Depositors of OJSC "Komirbank"

Since OJSC "Komirbank", which was a member of the deposit insurance system, has failed in 2002, the KDIF paid off the reimbursement of its depositors (individuals). A certain number of depositors have failed to claim what is due to them on their deposits up to this day. As a result, the KDIF has reserved those monies and it has been keeping a separate account for such depositors since the KDIF's liabilities to those depositors have no maturity. As a creditor, the KDIF is a member of the Creditors Committee of OJSC "Komirbank".

Investment Policy

The KDIF's funds, securities and other financial instruments are managed by the National Bank on the basis of the Agreement of Fiduciary Management of Assets. In doing so, the National Bank takes into consideration recommendations of the KDIF's Investment Committee. As a collective body, the Investment Committee establishes the investment policy of the KDIF, makes recommendations for investment of the Fund's assets in financial instruments, and apportions assets by currencies within the limits approved by the Board of Directors.

For 5 years of its operation, assets of the KDIF reached KZT 8,3 bln. including KZT 2,3 bln. increase in 2004. The growth in assets was caused by the increase in the insured base, admission of new banks to the System and by the fact that income from previously purchased financial instruments was used for investments.

The KDIF is a non-commercial organization and the objective it assigns for itself is not to generate profit by investing its assets in risky financial instruments. The major assets of the KDIF are represented by government securities which are virtually risk-free. In 2004 amendments were made to the existing legislation that extended the list of financial instruments of the Fund. As a result, in 2004 the KDIF's funds have been invested in the bonds of the JSC «Kazakhstan Mortgage Company». Return on assets from investments is 7-10%.

Table 6 . Fund's Assets, KZT bln.

		at 01.01.2001	at 01.01.2002	at 01.01.2003	at 01.01.2004	at 01.01.2005
Fund's Assets		1,6	3,5	4,1	6,0	8,3
including:						
-invested in government securities	in KZT bln.	1,4	2,2	3,7	5,5	7,6
	as % of assets	88%	63%	90%	92%	92%
Income from Assets' Investment	in KZT bln.	0,1	0,3	0,4	0,5	0,6
	as % of assets	6,3%	8,6%	9,8%	8,3%	7,2%

Public Awareness

Public awareness is one of the primary functions of the KDIF. The KDIF makes large-scale public awareness efforts to explain and promote the goals and objectives of the deposit insurance system.

Publication of materials in the press appears to be the most active form of notification. The KDIF publishes the Register of Member-Banks of the Mandatory Deposit Insurance System in two national newspapers on a quarterly basis. In addition, the KDIF publishes articles on the System operation, broadcasts interactive live programs at the national TV and wireless.

From 2003, every year the KDIF arranges the “Hot Line” which provides direct contact of the KDIF's experts with the people living throughout Kazakhstan. The “Hot Line” helps to enhance public awareness of the Fund's goals and objectives, of the mechanism of the Deposit Insurance System operation and the pay off of the reimbursement, and it also enables the depositors get direct responses to the questions they are concerned about. All calls within Kazakshtan coming to a specially allocated telephone number are paid by the KDIF.

The KDIF disseminates information of the “hot line” by publishing notices in the local and regional newspapers as well as by advertising on the TV and wireless. The information is also disseminated among the banks participating in the Deposit Insurance System.

Based on the “hot line” performance, booklets with the most frequently asked questions have been prepared and published. The booklets have been forwarded to the member-banks for further dissemination among their depositors.

Internet web-site of KDIF is www.kdif.kz, where the information for depositors, laws and regulations, articles and public speeches in the mass media, and information reports are placed in three languages (Kazakh, English and Russian). The feed-back system is also in place which makes it possible to get responses to questions via e-mail.

International Cooperation

In April of 2003, the KDIF has joined the International Association of Deposit Insurers (IADI). The IADI membership helps strengthening the Fund's cooperation with foreign organizations, interchanging experience effectively and getting recommendations for improvement of the deposit insurance system.

Mrs. Bakhyt Mazhenova, the KDIF's General Director, is a member of the IADI's Executive Board. In addition to this, the KDIF actively participates in the operation of the Research and Audit Committees of the IADI.

The KDIF representatives took part in the IADI' Second Annual Conference in Seoul, South Korea (October, 2003) and the IADI' Third Annual Conference in Brunnen, Switzerland (October, 2004).

As an IADI member, the KDIF is participating in the Asian and Eurasian Regional Committees whose primary activities are focused on involving the countries of those regions in the participation in the development of the regional financial security system. In this area, the Fund's activities are aimed at facilitation in the development of the deposit insurance system through information sharing and interchange of experience. In 2003-2004 the representatives from the central banks and the deposit insurance institutions of Azerbaijan, Armenia, Kyrgyzstan, Russia, and Ukraine visited Kazakhstan for familiarization with the Kazakhstan's experience in building the deposit insurance system.

In May 2004, Mrs. Bakhyt Mazhenova, the KDIF General Director, made a speech at the International Conference entitled “Deposit Insurance as an Element of Stability of the Banking Sector” in Kiev, Ukraine. The conference was conducted as part of the Eurasian Regional Committee's operation to assist and provide information to the countries that wish to improve their deposit insurance systems.

In June of 2004, Mr. Jean-Pierre Sabourin, the IADI President, came on a business visit to Almaty by invitation of the KDIF. He conducted a seminar for the staff of the KDIF, National Bank of the Republic of Kazakhstan, and the Financial Supervision Agency of Kazakhstan on the liquidation procedures of failed banks.

PROSPECTS OF THE KAZAKHSTAN DEPOSIT INSURANCE SYSTEM

The Kazakhstan Deposit Insurance System is constantly improving. Its further development will be based on the best international practices towards increasing the amount of reimbursement, expanding the types of deposits subject to insurance, minimizing the systemic risks.

The main area in which the System is going to improve will be gradual transition from the pay-box system (the system where the money is simply accumulated pending the occurrence of the insured event) to the risk minimizing system.

Under the Concept of the Development of Kazakhstan's Financial Sector, the KDIF will go on with its efforts for transition to international standards, improvement of the System's mechanism, development of bank assets evaluation methods, preparation of draft laws envisaging the expansion of the KDIF's functions and powers, implementation of advanced methods of receivership, liquidation and reorganization of problem banks, etc

The KDIF is currently preparing a draft for the implementation of differentiated rates of regular premiums of member banks.

In mid-May 2005, the Fund, with support of the International Association of Deposit Insurers (IADI), will conduct the International Conference entitled “Early Warning System: as a Key Issue to Bank Solvency and Financial Stability”. Deposit insurers from various countries, experts from international organizations and audit firms, representatives from central banks and supervisors, and local commercial banks will take part in the conference.

The KDIF also schedules a seminar for the countries of the Eurasian Economic Community related to the establishment and efficient operation of the deposit insurance system in transition economies.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Joint Stock Company Kazakhstani Deposits Guarantee Fund:

We have audited the accompanying balance sheet of JSC Kazakhstani Deposits Guarantee Fund (the "Fund") as of 31 December 2004, the related profit and loss account and statements of cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of 31 December 2004, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

28 January 2005 y.
Almaty

JSC "Kazakhstani deposits guarantee fund"
Profit and loss account
for the year ended 31 december 2004

(in thousands of Kazakhstani tenge)

	2004	2003 (Unaudited)
Interest income	405,173	447,455
Interest expense	(235)	-
NET INTEREST INCOME	404,938	447,455
Net gain from securities	22,131	65,171
Other income	250	78
NET NON-INTEREST INCOME	22,381	65,249
OPERATING INCOME	427,319	512,704
OPERATING EXPENSES	(69,303)	(63,817)
OPERATING PROFIT	358,016	448,887
PROFIT BEFORE TAXATION	358,016	448,887
Income tax expense	(51)	-
NET PROFIT	357,965	448,887

This financial statement is confirmed by independent audit company Deloitte & Touche

General Director - Mazhenova B.M.

Chief accountant - Sharipov M.T.

JSC "Kazakhstani deposits guarantee fund"
Balance sheet
as of 31 december 2004

(in thousands of Kazakhstani tenge)

	2004	2003 (Unaudited)
ASSETS:		
Cash and balances with banks	136,480	28,868
Investment securities:		
- securities available-for-sale	7,708,250	5,616,508
Fixed assets, less accumulated depreciation	6,110	5,184
Other assets	472,662	391,463
TOTAL ASSETS	8,323,502	6,042,023
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deferred tax liabilities	51	-
Deposit compensation reserve	5,779,580	3,972,943
Other liabilities	156,212	39,386
Total liabilities	5,935,843	4,012,329
SHAREHOLDERS' EQUITY		
Share capital	1,000,000	1,000,000
Reserves	1,387,659	1,029,694
TOTAL SHAREHOLDERS' EQUITY	2,387,659	2,029,694
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	8,323,502	6,042,023

This financial statement is confirmed by independent audit company Deloitte & Touche

General Director - Mazhenova B.M.

Chief accountant - Sharipov M.T.

JSC "Kazakhstani deposits guarantee fund"
Statement of changes in equity

(in thousands of Kazakhstani tenge)

	Share capital	Reserve capital	Special reserve fund	Retained earnings	Total
31 december 2002					
(Unaudited)	1,000,000	10,000	292,301	278,506	1,580,807
Transfer into special reserve	-	-	278,506	(278,506)	-
Net profit for the year	-	-	-	448,887	448,887
31 december 2003					
(Unaudited)	1,000,000	10,000	570,807	448,887	2,029,694
Transfer into special reserve	-	-	448,887	(448,887)	-
Net profit for the year	-	-	-	357,965	357,965
31 december 2004	1,000,000	10,000	1,019,694	357,965	2,387,659

This financial statement is confirmed by independent audit company Deloitte & Touche

General Director - Mazhenova B.M.

Chief accountant - Sharipov M.T.

JSC "Kazakhstani deposits guarantee fund"
Statement of cash flow
for the year ended 31 december 2004

(in thousands of Kazakhstani tenge)

	2004	2003 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before bincome tax	358,016	448,887
Adjustments for:		
Unrealised (gain)/loss and amortisation of (discounts)/premiums on securities	(102,368)	(94,597)
Depreciation and amortisation	1,177	960
Change in interest accruals, net	(21,548)	(4,582)
Cash flows from operating activities before changes in operating assets and liabilities	235,277	350,668
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets:		
Securities available-for-sale	(1,967,826)	(1,786,594)
Other assets	(81,199)	(61,125)
Increase/(decrease) in operating liabilities		
Other liabilities	116,826	36,065
Net cash outflow from operating activities	(1,696,922)	(1,460,986)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed and intangible assets	(2,103)	(3,736)
Net cash outflow from investing activities	(2,103)	(3,736)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in reserve capital	1,806,637	1,493,503
Net cash outflow from financing activities	1,806,637	1,493,503
NET INCREASE IN CASH AND CASH EQUIVALENTS	107,612	28,781
CASH AND CASH EQUIVALENTS, at beginning of year	28,868	87
CASH AND CASH EQUIVALENTS, at end of year	136,480	28,868

Interest paid and received by the Fund in cash during the year ended 31 December 2004 amounted to KZT 235 thousand and KZT 383,625 thousand, respectively.

Interest paid and received by the Fund in cash during the year ended 31 December 2003 amounted to zero and KZT 374,561 thousand, respectively.

This financial statement is confirmed by independent audit company Deloitte & Touche

General Director - Mazhenova B.M.

Chief accountant - Sharipov M.T.