

ҚАЗАҚСТАННЫҢ
ДЕПОЗИТТЕРГЕ
КЕПІЛДІК БЕРУ
Қ О Р Ы



KAZAKHSTAN
D E P O S I T
I N S U R A N C E
F U N D

2014
2016

STRATEGIC
DEVELOPMENT PLAN

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LIST OF ABBREVIATIONS

Compliance verification examinations of the automated insured deposits recording databases with the KDIF's requirements	Conducting examinations to verify compliance of the member banks' proprietary automated insured deposit recording databases with the requirements of JSC Kazakhstan Deposit Insurance Fund as established in the Contract of Adhesion
DIS	Deposit insurance system
IADI	International Association of Deposit Insurers
IT	Information technology
JSC	Joint Stock Company
KFA	Kazakhstan Financiers' Association
NBK, the National Bank	The National (Central) Bank of the Republic of Kazakhstan
RK	The Republic of Kazakhstan
The Deposit Insurance Law	Law of the Republic of Kazakhstan "On mandatory insurance of deposits placed with the second tier banks of the Republic of Kazakhstan"
The KDIF, the Fund	JSC "Kazakhstan Deposit Insurance Fund"

The Strategic Development Plan of JSC "Kazakhstan Deposit Insurance Fund" for the period 2014 – 2016 is aimed at establishing the goals and objectives of top priority for further development of deposit insurance system in the Republic of Kazakhstan.

INTRODUCTION

The Strategic Development Plan of JSC "Kazakhstan Deposit Insurance Fund" establishes the strategic direction, goals and objectives for the KDIF's operations for three upcoming years.

The strategic development objectives are established on the basis of analysis of the economic conditions and risk outlook within the planned period. The grounds for the KDIF's development were established in the comprehensive strategic management concept, which analyzes the specific risks to material operations and identifies the most efficient KDIF's operations to ensure transition of the Kazakhstani deposit insurance system to a new phase of development.

The strategic development plan establishes the grounds for effective fulfillment of the KDIF's mission to be an efficient deposit insurance organization which continuously implements global best practices in its operations.

KDIF's major achievements. Today, the KDIF is an important financial safety net player in the Republic of Kazakhstan, and implements the public policy within the framework of its respective objectives aimed at ensuring domestic financial system's stability. The KDIF's operations foster growth in individuals' deposits placed with the Kazakhstani banks and also in the banking sector's general

liquidity levels.

In November, 2013, at the Annual General Meeting of the International Association of Deposit Insurers (IADI) in Buenos Aires (Argentina), Kazakhstan Deposit Insurance Fund won the award of the year in the nomination "Deposit Insurance Organization of the Deposit Insurance Systems' Improvements".

In granting the above award the International Association of Deposit Insurers acknowledged such KDIF's achievements as attaining high efficiency of operations specific to making payouts to the forcibly liquidated member bank's depositors, development of IT solutions, advanced funding and risk management system, public awareness activities, and improvement of the legislation of the Republic of Kazakhstan on the deposit insurance. In line, a specific contingency plan for implementing different PR activities in the event of a member bank's forced liquidation was comprehensively reviewed and updated.

In line with the Financial Market Development Concept of the Republic of Kazakhstan 2030, new mandates and powers related to liquidation and resolution of insolvent problem commercial banks are planned to be transferred from the National Bank of Kazakhstan to the KDIF.

THE COMPREHENSIVE STRATEGIC MANAGEMENT CONCEPT

In the process of planning its operations the KDIF is guided by the comprehensive strategic management concept which is based on the analysis of the attributable material risks, as well as on the internal risk management system.

The following factors are taken into account in the KDIF's strategic planning processes:

- the environment behind the deposit insurance system's and KDIF's operations,
- the identified and classified material risks,
- the key KDIF's partners,
- the planned strategic performance indicators,
- the strategy and specific actions aimed at achieving maximum results in a sustainable manner.



OVERVIEW OF THE KAZAKHSTAN DEPOSIT INSURANCE FUND'S OPERATIONS

In Kazakhstan, the deposit insurance system was established in 1999, and has repeatedly reaffirmed its efficiency in maintaining the country's financial stability and enhancing public confidence in the Kazakhstani banking sector. Over the entire period of its operations, approximately 70 thousand depositors of three banks being forcibly liquidated pursuant to the respective ruling of court (in 2002, 2005, and 2007) have been reimbursed by the KDIF in the total amount of 15 billion tenge.

The legal framework for the Kazakhstani deposit insurance system is established in the Law of the Republic of Kazakhstan "On Mandatory Insurance of Deposits Placed with Second-Tier Banks of the Republic of Kazakhstan" dated July 7, 2006. Later on, the Law of the Republic of Kazakhstan "On making amendments and addenda to specific legal acts regarding the banking operations' and financial organizations' prudential regulations in terms of risk mitigation" dated December 29, 2011 provided for maintaining the coverage limit at the level of 5 million tenge per depositor per bank on the permanent basis.

Kazakhstan Deposit Insurance Fund is a non-profit subsidiary organization of the National (Central) Bank of Kazakhstan, and is incorporated in the legal form of Joint Stock Company.

The National Bank of Kazakhstan, as the KDIF's sole shareholder, retains the powers of the highest KDIF's governing authority. The KDIF's supreme management entity is its Board of Directors. With a total of seven members, the Board of Directors is composed of the Deputy Governor of the National Bank of Kazakhstan, directors of three divisions at the National Bank of Kazakhstan, three independent directors, one being Chairman of the Kazakhstan Financiers' Association, and the KDIF's Chairman.

The Board of Directors is responsible for implementing the KDIF's Strategic Development Plan. The strategic planning practices are based on the going concern principle. In this regard, the Strategic Development Plan is subject to review on the annual basis aimed at updating the plan for three forthcoming years.

MISSION STATEMENT

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

THE KEY FUNCTIONS

In line with the Law, the KDIF is vested with the following mandates and powers:

- reimbursing depositors in the event of a DIS member bank's forced liquidation;
- accumulating funds in its special reserve;
- ensuring efficient proprietary assets investment management;
- establishing requirements to the DIS member banks for the administration of insured deposits' automated databases, and conducting on-site verifications of compliance with these requirements;
- calculating commercial banks' differential premium rates and determining the order of premiums' payment to the KDIF;
- participating in the member bank's temporary administration during conservatorship and upon withdrawal of the member bank's license for conducting all banking operations;
- participating in the liquidation commission and creditors' committee of a forcibly liquidated member bank until the KDIF's claims payouts that have been made to insured depositors are fully settled by the KDIF.



SWOT ANALYSIS OF OPERATIONS

S – STRENGTHS

- ▼ Experience in participating in the member banks' forced liquidation
- ▼ Involvement of the National Bank of Kazakhstan in the KDIF's operations (the KDIF's sole Shareholder, membership in the KDIF's Board of Directors), which implicitly allows the KDIF to take part in decision making with regard to an insolvent bank
- ▼ Comprehensive goals and objectives of the deposit insurance system are stipulated in the national legislation
- ▼ Mandatory membership of the second-tier banks in the domestic deposit insurance system
- ▼ Availability of the "BATA" differential premium system, which enables adequate assessment of financial position of, and the attributable risk level with regard to a DIS member bank, and "BATA" Information System for calculation of the applicable differential premium rates
- ▼ The methodology for establishing the target reserve ratio and the target special reserve balance to assess adequacy or deficit of the KDIF's special reserve ratio
- ▼ Broad range of existing communication strategies aimed at maintaining public awareness of various target audiences about the KDIF
- ▼ Conservative investment strategy stipulating investment of the KDIF's assets in low-risk financial instruments
- ▼ The mandate to conduct verification checks of the compliance of the member banks' insured deposits databases with the KDIF's standard requirements stipulated in the Contract of Adhesion

W – WEAKNESSES

- ▼ Limited KDIF's engagement in the member bank's forced liquidation procedures
- ▼ Limited mandate in terms of payouts organization and implementation
- ▼ Incomplete KDIF's access to the depositors' database due to the latter being subject to banking secrecy provisions
- ▼ No contingency plan in the event of crisis (systemic crisis) has been established yet
- ▼ The provisions for practical implementation of bank insolvency resolution methods (bridge bank, purchase and assumption transaction) have not been stipulated in the national legislation yet
- ▼ The Law of the Republic of Kazakhstan "On Banks and Banking Activities in the Republic of Kazakhstan" (page 4, art. 50) impedes in several ways implementation of the "BATA" differential premium system
- ▼ KDIF has no brand-book to date, i.e. the unique standardized format for the KDIF's promo and presentation materials; no regular and reliable assessment of the KDIF's public awareness campaign has been conducted by independent professional contractor specialized in marketing and/or advertising industry
- ▼ Limited options for immediate sale of the financial instruments under adequate terms
- ▼ Limited mandates in using the special reserve funds
- ▼ The KDIF's mandates and powers in conducting verifications of compliance of the commercial banks' automated databases on insured deposits with the KDIF's standard requirements have not been enacted by law yet

O – OPPORTUNITIES

- ▼ Close KDIF's cooperation with the National Bank of Kazakhstan in an effort to expand the scope of data to be provided to the KDIF for development of the "BATA" differential premium system and the methodology for determining the KDIF's target reserve ratio
- ▼ Ability to expand the scope of financial instruments approved for purchase with a view of increasing the yield of the KDIF's investment portfolios
- ▼ The mandate and powers to handle resolution of the failed banks being transferred to the KDIF
- ▼ Approaches for implementation of the advanced methods of liquidation and resolution of banks in insolvency being elaborated on the basis of the global best practices
- ▼ Verification checks of compliance of the member banks' insured deposit databases with the standard KDIF's requirements via the KDIF's proprietary software
- ▼ Broad scope of options to apply the communication strategies via various communication channels free of charge

T – THREATS

- ▼ Inadequate reporting of the member banks' risk profiles due to the insufficient flow of information to develop the full potential of the "BATA" Differential Premium System
- ▼ The need in further development of the banking legislation and regulations in terms of establishing the trigger procedural circumstances and factors for handling bank resolution or liquidation measures
- ▼ Provisions are missing that the member banks shall participate in the tender for proposals on selecting an agent bank
- ▼ Practical incapacity of the "Kazpost" JSC to process payouts to insured depositors in the event of failing tender for selecting an agent bank
- ▼ Restrictions applied in drafting the budget for the public awareness campaign related to the public procurement of promotional products
- ▼ Reporting foreign currency losses on assets denominated in foreign currency following foreign exchange rates' fluctuations

given the availability of important news related to the KDIF's operations; opportunities for cooperation with the member banks in conducting the KDIF's public awareness campaign via the banks' different advertising and information channels,

▼ The opportunity to use the right to legislative initiative of the National Bank of Kazakhstan in terms of making amendments and addenda to the legislative acts that govern the deposit insurance-related specific issues

▼ The Law on Deposit Insurance stipulates that the KDIF has the right to assign an agent bank on the basis of competitive bidding, and if none of the applicant banks meet the requirements to the agent bank, to make payouts via the National Postal Operator

▼ Due to the KDIF's limited mandates and powers in the respective field, no opportunities exist for regular monitoring of the quality of the member banks' databases on insured deposits

MAJOR KDIF'S ACHIEVEMENTS IN 2010 – 2013

2010

▼ In February, 2010 the KDIF's Investment Policy was entirely revised and updated.

▼ In April, 2010 the reimbursement amounts paid to the depositors of JSC "Valut-Tranzit Bank" were reconciled between the KDIF and the agent bank.

▼ In July, 2010 the KDIF's Board of Directors approved the amendments and addenda to the Rules for calculating and establishing the order of payment of mandatory, additional and extraordinary premiums by the member banks to the KDIF.

▼ During the year, 6 meetings of the KDIF's Board of Directors and 9 meetings of the Advisory Council were held.

▼ Liquidation processes of JSC "Nauryz Bank Kazakhstan" and JSC "Valut-Tranzit Bank" continued to be carried out. As of the end of the reporting year, 14.6 billion tenge in total had been paid out, 67 thousand depositors of both banks had been reimbursed. In addition, as of the end of the reporting year, JSC "Nauryz Bank Kazakhstan" liquidation commission had settled 88% of the KDIF's claims for reimbursing its payouts to depositors, whereas JSC "Valut Tranzit Bank" liquidation commission had settled 31% of the KDIF's claims, having reimbursed the KDIF for the total amount of 4.5 billion tenge.

▼ The compliance verifications of the automated reporting databases on insured deposits owned and administered by the member banks with the KDIF's requirements were conducted in 10 member banks. Repeated follow-up examinations were conducted in 4 member banks.

▼ In December, 2010 the KDIF's sole Shareholder increased the KDIF's authorized capital by 10%, up to the amount of 121 billion tenge. As at the end of 2010, the aggregate amount of premiums paid by the member banks composed 46.8 billion tenge, whereas the KDIF reported 202.3 billion tenge in total assets and 8.1 billion tenge of investment income.

2011

▼ In March, 2011 the Methodology for determining the maximum recommended interest rates on newly accepted individuals' deposits was approved.

▼ In June, the "BATA" Information System was updated following the amendments made to the Rules for determining of, and establishing the order of payment for the regular, additional and extraordinary premiums.

▼ In December, 2011 Law of the Republic of Kazakhstan "On making amendments and addenda to certain legal acts regarding prudential regulations of banking activities and financial organizations in part of risk mitigation" dated 29 December, 2011 provided for maintaining the coverage limit at the level of 5 million tenge per depositor per bank on continuing basis.

▼ The KDIF developed and put into test operation the "SalT Inspect" Information System dedicated for automation of the processes of compliance verification of the insured deposit reporting databases with the KDIF's requirements.

▼ The KDIF started development of the "SalT Payout" Information System designed to streamline the operations conducted

by the KDIF's employees in the event of a member bank's forced liquidation.

▼ The examinations on verifying compliance of the automated reporting databases on the member banks' insured deposits with the KDIF's standard requirements were conducted at 12 DIS member banks. Follow-up examination was conducted at one DIS member bank.

▼ Liquidation procedures at JSC "Nauryz Bank Kazakhstan" and JSC "Valut-Tranzit Bank" continued. As of the end of the reporting year, JSC "Nauryz Bank Kazakhstan" liquidation commission had settled 88% KDIF's claims for the payouts to depositors, whereas JSC "Valut Tranzit Bank" liquidation commission had settled 36% of the KDIF's claim, having reimbursed the KDIF for 5.1 billion tenge.

▼ The KDIF started conducting self-assessment of the Kazakhstani deposit insurance system's compliance with the IADI – BCBS Core Principles for Effective Deposit Insurance Systems.

▼ Annual General Meeting of the IADI Eurasian Regional Committee and International Seminar "Problem Bank's Resolution Methods and Payouts of the Insurance Coverage" were held in Almaty in September, 2011.

▼ In December, 2011 the KDIF's Sole Shareholder increased the KDIF's authorized capital by 10%, up to the amount of 133.1 billion tenge. As of the end of 2011 regular premiums paid by the member banks to the KDIF amounted to 67.11 billion tenge, whereas the KDIF reported 243.9 billion tenge in total assets and 8.3 billion tenge in investment income.

2012

▼ Compliance assessment of Kazakhstani deposit insurance system with the IADI – BCBS Core Principles for effective deposit insurance systems was accomplished.

▼ The Rules for making payouts to depositors of a forcibly liquidated member bank were given approval ratification (by Resolution by the Board of Directors dated 06 November, 2011).

▼ Liquidation processes of JSC "Nauryz Bank Kazakhstan" and JSC "Valut-Tranzit Bank" continued. As of the end of the reporting year, JSC "Nauryz Bank Kazakhstan" liquidation commission have settled 88% KDIF's claims for the payouts to depositors, whereas JSC "Valut Tranzit Bank" liquidation commission have settled 49.4% of the KDIF's claim, having reimbursed the KDIF for 7 billion tenge.

▼ The checks for compliance verification of the automated insured deposit reporting databases owned and administered by the member banks with the KDIF's requirements were conducted in 14 member banks. Repeated follow-up examinations were conducted in 5 banks.

▼ In December, 2012 the Sole Shareholder of the KDIF increased the KDIF's authorized capital by 10%, up to the amount of 146.41 billion tenge. As at the end of 2012 regular premiums paid by the member banks amounted to 89.4 billion tenge, whereas the KDIF reported 282.26 billion tenge in total assets and 9.28 billion tenge investment income.

2013

▼ In February, 2013 the Board of Directors ratified the Methodology for Determination of the Target Reserve Ratio and Amount.

▼ In November, 2013 the KDIF won the IADI award in nomination "Deposit Insurance Organization of Deposit Insurance System Improvements".

▼ In order to ensure replenishment of the KDIF's special reserve for payouts, novelty was introduced to legislation that provides for tax exemption for the investment income reported on the special reserve assets.

▼ The qualitative and quantitative indicators of the "BATA" differential premium system were revised, a new classification group "S" was introduced for designation of the member banks which offer interest rates on deposit banking products higher than the rate being recommended by the KDIF. Work on actualization of the "BATA" Information System and its development commenced.

▼ "SaIT Payout" Information System was put into test operation.

▼ The necessary deliverables were submitted to the Intellectual Property Rights Committee of Ministry of Justice of the Republic of Kazakhstan for obtaining Certificate of State Registration of Rights to the information systems "SaIT-Inspect" and "SaIT-Payout".

▼ The KDIF installed the "SaIT Inspect" Information System free of charge on the equipment of three banks for permanent use within the whole period of membership of the banks in deposit insurance system, the Agreement on provision and use of the Information System being signed.

▼ The checks for compliance verification of the automated insured deposit reporting databases owned and administered by the member banks with the KDIF's requirements were conducted in 2 member banks. Repeated follow-up examinations were conducted in 3 banks.

- ▼ Over the year, the KDIF was subject to number of examinations by the Tax Committee to verify compliance of its operations with the tax legislation of the Republic of Kazakhstan.
- ▼ Liquidation processes of JSC "Nauryz Bank Kazakhstan" and JSC "Valut-Tranzit Bank" continued. As of the end of the reporting year, JSC "Nauryz Bank Kazakhstan" liquidation commission have settled 88% KDIF's claims for the payouts to depositors, whereas JSC "Valut Tranzit Bank" liquidation commission have settled 54.7% of the KDIF's claim, having reimbursed the KDIF for 7.8 billion tenge.
- ▼ In December, 2013 the Sole Shareholder increased the KDIF's authorized capital by 10%, up to the amount of 161.05 billion tenge. As at the end of 2013, regular premiums paid by the member banks amounted to 114.65 billion tenge, whereas the KDIF reported 338.08 billion tenge in total assets and 12.35 billion tenge investment income.

THE KEY AREAS FOR DEVELOPMENT IN 2014 – 2016

Within the planning period, the KDIF will remain focused on maintaining public confidence in deposit insurance system via fulfillment of the following strategic development objectives.

- To implement provisions of the Financial Sector Development Concept of the Republic of Kazakhstan 2030 through development of legislation that governs deposit insurance, including assigning the liquidation and insolvency resolution to the KDIF by legislation,
- to ensure operational capacity of the KDIF to fulfill its mission critical responsibilities to reimburse depositors in the event of bank failure in timely and accurate order,
- to develop the provisions for replenishment of the KDIF's special reserve for payouts and ensuring financial sustainability of the KDIF,
- to consider the issue of implementation of integrated protection scheme which extends the Government guarantee to bank depositors and clients of certain types of insurance,
- to extend the deposit insurance coverage scope to certain types of legal entities (socially meaningful types of small businesses),
- to strengthen the risk assessment and analysis practices and controls over the KDIF's operations,
- to intensify the efforts to maintain public awareness of the deposit insurance system and improving general understanding by people of the deposit insurance principles.

Fulfillment of the Financial Sector Development Concept of the Republic of Kazakhstan 2030, bank insolvency resolution, efficient liquidation, and ensuring recoverability of the special reserve assets

One of the objectives which are set in the Financial Sector Development Concept 2030 is to enhance the procedures related to early insolvency detection and resolution, and

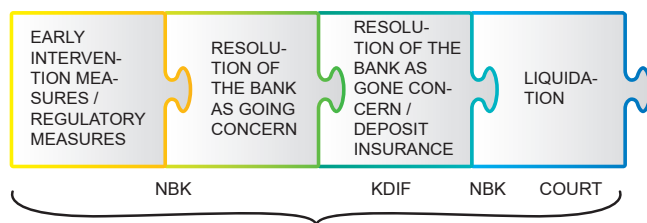
liquidation of banks. Thus, according to the Concept, the mandate to take early intervention actions by the financial regulator and recovery related actions, which adequately address the level of problems in the given bank, shall be clearly delineated. In order to ensure fulfillment of this objective and further development of the deposit insurance system it is planned that:

- the mandate and powers for conducting insolvency resolution (i.e. upon withdrawal of license from a bank) are transferred to the KDIF,
- the provisions for utilization of the deposit insurance funds shall be in place in the event if the KDIF is directly engaged in the resolution processes, given that the resolution costs are less than liquidation costs (the least cost method),
- banking regulation acts are revised in part of following determination of the procedural basis and criteria to take the recovery or resolution actions (purchase-and-assumption transaction, bridge bank, obligations restructuring or conversion into shareholders' equity, etc.),
- the procedure for writing off the uncollectable obligations by the liquidation commission is simplified.

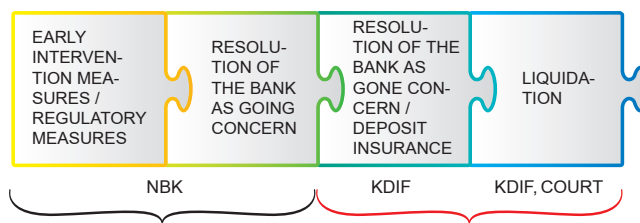
The KDIF will be directly engaged in fulfillment of this objective via introduction of the related novelty proposals to assign the KDIF the mandate and powers for bank insolvency resolution by law, including:

- selection of the insolvency resolution method (on the basis of least cost or optimal cost principle),
- provision of access to information being banking commercial secrecy,
- use of KDIF's special reserve funds in the recovery procedure applied to weak banks, provided that the KDIF is directly engaged in those processes.

The system as effective



The new approach in line with the Concept



Efficient development of the bank insolvency recovery processes requires that the KDIF is better informed of financial standing of the member banks, which in turn requires that the KDIF takes the respective actions:

1) to extend the provisions of the Cooperation Agreement between the KDIF and the National Bank of Kazakhstan (exchange of regulatory information, joint participation in inspecting the insolvent banks, coordination of actions for the insolvency resolution period),

2) to ensure engagement KDIF's representatives in meetings of the Management Board and the respective committees of the National Bank of Kazakhstan which are held to address the matters of weak or insolvent banks,

3) to analyze and assess actual financial position of a member bank, its loan portfolio etc.,

4) to ensure adequate appraisal of intangible assets of a bank, particularly the loan portfolio, automated bank information system, i.e. the assets that must be sold promptly and which are complex in determining the market value,

5) to determine the source of funding for the bank recovery process: 1) investment income, 2) costs allocated to authorized capital, 3) special reserve for payouts,

6) to develop the recovery plan and assess the plan for being comprehensive and realistic.

Apart of this, fulfillment by the KDIF of the elements of the Financial Sector Development Concept 2030 in coordination with the financial regulator will allow efficient segregation of the mandate and powers to handle the resolution processes between the KDIF and the National Bank and avoid conflicts of interest which arise when the mandate and powers associated with both supervision of banking sector on the one hand, and the liquidation authority of failed banks on another hand. Apart of that, transferring the mandate and powers associated with insolvency resolution to the KDIF as the major creditor of the failed bank is believed to facilitate more effective liquidation processes and allow to optimize the KDIF's costs associated with reimbursing depositors, as well as to mitigate the overall expenses associated with the

liquidation process.

Implementation of integrated protection scheme which provides for deposit insurance and guarantee of certain types of insurance

According to Global best practice, the trend to integration of the deposit insurance organizations and insurance guarantee schemes becomes apparent in many developed countries. The key advantage of provision of the integrated protection scheme in the financial market is increasing stability of financial system, particularly in the crisis period when the need in integrated and adequately capitalized protection scheme becomes critical. Apart of that, other positive effects of establishment of the integrated protection scheme in the Kazakhstani financial market are the following:

- best use of the organization's resources is ensured in insolvency resolution procedures applied both to banks and insurance companies, administrative expenses related to maintenance of the administrative bodies are optimized,
- the resolution procedures for banks and insurance companies are standardized,
- operations readiness of the KDIF in the event of failure of member bank is enhanced, since the integrated protection scheme being established, the KDIF will be able to utilize all necessary procedures applied to insurance companies which are far more likely to undergo liquidation compared to banks,
- bringing the Kazakhstani financial market infrastructure in line with global best practices and the latest trends (particularly those being applied in the Russian Federation which also moves toward introduction of the integrated protection scheme), which will clearly be a positive factor in light of the integration processes in the Eurasian Economic Union and the declared commitment of the member states to harmonize the national legislation.

Following the above mentioned, by 2016 the KDIF will elaborate the issue of being integrated with JSC "Insurance Payments Guarantee Fund" with a view to establishment of the integrated protection scheme.

THE MAJOR STRATEGIC PRINCIPLES

In its operations, particularly in fulfillment of the development strategy, the KDIF remains committed to the following strategic principles.

Effective corporate governance practices and establishing partnerships

Ensuring transparency, relevance and legitimacy of financial operations, strong corporate governance and management practices. As well, clear accountability of the KDIF to the Sole Shareholder, reporting and adequate disclosure of information by the KDIF.

Ensuring capacity and development of the risk management system

Readiness to fulfill the entrusted mission and to realize the mandate and powers to reimburse depositors in the event of a member bank's liquidation effectively and within the prescribed deadline. Effective and uninterrupted functioning of the respective systems and processes, possession by the KDIF's employees of the requisite skills and competencies, capacity to identify, assess and manage risks to ensure continuing fulfillment of the assigned mandate and powers, as well as availability of financial, material, and labor resources, the automated systems to verify validity of the insured depositors register and the processes associated to handling payouts.

Efficiently maintaining public awareness of deposit insurance system

Comprehensive development of the efficient public awareness concept dedicated to raising public awareness of all advantages and limitations of the deposit insurance system and the conditions of its operations, and strengthening public confidence in the Kazakhstani financial system and particularly in its banking sector.

Rational use of assets and raising efficiency of investment management practices

Timely investments of the KDIF assets in financial instruments, updating the scope of financial instruments with a view to ensure returns on investments at an acceptable level, which is ultimately dedicated to reducing the special reserve deficit under the conditions of safeguarding the KDIF's assets and maintaining the level of liquidity to ensure effective fulfillment by the KDIF of the entrusted mandate and powers.

Enhancing legal framework in line with Global best practices

Elaboration of proposals regarding deposit insurance system operations, reimbursing depositors in the event of failure of member bank, insolvency resolution tools in line with global best practices and International standards, as well as global developments and trends.

Increasing efficiency of partnership affairs and international cooperation, and engaging professional consulting firms

Working efficiently with the KDIF's partners, namely the regulatory authority (the Sole Shareholder), the member banks, IADI, international professional consulting firms and service providers. Signing memoranda of understanding and cooperation with frontier deposit insurance organizations which are members of the IADI Eurasia and Asia Pacific regional committees, as well as supplementary agreements on cooperation and exchange of information with the National Bank of Kazakhstan. Engage in active positive dialogue with the member banks through Financial Institutions' Association of Kazakhstan, and the Advisory Council of the KDIF.

DEVELOPMENTS IN THE KAZAKHSTANI FINANCIAL MARKET AND DEPOSIT MARKET OUTLOOK FOR 2014 – 2016

Banking sector and its core inherent risks

Banking sector plays the major role in the Kazakh economy being the key source of credit and financing for the other sectors of economy. Nonetheless, banking sector has not recovered after the Global financial crisis of 2007 – 2009. The major risks attributable to the banking sector remain, namely low growth pace of loan portfolio against its low quality resulting in delayed replacement of bad loans with newly issued standard loans, which requires intensified efforts by the banks to clean up the balances of distressed assets.

Though using domestic deposits as the primary source for funding of operations raises the banks' resilience to external shocks, it hampers adequate funding of long-term projects by banks, which reduces the role of banks in flow of credit in the economy. The overall liquidity in banks has been raised following increase in deposits placed primarily for short period, and still the indicators of capital adequacy and liquidity remain low and derive mainly from non-interest income.

In aggregate terms, from 2011 on, the trend to growth was observed in the banking sector. Over 2011 – 2013, the banks reported aggregate increase in assets by 28.5% (+3,430.2 billion tenge) up to the amount of 15.5 trillion tenge. Particularly, over 2013, an increase by 1.6 trillion tenge (by 11.5%) in aggregate assets was reported. The key driver for growth was increase in

deposit balances of corporate clients and individuals. It is important to note that this growth in deposits indicates public confidence in banking sector. Over the crisis and post-crisis years, continued growth of deposit balances of individuals placed with the DIS member banks was observed. Over 2013, the individuals' deposit balances increased by over 15% and reached the amount of 3.9 trillion tenge in aggregate terms.

As at the beginning of 2014, the aggregate loan portfolio balance of second-tier banks in the amount of 13.3 trillion tenge was reported, 13.2 trillion thereof pertaining to the DIS member banks. The aggregate loan portfolio increased by 1.7 trillion tenge (14.6%).

Nonetheless, the trend to deterioration in asset quality, particularly quality of loan portfolio, remained. As at the end of 2013, share of non-performing loans increased up to 36.9% compared to 35.9% the same period of the previous year. Over 2013, the standard loans balance fell twice resulting in balance 1.7 trillion tenge, doubtful loans increased by 66%, whereas bad loans increased by 1.8%.

Commencing January 1, 2016 with a view to address the low asset quality issue the National Bank imposes the maximum limit for the non-performing loans share in a bank's loan portfolio balances at the level of 10%.

Consumer deposit market in Kazakhstan

Deposits are the major source for the second tier banks' operations funding. As at January 1, 2014 aggregate deposit balances accounted for 73.6% of the aggregate total liabilities balances of second-tier banks.

In aggregate terms, over 2011 – 2013 the upward trend in aggregate deposit balances share in total liabilities and shareholders' equity remains constant with aggregate increase

in the deposit balances from 67.7% up to 73.6%, respectively, which shows continuing public confidence in banking following the decision to maintain the maximum coverage limit at the amount of 5 million tenge on regular basis. Particularly, over the last three years, the aggregate retail deposit balances are growing continuously, having gained 15.6%, or 534 billion tenge, resulting in balance of 3.9 trillion tenge.

Table 1. Bank deposit balances in dynamics

	Jan., 2011	Jan., 2012	Jan., 2013	Jan., 2014
Bank deposit balances (in billion tenge), including:	6 851	7 799	8533	9 845
Individuals' bank deposits (billion tenge)	2 251	2 764	3415	3 949
Gain/loss per period (%)	16,2%	22,8%	23,6%	15,6%
Corporate and legal entities' deposits (in billion tenge)	4 600	5 035	5118	5 896
Gain/loss per period (%)	-21,5%	9,5%	1,7%	15,2%

Source: Financial reports of the second-tier banks, the National Bank of the Republic of Kazakhstan

According to the reporting data on individuals' deposit balances in the member banks as at 1 January, 2014 term deposits balances, which have gained 494.1 billion tenge (16.7%) resulting in 3.4 trillion tenge balance, take the major share (87%) of the aggregate retail deposits balance. Those deposits are followed by cash balances in current and card accounts which showed annual increase by 42.4 billion tenge taking the share of 12% in the aggregate deposit balances. The aggregate call deposits balances were 36.2 billion tenge (a decrease by 0.4 billion tenge), which takes the share of 1% of the aggregate deposit balances. An increase in major foreign currency term deposit balances (i.e. those over 15 million tenge) by 272.6 billion tenge (by 33.1%) primarily contributed to growth in aggregate retail consumer deposit balances.

At the same time, net annual gain in large term deposits

(those over 15 million tenge) was reported in the amount 222.2 billion tenge (14.9%) following the 50.4 billion tenge decrease in the same deposits in national currency. Aggregate balance of deposits in the amount of less than, or equal to 5 million tenge gained 18.4% (or 189.9 billion tenge), whereas deposits in the amount of 5 to 15 million tenge have increased by 19.3% (82.1 billion tenge).

The aggregate number of retail consumer accounts with the member banks as at 1 January, 2014 in value less than, or equal to 5 million tenge is 99.6. Aggregate value of those deposits is 43.6%.

According to the KDIF's forecast, the aggregate deposit balances of retail consumers with the member banks is likely to gain 14% in average annually over the years 2014 – 2016 (see Attachment 1).

Adequacy of the maximum coverage limit

According to the IADI Core Principles for Effective Deposit Insurance Systems, the level of coverage shall be established at the level so that full guarantee was extended to over 90% bank accounts, leaving more than 50% share of insured deposits in monetary terms unprotected. Under the maximum coverage limit of 5 million tenge as effective, the individuals' insured bank accounts that are fully protected is 99.6% of the aggregate deposit balances in the member banks, while the same in monetary terms is 43.6% (as at January, 2014). At present, this demonstrates that no need in raising the maximum coverage limit exists. In future, the

maximum coverage limit may be revised following possible shift in domestic economy conditions and the core features of the bank deposit market.

In the current year following development of the Resolution of the President of the Republic of Kazakhstan "On the Financial Market Development Concept of the Republic of Kazakhstan 2030" in part "Raising resilience of the banking system", among the actions dedicated to development of the deposit insurance system, revision of the maximum coverage limit in line with the IADI recommendations shall be made.

I. EFFICIENT CORPORATE GOVERNANCE PRACTICES AND ESTABLISHING INSTITUTIONAL TIES

I.I. Cooperation with the National Bank of Kazakhstan (as the Sole Shareholder and the regulatory authority) and the DIS member banks

With a view to ensure greater efficiency of corporate governance practices and developing partnership relations, the KDIF was taking a number of important actions during 2007 – 2009. Among these, in order to align its mandate and powers with the requirements set in the body of legislation of the Republic of Kazakhstan, the KDIF developed and obtained approval of the Corporate Governance Code dedicated to establishing the KDIF operations principles and streamlining cooperation with the Sole Shareholder, the KDIF Board of Directors and the KDIF Management Board. One additional position of Independent Director was designated. At present, there are three Independent Director positions in the composition of the Board.

In line, during this period the mandate and powers of the

KDIF Advisory Council were extended to ensure greater consistency of the decisions made in regard to the member banks, as well as for proper consideration of the suggestions made by the banks.

The KDIF considers the National Bank of Kazakhstan and the member banks as partners of the KDIF in conducting its operations. Cooperation with the National Bank is governed by Mutual Assistance and Information Exchange Agreement. The terms and conditions applied to membership of banks in deposit insurance system are established by the Law and the Contract of Adhesion. The relations of the KDIF with the Sole Shareholder and the member banks shall be qualified as good, and nonetheless retaining the capacity for enhancement and development.



Assessment of cooperation with the supervision authority during 2011 – 2013 highlighted the need in addressing the following issues:

- failure to comply with the Agreement, breaching the timing for data delivery utilized in calculation of the member banks' differential premiums,
- expanding the scope of data regarding a member bank for further development of the BATA differential premium system and the Methodology for determining the target reserve ratio,
- elaboration of body of the legal acts regarding regulation of the compulsory deposit insurance system and safeguarding the KDIF's interests, which require joint effort in deliberation and approval subject to following amendments and addenda, as well as the need in consideration of the KDIF's views in making amendments and addenda to the legal acts which apply to regulation of the banking sector,
- enhancing cooperation with the banking sector supervision authorities and communicating the issues of operations of weak or insolvent second tier banks.

The KDIF initiated amendments and addenda to the Mutual Assistance and Information Exchange Agreement between the KDIF and the National Bank of Kazakhstan, particularly in relation to determining the scope of operations and establishing timing for data delivery utilized in calculation of

regular premiums. The Agreement was signed in March, 2014.

In this regard, during the upcoming period the KDIF will remain committed to advancement of cooperation between the KDIF and the supervisory authority and increasing the level of information exchange.

Making amendments and addenda into the Charter to specify the Management Board mandate and powers

The KDIF repeatedly communicated the issue of optimization of the approval procedure of the KDIF business plan (the annual budget) to its Sole Shareholder.

Particularly, in July, 2014 upon recommendations given by the Accounting Department of the National Bank that the KDIF's business plan shall be approved by the KDIF Board of Directors, the KDIF submitted explanation letter stating that the KDIF's business plan could be approved by its Board of Directors with no approval being obtained from the Board of Directors of the National Bank if the respective amendments are made into the Statute of the National Bank of the Republic of Kazakhstan, Law of the Republic of Kazakhstan "On State property" and the KDIF Charter.

Apart from that, the KDIF proposed that development of a specific policy should be considered, which will stipulate the approval by the National Bank of Kazakhstan of the business plans of the joint stock companies being its 100% subsidiary organizations.

I.2. The Internal control findings

In 2010, according to an independent auditor's opinion it was recommended that the KDIF made amendments and addenda into the KDIF's tax reporting policy according to the provisions of legislation of the Republic of Kazakhstan, and included the position of public procurement specialist in the staffing. In order to detect the possible non-compliant practices, the KDIF accomplished the public procurement practices assessment with a view to bring those practices in line with legislation of the Republic of Kazakhstan, and in 2011 included into the legal department's staffing the position of public procurement specialist who coordinates all procedures related to public procurement.

In 2011 the KDIF received as an audit opinion the recommendation to make amendments and addenda into the tax reporting policy in line with legislation of the Republic of Kazakhstan.

At present, the KDIF is in process of studying the global best practices in corporate governance (the USA, Canada, Russia) in part of capacity to handle possible amendments in the mandate and powers of the KDIF, as well as to responding to crisis situations. The proposals to apply the necessary

actions in the KDIF's operations are underway.

Certain issues related to effective corporate governance practices require further elaboration. Experience shows that agreement of internal regulations and approval of the KDIF's business plan and annual budget may appear lengthy due to complexity of these procedures. Following changes in size of the Board of Directors, the foundation has been laid so that allocation of powers between the Sole Shareholder and the KDIF's Board of Directors could be revised in compliance with Law of the Republic of Kazakhstan "On joint stock companies". In this regard, the respective amendments and addenda into the KDIF's Charter have been made.

An additional action aimed at further raise of the efficiency of the corporate governance practices will be revision by the KDIF of the body of legislation governing the deposit insurance matters in part of refining the mandate and powers, and the rights and obligations of the deposit insurance organization, for instance, application of alternative funding sources in case of the special reserve insufficiency and engaging in operations which optimize the liquidation procedures such as purchase and assumption transaction, establishing bridge bank, etc.

I.3. Developing International links

A) Follow-up self-assessment against the revised IADI Core Principles for effective deposit insurance systems and the respective IADI assessment methodology during 2015

By the end of 2014 – beginning of 2015, the KDIF plans to continue participating in the IADI Steering Committee dedicated to revision of the Core Principles, which was called in February, 2013. As the revised text of the Core Principles and the assessment methodology have been approved (preliminarily expected by the end of year, 2014), the KDIF plans to conduct comprehensive self-assessment during 2015. This repeated assessment will be held with consideration of the detected weaknesses and problems in the KDIF's operations and the deposit insurance system. In addition, the KDIF will thoroughly analyze the capacity of certain elements of its operations for advancement.

B) High quality strengthening of the KDIF bilateral cooperation with certain foreign deposit insurance organizations and its further formalization

10 June, 2014 in Moscow the KDIF signed memorandum of mutual understanding and cooperation with the Deposit Insurance Agency of Russia. According to the Memorandum, the parties shall share information concerning capacity building of the deposit insurance systems in Russia and in Kazakhstan and the experience in deposit insurance, resolution and liquidation of failed financial institutions, as well as conduct joint research and training projects in the areas of common interest.

During the indicated period, the KDIF is planning to significantly strengthen and formalize bilateral cooperation and linkages with foreign deposit insurance organizations by signing bilateral memoranda of mutual understanding and cooperation, including the organizations from the CIS, during personal meetings scheduled at the IADI events in future.

At the same time, the KDIF plans to sign the memoranda of mutual understanding and cooperation with the other deposit insurance organizations from the CIS which have established tight working and partnership relations, including the Azerbaijan Deposit Insurance Fund, the Deposit Guarantee Fund of Ukraine, the Belarusian Agency of Deposit Compensation etc., as well as a number of the advanced and highly experienced deposit insurance organizations as those of Korea, Japan, Malaysia, Turkey etc.

C) Advancement of cooperation of the KDIF with foreign deposit insurance organizations and as an IADI participant

In the second to the fourth quarter, 2015 the KDIF is planning to host International conference or training seminar in Almaty dedicated to an important issue in deposit insurance being held in conjunction with commemoration of 15th anniversary of the deposit insurance system. This event will attract 50 to 70 participants from some 20 countries across the Globe, including a number of eminent speakers from the advanced deposit insurance organizations. This event is dedicated to raising recognition and supporting reputation of the KDIF as an IADI participant, and at the same time promoting image of the Republic of Kazakhstan in the Global community. Approval for holding the event and the respective allocation of budget in 2015 has been received from the Governor of the National Bank of Kazakhstan.

Moreover, the KDIF is planning to continue cooperation with foreign deposit insurance organizations and the Asian Development Bank, particularly receiving technical assistance and consultations with a view to enhance the KDIF's mandate and powers related to bank insolvency resolution and liquidation.

2. OPTIMUM USE OF THE KDIF ASSETS

The operations and investment management practices of the KDIF are governed by regulatory acts approved by the Sole Shareholder.

The KDIF annually develops the business plan for the following year which is subject to approval by the KDIF's Board of Directors. In consideration of global best practices, the KDIF develops business plan and allocates budget on the basis of present strategic development plan, which sets the strategic development goals and objectives and identifies priority projects for the following year which require respective funds allocation.

The investment management practices of the KDIF aim at safeguarding the assets and reporting gain in assets through ensuring the planned return on investments. Before 1 August, 2005 the KDIF was practicing conservative investment management policy which implied investments solely in

financial instruments denominated in national currency, i.e. deposits placed with, and notes issued by the National Bank of Kazakhstan and sovereign bonds issued by the Ministry of Finance of the Republic of Kazakhstan. Commencing August, 2005 the scope of approved financial instruments was extended, and investments in financial instruments on Kazakhstani and International markets were allowed within the limitations set by the KDIF's Investment Management Strategy. Structure of the KDIF investment portfolio is given in Attachment 8.

In future, the KDIF intends to make amendments and addenda to the Investment Management Policy, including formation of the investment management concept which is aimed at safeguarding the assets in line with ensuring the assets liquidity and takes the optimum risk-return profile in consideration. Furthermore, this measure will allow revising

the investment management strategy following developments in the financial markets.

By the end of 2014, the KDIF is planning to report investment income not less than 22 billion tenge, which exceeds the reported income of the previous reporting period by 61%, and the reported investment income as set up in the KDIF business plan by 73%. This dramatic increase in the reported investment income reflects appreciation of the US dollar versus Kazakhstan tenge and the resulting foreign currency gain.

For 2014 the KDIF foresees gain in assets by 15%. Gain in assets results from reinvestment of the investment income, as well as accumulation of the member banks' regular premiums.

The KDIF has never reported negative return on investments in previous years, and following the high return on investments outlook, no decrease thereof is expected.

The KDIF's financial outlook for 2014 – 2016 is given in Appendices 3 to 7.

2.1. Special reserve for payouts

The actions taken by the Government were aimed at addressing the systemic crisis in the banking sector. At the same time, negative developments in financial indicators reported by certain banks, such as asset quality, profitability of operations and other indicators raise concerns, and, if continued, this could lead to default of those banks.

In this regard, the capacity of the deposit insurance organization to handle possible bank failures must be ensured, and, accordingly, all necessary actions must be taken to ensure proper realization by the deposit insurance organization of its core function, i.e. reimbursing depositors of failed bank.

Financial resources of the KDIF accumulated in the special reserve for payouts, with consideration of 50% share of the authorized capital, have reached 242.9 billion tenge as of January 1st, 2014, which is equal to 11.2% of the aggregate insured deposits within the deposit insurance coverage limit. In accordance with the effective legislation, special reserve for payouts shall be no less than 5% of the aggregate individuals' deposit base. At present, the actual ratio is 6.2%.

Within the year, gain in special reserve for payouts resulted from the following sources: 1) accumulated member banks' regular premiums paid on quarterly basis, in the amount of 25.2 billion tenge, 2) increase in authorized capital in the amount of 14.6 billion tenge, 3) the KDIF's claim settlement by the liquidation commissions in the amount of 0.7 billion tenge, and 4) net income allocated to the special reserve for payouts in the amount of 9.5 billion tenge.

As of January 1st, 2014 the aggregate coverage amount over the individuals' deposit base (according to the data reported by the member banks) was 2,166.3 billion tenge (54.9% of the aggregate individuals' deposit base). A year-to-year increase in the amount of 304.3 billion tenge (16.3%) followed mainly the increase in the aggregate individuals' deposit base (within the coverage limit) in the banks designated to the "C" and "D" groups. Deposits in the banks of "C" and "D" groups represent 30% and 25% of the aggregate coverage amount, respectively. As of January 1st, 2014 there were 13 member banks designated to the group "C", group "D" was represented by 10 member banks.

2.2. The methodology for determination of the target reserve ratio and amount

In order to mitigate the risk associated with the special reserve deficit, as well as to optimize the established rates applied to the member banks' compulsory regular premiums, it is global best practice in deposit insurance to develop and implement the specific methodology for determination of the target reserve ratio. Thus, commencing 2012 the KDIF has been in process of developing such methodology.

In order to realize this objective, various methods and international practices for determination of target reserve ratio have been subject to research, including those which apply for assessing the probability of defaults by banks. A model was elaborated, and multitude of calculations and

tests have been conducted to determine the target reserve ratio on the basis of various scenarios. In February, 2013 the KDIF's Board of Directors approved the Methodology for determination of the target reserve ratio and amount.

In accordance with the methodology, the target reserve ratio for 2013 is determined as ratio of 7.8% to the aggregate individuals' deposit base in the deposit insurance system member banks. The actual special reserve ratio was 6.2% thereof. The outlook ratio for 2014 is 6.9%.

As soon as practicable, the KDIF plans to submit the Methodology for determining the target reserve ratio to the Board of Directors for approval.

3. OPERATIONS

In its operations, the KDIF is dedicated to properly addressing the strategic issue of ensuring its capacity in the insured event, as well as to development of the specific projects aimed at mitigating the risks and potential losses of the KDIF.

3.1. Advancement of the depositor reimbursement processes

In order to ensure efficient fulfillment of obligations associated with reimbursing depositors in the events and in the order as established in the Law and in compliance with the effective legislation, the KDIF shall verify compliance of the banks' automated insured deposit recording databases with the requirements of the KDIF. These actions aim at ensuring completeness and accuracy of data, as well as at improving the quality of the depositors' records in banks. Over the period commencing 2009 to 2013, the KDIF have completed the examinations to verify compliance of the automated insured deposit reporting databases in 33 banks, 12 examinations being conducted repeatedly to verify elimination of the non-compliant practices which had previously been detected.

The compliance verification examinations are conducted via the "SaIT Inspect" Information System (the IS "SaIT-Inspect") which was developed by the KDIF in 2011. This software allows fast-tracking of the electronic deposit databases quality, as well as analysis of capacity of the automated bank information system to prevent operational errors which are likely to be made when manually input by the bank's operations staff.

In application of the IS "SaIT-Inspect" the KDIF has experienced a variety of issues which called for enhancement of the automated bank information systems' capacity in part of data export from the insured deposits recording databases. For instance, in 2012 the KDIF experienced the issue of export of large data volumes from the automated bank information system in XLS format in full (with no splitting). The data integrity issues might result in incorrect data export by a bank, and the following incorrect data processing by the KDIF's software.

Furthermore, the automated bank information systems were incapable to export the deposit data by sampling a number of bank clients (the whole population of clients only). Thus in the event if amendments and addenda to the depositors register were to be made in records of one or a sample of depositors, the liquidation commission would have to transfer the depositor register to the KDIF for the whole population of clients, which would hinder the operations by agent bank associated with making payouts to depositors. Therefore, the KDIF has decided to adjust the requirements to the member banks in part of data export. According to the new requirements, the automated bank information system shall have the capacity of export of the insured deposits recording databases in the XML format via special software interface both by the whole population of depositors and by sampling one or a number of depositors according to chosen characteristics.

The next step in enhancing the automated deposit recording databases quality was delivery of the IS "SaIT-Inspect" to

banks for autonomous check. For instance, in 2013 following official requests by three banks the KDIF installed the IS "Salt-Inspect" on the banks' equipment. Transfer of the IS "Salt-Inspect" to the banks apart of enhancing the quality of the banks' automated databases allows enhancing the software itself in part of prompt and efficient data processing following the feedback and recommendations received from the banks which conduct autonomous checks of their data via the IS "Salt-Inspect".

At the end of 2011, the KDIF commenced development of the information system "SaIT-Payout" (the IS "SaIT-Payout") which is used in operations of the KDIF after the forced liquidation of a member bank has commenced, and which automates the following processes:

- recording and control of quality of the data delivered by the liquidation commission of the bank in forced liquidation,
- recording and control of quality of the payouts reports delivered by the agent bank, detection of the payouts made by error,
- recording the findings of monitoring of quality and completeness of the depositors' files which are submitted to the KDIF, including the documents verifying accuracy of the payouts being made,
- report generation for analysis and display of statistics on the uploaded information.

Within the planned period, conducting examinations to verify compliance of the insured deposit records with the requirements of the KDIF as established in the Contract of Adhesion will remain the priority operations for the KDIF. In this regard, in order to ensure that all banks are covered with the verification examinations, the KDIF will continue enhancement of the IS "SaIT-Inspect".

The KDIF will also continue its cooperation with the member banks in regard to delivery of, and installing the IS "SaIT Inspect" onto the member banks' equipment to ensure raising the insured deposit recording databases quality.

In order to ensure operational readiness of the KDIF to reimburse depositors in timely and orderly manner, in the second half of 2014 the KDIF is planning to conduct stress testing of the operational readiness to reimburse depositors of failed bank and thereby assess the reimbursement procedures adequacy. Upon results of the stress testing, the KDIF will take actions dedicated to enhancement of the reimbursement procedures.

In order to ensure prompt and efficient fulfillment of obligations associated with reimbursing depositors of failed bank, the KDIF will establish the reserve pool of employees and deliver training to these employees on the matters of administration and processing payouts to depositors.

In order to safeguard the interests of depositors, raise efficiency of the reimbursement procedures, and properly fulfill its assigned mandate and powers, the KDIF is planning to take actions associated with making the respective amendments and addenda to certain legislative acts of the Republic of Kazakhstan and its internal procedures, including:

- to expand the mandate of the KDIF in regard to access to the data classified as banking secrecy, and to expand its mandate in part of the insured deposit databases compliance verification examinations,
- to systematize the documents delivered by depositors in claiming reimbursement (i.e. the requirements to deliver original deposit agreement etc.),
- to address the issues related to deposit insurance and reimbursing depositors in the event of forced liquidation of the merged banks (two and more merged banks).

Apart of that, the KDIF intends to consider implementation of the procedures related to making advance and interim payments to depositors of failed bank in the event of delays in payouts.

Furthermore, the KDIF is considering appointment on a regular basis of independent auditor or independent consultant for assessment of efficiency of all operations related to reimbursing depositors by the appointed agent bank and the KDIF itself.

By the end of 2016, the KDIF is planning to consider application of global best practices in regard to gradual reduction of timing for commencement of payouts to depositors from 14 business days as effective to 3 calendar days following the recommendations set in the IADI-BCBS Core Principles for effective deposit insurance systems.

In addition, the KDIF is planning to consider application of methods being alternative to delivery of services to depositors at the agent bank's teller window, namely check issuance, debit bank cards, funds transfer to a depositor's bank account. In line, the KDIF will consider servicing depositors of a forcibly liquidated bank through the branch network of that bank, and engaging of a number of member banks in order to ensure prompt reimbursement.

Furthermore, the KDIF will consider proving the assigned member banks / depositors with access to the depositor data online, including monitoring of processing payouts in real time.

3.2. Development of procedures associated with accumulation of special reserve for payouts

In order to ensure timely and orderly fulfillment of its obligations to the depositors, the KDIF is required to accumulate the special reserve for payouts at the adequate level. According to the Law, the major sources for accumulation of the special reserve for payouts are the following:

- Premiums paid by member banks,
- Penalties applied to the member banks for failure to fulfill, or improper fulfillment of the obligations arising from the Contract of Adhesion,
- The transfers made by liquidation commissions to settle the KDIF's claim,
- Investment income earned on the KDIF assets,
- Allowances limited to 70% share of the authorized capital following the Sole Shareholder's decision.

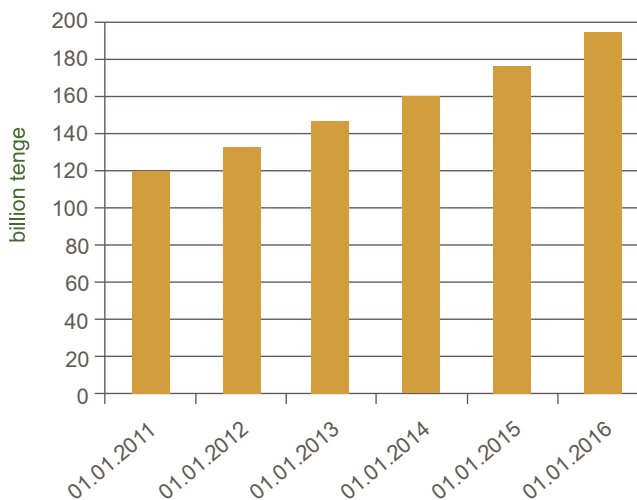
Commencing January 1, 2014 the amendments and addenda to the Law were made. Particularly, 70% share of the authorized capital is allowed in accumulation of the special reserve, 50% share being previously allowed in the preceding version of the Law. In line, according to pp. 16) p. 1 Art. 99 Code

of the Republic of Kazakhstan "On Taxes And Other Obligatory Payments Into The Budget" effective from 1 January, 2014 the investment income reported on the special reserve assets shall be tax exempt and allocated thereto in order to ensure accumulation of the special reserve.

In 2013 the authorized capital of the KDIF was increased by 14.64 billion tenge. This increase significantly strengthened the financial position of the KDIF and its capacity to fulfill the obligations. Such sources for accumulation of the special reserve as the penalties applied to the member banks for failure to fulfill, or improper fulfillment of obligations arising from the Contract of Adhesion and the transfers to settle the KDIF reimbursement claim remain fragmented and ad hoc and are of insignificant amount.

In order to ensure stability of financial system and safeguarding the depositors' rights, the Management Board of the National Bank of Kazakhstan in line with the Strategic Development Plan of the National Bank of Kazakhstan for 2011 – 2015 is planning to increase the KDIF's authorized capital by 10%, which is equivalent to 16.1 billion tenge.

Increase in the KDIF authorized capital for 2011-2015



Special attention should be paid to accumulation of the KDIF special reserve through allocation of net investment income reported on the special reserve assets. The KDIF's asset investment management, including placement of the special reserve assets and the KDIF's proprietary assets, is assigned to the National Bank of the Republic of Kazakhstan on the basis of fiduciary management agreement.

Furthermore, the KDIF investment portfolio is classified as highly conservative as it is comprised of sovereign bonds of the Republic of Kazakhstan and the US Treasury bonds, and thus shows low yields. In this regard, the KDIF is willing to consider extending the scope of eligible financial instruments with a view to more efficient accumulation of the special

reserve and prevention of the special reserve deficit as well as safeguarding the assets. In regard of the above, in order to enhance the investment management practices the KDIF will consider introduction of cooperation mechanism with the fiduciary manager (the National Bank of Kazakhstan) in part of deciding collectively on the investment management issues through calling investment management committee. Particularly, this committee will discuss the asset management issues immediately prior the transaction.

Furthermore, in order to safeguard the special reserve assets and ensure proper reporting, the KDIF is planning to implement segregated reporting of the special reserve assets and the proprietary assets.

3.2.1. Alternative sources for financing the special reserve deficit

In order to ensure efficiency of operations for the deposit insurance system and maintaining public confidence, the KDIF shall have available alternative sources of funding. In the event of forced liquidation of a member bank, the special reserve insufficiency might result in material increase in the costs of the KDIF and delay in payouts, which subsequently may lead to undermining public confidence in the banking sector.

In order to ensure orderly processing payouts to depositors in the event of forced liquidation of a member bank, the KDIF has examined possible alternative sources of funding. Particularly, in future the KDIF is planning to consider application of the following alternative actions to address the special reserve deficit issue:

- Issuing debt securities (bonds) and credit derivatives
- Insurance of the KDIF's risks associated with forced liquidation of a member bank.

Issuing debt securities

Financing the special reserve deficit through issuance of debt securities is a standard approach to raising funds applied by the deposit insurance organizations in Japan, Korea, Canada (with consideration of the market conditions), Philippines, Mexico, Austria, Thailand, Poland and other jurisdictions. In certain jurisdictions, such debt securities are backed by the government guarantee.

At present, issuance and circulation of bonds is governed by the Civil Code of the Republic of Kazakhstan and the Laws "On securities market", "On joint stock companies", "On

securitization” and other legislation acts.

In line with the Law of the Republic of Kazakhstan “On compulsory insurance of deposits placed with second-tier banks in the Republic of Kazakhstan”, the deposit insurance organization is a non-for-profit organization which is established as joint stock company.

According to Article 136 of the Civil Code of the Republic of Kazakhstan, a bond is a security with pre-determined maturity date which in accordance with the terms and conditions set for the issue entitles receiving interest income and funds at nominal value in cash or equivalent from the issuer. Government of the Republic of Kazakhstan, the National Bank of the Republic of Kazakhstan and commercial entities shall have the right to issue bonds.

According to Art. 3 of Law of the Republic of Kazakhstan “On joint stock companies” a non-for-profit organization which is incorporated as a joint stock company shall not have the right to issue bonds and other types of securities.

With consideration of the above, in order to provide the KDIF with the right to issue bonds it will be necessary to make amendments and addenda to the Civil Code of the Republic of Kazakhstan and Law of the Republic of Kazakhstan “On joint stock companies”.

The KDIF might issue bonds of one of the following types: 1) bonds being not backed by the guarantee of the National Bank of Kazakhstan and the Government of the Republic of Kazakhstan, 2) bonds backed by the guarantee of the National Bank of the Republic of Kazakhstan, 3) bonds backed by the guarantee of the Government of the Republic of Kazakhstan.

The bonds being not backed by the guarantee of the National Bank of Kazakhstan or the Government of the Republic of Kazakhstan are not likely to be an attractive financial instrument due to increased default risk by the KDIF. Following this, in order to attract creditors this risk should be moderated by higher yields of these bonds compared to the notes of the National Bank of Kazakhstan and the sovereign securities, and which shall be above the official inflation.

The KDIF’s debt securities backed by guarantee of the National Bank of Kazakhstan or Government of the Republic of Kazakhstan are associated with less risk, and as far as the respective obligations will be guaranteed the yield shall be lower.

In order to make the KDIF eligible to issue bonds backed by guarantee of the Government of the Republic of Kazakhstan, the respective amendments and additions shall be made into the Budget Code of the Republic of Kazakhstan. Articles 213, 214, 215 thereof state that the sovereign guarantee (the Government guarantee) of the Republic of Kazakhstan shall be extended within the limits as determined by the National Budget Act and on the basis of the specific resolution of the Government of the Republic of Kazakhstan.

However, legal entities that comply with the provisions of Article 216 of the Budget Code of the Republic of Kazakhstan shall be entitled to obtain guarantee of the Government of the Republic of Kazakhstan. Given that the KDIF is not engaged in commercial activities and does not implement investment projects, therefore according to the effective provisions of the Budget Code of the Republic of Kazakhstan the KDIF is not entitled to obtain guarantee of the Government of the Republic of Kazakhstan. The Government has the right to establish additional criteria for the entities applying for the government guarantee depending on the terms and conditions of the non-governmental loan and the risks associated with the investment projects.

With consideration of the above, further actions by the KDIF associated with financing the special reserve deficit through bonds issuance will be aimed at addressing the matter of bonds issuance by the KDIF at the legislation level.

Insurance of the KDIF’s risks associated with reimbursing depositors in foreign insurance companies

According to the Insurance Law of the Republic of Kazakhstan the KDIF has the right to insure its pecuniary interests associated with reimbursing depositors of failed bank.

Insurance by the KDIF of the indicated risks in foreign insurance companies shall not be allowed, since Article 5-1 of the Insurance Law provides that insurance of pecuniary interests of the resident entities or separate units thereof or pecuniary interests pertaining to the resident individuals shall be insured solely in an insurance company being resident of the Republic of Kazakhstan.

However, the insurance company appointed by the KDIF has the right to reinsure the risks in foreign insurance company. In this regard, the KDIF considered insuring its contingent liabilities to depositors in one of the local insurance companies with further reinsurance abroad with the insurance coverage in the amount of 10 to 20 billion tenge. However, the research showed that re-insurance of financial risks in developing countries is financially challenging due to high default probability attributable to financial institutions. In order to appraise the insurable item a foreign reinsurance company will consider the sovereign credit rating of the Republic of Kazakhstan, as well as the rating assigned to particular financial institution.

Therefore, the KDIF is planning to continue considering the opportunities to efficiently transfer the KDIF’s risks associated with insolvency resolution of the member banks through insuring them, including engagement of foreign insurance companies.

Additionally, the KDIF is planning to consider delivery by the member banks of assistance to the KDIF in its technical and human needs in the event of the special reserve deficit.

3.3. Development of methodology for calculation of differential premium rates

The differential premium system "BATA" (the "BATA" DPS) was introduced in 2007 to ensure adequate assessment of financial position and the risk profile of the financial institutions. In calculation of the regular differential premium rate quantitative and qualitative indicators are used to appropriate the respective classification group to a member bank. There are six classification groups in the "BATA" DPS with the respective differential premium rate being assigned for each one, and the higher the level of financial instability and the risk attributable to the bank, the higher the assigned differential premium rate will be.

The major characteristics of this system are its transparency for the member banks and confidentiality of the assigned ratings.

The KDIF regularly revises the methodology for calculation of the differential premium rates with consideration of the recommendations and professional opinion given by the member banks as well the developments in the domestic banking sector, banking regulation and the financial reporting forms approved by the regulatory authority. For instance, in 2011 and in 2013 the KDIF accomplished modification and enhancement of the "BATA" DPS via complex revision of the methodology for determining the differential premium rates with consideration of all respective recommendations and professional opinion given by the member banks. The KDIF has tested the indicators and the threshold values.

Upon the results, amendments and addenda were made to the Rules for determining the value and order of payment of the compulsory regular, additional and extraordinary premiums, including the quantitative and qualitative indicators, particularly capital adequacy, asset quality and earnings ratio. A new indicator Q6 (efficiency of banking operations) was introduced. The scoring assignment system was revised for the quantitative and qualitative measures. The sixth classification group "S" was introduced to assign the banks which offer interest income on deposits higher than the recommended maximum rates.

For the 7 years since its establishment, the "BATA" DPS has been subject to revision and enhancement, and demonstrated high efficiency in assigning classification and giving incentives to the member banks for better corporate governance practices and improving the financial viability indicators.

In 2015 the KDIF is planning further actions to update and enhance the "BATA" DPS in part of revising in complex the methodology for calculation of the differential premium rates assigned to the member banks through its integration with the control and supervision actions by the regulatory authority, particularly the early detection and resolution systems, as well as inspections of the banks and the CAMELS regulatory system for determining financial indicators. To that end, the respective consultations will be held with the National Bank of Kazakhstan, including the issue of expanding the scope of data delivered to the KDIF.

3.4. Fulfillment of the KDIF's functions associated with the special reserve replenishment

The KDIF fulfills its function associated with the special reserve replenishment through participation in the liquidation commission and the creditor committee of a forcibly liquidated member bank.

Since 2005 the liquidation procedures of JSC "Nauryz Bank Kazakhstan" have been in process. At present, liquidation commission of Nauryz Bank Kazakhstan has reimbursed 88% of the KDIF's total claims arising from payouts to depositors. Sale of the remaining major pledged property of the bank's debtor (a synthetic detergents production plant) will allow settle in full the claim of the 3rd sequence creditors (the KDIF and the bank's depositors). However, the probability of sale of this asset in 2014 remains critically low.

1 March, 2007 the court ruling on forced liquidation of "Valut-Tranzit Bank" JSC became effective. The KDIF participates in the creditor committee of JSC "Valut Tranzit Bank", and the KDIF's employee enter in the bank's liquidation commission. As of August 1st, 2014 the liquidation commission of JSC "Valut Tranzit Bank" has settled 60.57% share of the KDIF's claim. The probability of settlement of the KDIF's claim by the end of 2014 is estimated to be 63%.

Within the period commencing 2012 to 2013, the KDIF's employees participated in the following initiatives:

- Joint working group of the Financial Market Supervision Committee and the National Bank of Kazakhstan dedicated to development legislation novelty governing the matters of establishment and operations of bridge bank,
- Joint working group of the Financial Market Supervision Committee and the National Bank of Kazakhstan dedicated to development of the bank recovery, resolution and liquidation concept,
- Development of the project resolution of the Management Board of the National bank of Kazakhstan "Rules for establishing the conservatorship regime of the second tier banks and conducting partial and complete purchase and assumption transaction at the conservatorship phase and determining the assets and liabilities subject to transferring",
- Joint working group of the Financial Market Supervision Committee and the National Bank of the Republic of Kazakhstan dedicated to resolving the problem

issues related to liquidation of JSC “Valut Transit Bank”.

Within the planned period, the KDIF is planning to concentrate its efforts on development of the recommendations and implementation of best practices in liquidation and efficient restructuring of insolvent banks. Furthermore, the issue

of enhancing the body of legislation in part of determining the procedural foundations and criteria for conducting the recovery or resolution actions (purchase and assumption transaction, establishing bridge bank, forced conversion of the bank’s liabilities into equity etc.) in 2016 – 2018.

3.5. Legal and regulatory basis for operations and methodological work

3.5.1. Development of internal procedures to establish the order for certain business processes

In order to ensure stability of financial system of the Republic of Kazakhstan and safeguard the rights and lawful interests of insured depositors, the KDIF engaged in development and approval of the following documents:

- In 2011 – the KDIF action plan in the event of withdrawal of license for conducting all banking operations or placement of a member bank in conservatorship,
- In 2011 – the financial instruments accounting rules,
- In 2012 – the rules for reimbursing depositors of a member bank in forced liquidation.

Following the resolution of the Sole Shareholder, in 2012 the necessary amendments and addenda were made to the KDIF’s Charter in part of its operations, recording and keeping the depositor register, establishing of the Board of Directors committees, as well as extension of loans.

In 2014 amendments were made into the accounting and financial reporting policy following introduction of the respective amendments and addenda in the Deposit Insurance Law and the Tax Code of the Republic of Kazakhstan.

The KDIF also took the decision on making amendments in the Rules for administration and safekeeping of data subject to confidentiality provisions, including provision of information security. In order to ensure security and continuity of the KDIF’s operations, the KDIF is planning to establish the procedures which govern the processes of provisioning safety of information in the force-majeure circumstances, including maintaining of the equipment technical incapacity journal, delivery of training on operations with the network equipment and software.

In 2014 – 2016 the KDIF is planning to develop, or make amendments and addenda into a number of internal policies, namely:

1. The methodology for establishing the maximum recommended interest rate on the newly accepted bank deposits of individuals,
2. Code of Professional Conduct of the KDIF employees, in order to raise efficiency of operations and ensure proper ethical conduct in the relationships between the Sole Shareholder, other government authorities and the KDIF officials, as well as the relations between the KDIF and third parties,

3. The instruction governing the public procurement of goods, works and services by JSC “Kazakhstan Deposit Insurance Fund” (in line with the recommendations with the Internal Audit Department of the National Bank of Kazakhstan),

In 2013 the KDIF made amendments and additions to this instruction following the amendments in the KDIF’s organizational structure.

4. The financial instruments accounting policy,
5. The accounting and financial reporting policy (in line with recommendations by the Internal Audit Department of the National Bank),
6. Rules for establishing the order and conditions for disclosure of information related to the KDIF’s operations being under confidentiality provisions (the insider information) in order to mitigate the associated risks and ensure compliance with the Information Disclosure Rules,
7. Rules for implementation of the electronic document management system in order to realize a complex of objectives related to the core operations and other activities of the KDIF,
8. Rules for provision of information security and information technology support.

The advanced methods for processing, transferring and maintaining information have created threats related to loss, distortion or unauthorized disclosure of data being transferred to, or owned by third users. In this regard, in order to ensure security of information, equipment and network systems the KDIF initiated elaboration of internal policies specific to functioning of information systems and information security (the Information Security Policy). In the second semester of 2014, the KDIF is planning to establish internal information system security policy.

In line with the auditor’s opinion given by the Internal Audit Department the KDIF was recommended to elaborate the internal policy establishing the information security rules in order to prevent leak of information classified as restricted and (or) unauthorized access to the KDIF’s database.

In order to prevent breaching the unified order (the system or procedure) for information technology use in

the KDIF, to mitigate bureaucracy or creation of other administrative barriers in the KDIF's operations in part of interaction between the users and the unit responsible for implementation of the rules for information technology

use in implementation of their respective duties the KDIF is planning to elaborate the internal policy governing the information technology use.

3.5.2. Development of the body of legislation in line with global best practices

Raising efficiency of the deposit insurance system through ensuring proper fulfillment by all parties of their respective mandate and powers and imposing greater responsibility to the member banks, including through expanding the KDIF's mandate

In 2014, the KDIF elaborated and submitted for consideration and approval to the National Bank of Kazakhstan the draft amendments to the Law in part of bringing the goals and objectives for the deposit insurance system in line with the functions being fulfilled by the KDIF, clearer definition of the role and mandate of the KDIF's employees in the processes associated with resolution of failed bank, as well as in part of conducting control over proper fulfillment by the member banks of the terms and conditions of the Contract of Adhesion.

The KDIF is also planning to make addenda to the Chapter 2 of the Law (the legal status of the KDIF) with a new item regarding interaction with the temporary administration (the temporary administrator), the liquidation commission of the failed bank and the KDIF within the period of making payouts to depositors, including making addenda to the statutes governing the responsibility of the liquidation commission for accuracy of the depositor data.

Quarterly publication of the DIS member banks list in periodicals is planned to be cancelled at the legislation level.

Extension of guarantee to certain categories of individuals

In 2014 the KDIF initiated making amendments and addenda to the Financial Sector Development Concept 2030 regarding enhancement of early detection, resolution and liquidation of the failed banks.

Particularly, the Concept provides for consideration of extension of coverage scope to current bank accounts of legal entities with a view to extend the state guarantees to socially significant segments of population, namely the small and medium enterprises. In line with global best practice, extension of coverage to bank accounts of legal entities is deemed practicable in case if the deposit insurance organization is assigned broader mandate and powers and the risk management function, including being directly engaged in the bank resolution processes and the mandate to decide on selection and putting into practice of the resolution method at the least cost.

Conducting public procurement of goods, works and services by the KDIF in line with newly established regulatory act

It is expected that the Eurasian Economic Union Treaty signed 29 May, 2014 will be ratified by the end of 2014, and

becomes effective 1 January, 2015. The Treaty provides that the national (central) banks of the member states conduct public procurement of goods, works and services in line with their internal public procurement policies.

In this regard, by the respective resolution by Deputy Governor of the National Bank of Kazakhstan dated 7 August, 2014 No. 315 joint working group was established for elaboration of rules for public procurement of goods, works and services by the National Bank of Kazakhstan and the subsidiary entities thereof. The KDIF fully engages in this joint working group.

The core principle of the project is ensuring minimum deviation of the Law of the Republic of Kazakhstan "On public procurement" as effective, and particular attention shall be given to the quality criteria of goods, works and services.

The forthcoming work stages for the working group are compilation of data, development of the project itself, getting approval from the related departments, submission to consideration and approval by the Management Board of the National Bank of Kazakhstan, and submission of documents to the Ministry of Justice afterwards for the purposes of state registration, and official publication.

Development of proprietary web portal for processing public procurement by the KDIF is under consideration. The working group has scheduled to accomplish the project by the beginning of October, 2014. The timing for consideration by the Management Board is end of October, 2014.

Engagement in development of regulatory acts

In 2014 – 2016 the KDIF is planning to engage in development of the following regulatory acts.

- The Financial Sector Development Concept 2030 (the Financial Concept 2030),
- The financial institutions' resolution and liquidation concept,
- The action plan for fulfillment of the Financial Sector Development Concept in the post-crisis period,
- Rules for the second-tier banks' forced liquidation in the Republic of Kazakhstan

The following internal policies of the KDIF were amended and enhanced:

- The methodology for establishing the maximum recommended interest rate on the newly accepted bank deposits of individuals,
- The Rules for determining of, and establishment of order of payment of the compulsory regular, additional and extraordinary premiums,
- The Rules for verifying compliance of the automated



insured deposit recording databases with the requirements of the KDIF as established in the Contract of Adhesion,

The forthcoming assignments for the Working Group are:

- making amendments and addenda into the KDIF's investment management strategy with the view to ensure liquidity of assets, providing for the optimum risk-return profile,
- making amendments and addenda to the Rules for financial instruments accounting following introduction of the new chart of accounts,
- making amendments and addenda to the KDIF's accounting policy in part of special reserve accounting regarding reporting loans extended by the National Bank of Kazakhstan,
- draft loan agreement with the National Bank of Kazakhstan in the event of special reserve deficit,
- the KDIF's action plan in the event of withdrawal of license

from a member bank for conducting all banking operations or placing a member bank in conservatorship,

- Staff Travel Rules,
- Benefits and Remuneration Rules,
- The Adhesion Contract.

Elaboration of regulations governing the order for handling payouts to depositors of a forcibly liquidated member bank

The Rules for handling payouts to depositors of a forcibly liquidated member bank were approved by the Resolution of the KDIF's Board of Directors dated 06 November, 2012.

Within the three years planned period, the KDIF intends to make amendments and addenda to the Rules for conducting competition to select the agent bank and setting the requirements to the agent bank engaging in handling payouts to depositors.

3.6. Development of the KDIF's proprietary software

The information technology maintenance is primarily conducted via regular checks of the technical equipment's condition, technical service of the www.kdif.kz domain and support of information systems BATA, SaIT-Inspect, SaIT-Payout, and 1C.

The BATA Information System

Development and enhancement of the BATA Information System has been one of the major projects in the field of information technology for the KDIF within the last 7 years. In 2008 in order to streamline the calculations under the BATA differential premium system the KDIF developed and implemented the information system of the same name which allows automated upload of the member banks' reports being delivered by the National Bank of Kazakhstan, calculation of the indicators, report generation according to pre-set forms, drafting information letters to the member banks, etc.

In 2011 actualization and modernization of the BATA IS was made following the amendments and additions to the Rules for determining of, and establishing the order of payment for the regular, additional and extraordinary premiums (the Rules).

In September 2013 the KDIF in the context of bringing the BATA IS in line with the Rules commenced work related to actualization of the BATA IS. Fulfillment of this project consisted of the following lines of action:

1. Upgrading the software products used in the BATA IS – installation and setup of the software versions used by the BATA IS on the new server,
2. Bringing the BATA IS in line with the methodology for calculation of the differential premium rates – development of the batch uploads, reporting catalogs, display reporting forms, the indicator calculation algorithms modification etc.,
3. Launching a new module to accumulate the body of data on the basis of the reports uploaded to the BATA IS, i.e. the capacity to create new test indicators and the calculation formulae setup, to activate or de-activate the indicators to setup their effect in the calculation processes of the quarterly and total cumulative differential premium rates,
4. Developing the uploading batches, displaying reporting

forms with various version options in the BATA IS for the reports which are not taken in the differential premium rates,

5. Ensuring further development and actualization of the BATA IS. i.e. independent creation of new approved indicators and formulae calculation setup, activation and de-activation of the indicators to setup their effect in the calculation processes of the quarterly and total cumulative grades, and capacity to review the calculated indicators by component.

The assignment on actualization and modernization of the BATA IS was finalized in August, 2014. The follow-up assignment on modification of the BATA IS is to be commenced after the amendments and additions have been made into the Rules in 2015.

The “1C Accounting” IS

The KDIF utilizes the 1C Accounting system (version 8.2) for accounting and financial reporting purposes. To-date, in addition to the standard modules, the modules for financial instruments accounting is implemented. By the end of 2015 the KDIF is planning to develop and implement the managerial accounting module and certain reporting forms submitted to the National Bank of Kazakhstan build up with the data derived from the 1C Accounting 8.2.

The information systems SaIT Inspect and SaIT Payout

Development of the SaIT Inspect Information System dedicated to in-advance processing of compliance verification checks of the member banks' automated insured deposit recording databases and the SaIT Payout Information System dedicated to efficiently processing payouts to depositors of a forcibly liquidated member bank.

In January, 2014 the KDIF was assigned the intellectual property rights to information systems SaIT Inspect and SaIT Payout by the Ministry of Justice of the Republic of Kazakhstan.

In 2014 the KDIF is planning to finalize the test operation of the information systems and commence commercial operations.

In the forthcoming period the KDIF is planning follow-up development and enhancement of the SaIT Inspect Information System.

By the end of 2016 the KDIF is planning to upgrade the SalT Payout Information System:

1. In order to ensure technical capacity of the KDIF to handle processes associated with P&A transaction – to implement solutions allowing segregation of the depositor register into two parts of those agreeing transfer of their deposits and those who refuse,
2. In order to ensure technical capacity of the KDIF for

timely and orderly handling payouts to depositors through two member banks – to implement solutions allowing a) segregated recording of the depositor register over the branch network in alphabetical order by the same depositor, b) upload, recording and control for compliance of payout processing reports from a number of agent banks with the depositor register.

3.7. PR activities to ensure public awareness of deposit insurance

Planned follow-up PR activities associated with maintaining public awareness of deposit insurance for 2010 – 2012 referred to in the previous KDIF Strategic Development Plan have been completely fulfilled within this period and (or) in the following years. Particularly, the KDIF continued releasing the informational brochure “What You Should Know About Deposit Insurance” (the text and design being annually updated) and dispatching those brochures to the member banks’ depositors, as well as other informational publishing materials, i.e. short informational leaflets and stickers indicating the hotline number and the link to the KDIF internet resource. Apart of that, over the last 4.5 years the KDIF has been intensively utilizing the alternative efficient communication channels such as lectures held by the KDIF staff in a number of universities in Almaty aimed at student audiences majoring in economics and finance on the deposit insurance related issues, briefings with journalists and online conferences being held by the KDIF senior management following significant news associated with deposit insurance and the KDIF’s operations.

In 2014 – 2016 the KDIF will be intensifying efforts in raising public awareness of the KDIF operations measured as percentage to the total population of the Republic of Kazakhstan. According to special survey conducted by one of the DIS member banks measuring public awareness at the beginning of 2014, some 54% of the population was aware of provision of deposit insurance. The KDIF is planning that public awareness of deposit insurance will be raised steadily (by appr. 3% annually) within five forthcoming years, reaching 70% by the end of 2019.

The level of public awareness will be measured as follows. In 2014 specific online survey will be conducted through the KDIF’s Internet resource to measure public awareness of deposit insurance system in Kazakhstan. Within 2015 – 2019 upon receiving results of independent sociological study conducted by professional vendor in the marketing and advertising field. The key findings of those two studies will be reported to the KDIF Board of Directors.

As well, one of the key objectives of the KDIF will be fulfillment of 80% or more of the total action plan as provided for in the Public Awareness Concept for the respective year.

Apart of that, according to the associated recommendations and current official position of the National Bank of Kazakhstan, and the initiative of the KDIF itself, the KDIF is planning to enhance and expand cooperation with the other

participants of the deposit insurance system (mainly, the National Bank of Kazakhstan and the DIS member banks) to raise people’s financial literacy. Therefore, the share of overall KDIF projects associated with maintaining public awareness fulfilled in coordination with the member banks in the KDIF public awareness activities shall reach a minimum of 20%.

Within the forthcoming three-year period, the KDIF is planning to continue placement of information related to its activities in the traditional media (the newspapers of Republic-wide and regional coverage, radio, TV, KDIF’s proprietary Internet-resource, accounts in Facebook and Vkontakte, toll-free hotline number, and other sources) which are aimed at various target audiences. At the same time, for each of the target audiences its specific information channel will be assigned. For instance, the internet-resource and the social network profiles will aim at young people who actively utilize online resources for obtaining information, placement on TV being aimed at middle-aged people, whereas the Republican and regional newspapers being popular with elderly people and retirees. Radio as a means of communication can reach broad audience of motorists, with no age category being indicated. Furthermore, within all communication channels being generally defined, the specific media (the specific newspaper, radio station or TV channel) will be selected based on the depositor profile and their respective level of education, certain media being used to communicate the broad audience, and other media being aimed at finance and banking professionals.

Besides, at the end of 2014 the KDIF in coordination with professional vendor commenced creation of brand book, i.e. the unified style and design elements for the printed materials and other presentation and information products (the brochures for depositors, annual reports, strategic development plan, proprietary internet resource and other items). The KDIF is planning to finalize this work by the mid-2015.

In line with the Core Principles for effective deposit insurance systems, as well as to show greater efficiency of the public awareness campaign and raising overall awareness level of the deposit insurance system and its operations, within the forthcoming three years the KDIF is planning to:

- clearly define in measurable terms the final public awareness campaign results in the annual KDIF Public Awareness Concept,
- clearly segregate the target audiences for the

- public awareness campaign and elaborate the specific communication objectives for all audiences,
- arrange the procedures for coordination of actions with the other financial safety net participants (primarily, the National Bank of Kazakhstan) and the member banks in conducting public awareness campaign and raising the overall level of people's financial literacy,
- provide for expenses in the KDIF Business Plan associated with regularly obtaining independent assessment of efficiency of the public awareness campaign conducted by the KDIF.

Within the planned period the KDIF plans to conduct efficiency analysis of its public awareness activities via a dedicated survey launched on its Internet resource (by the end of 2014), as well as possible engaging professional organizations in the advertising and marketing industry (in mid-2015 – 2016). This independent professional assessment shall be conducted as often as once every two years. Conducting such analysis will facilitate identifying the most efficient information channels among the population in all regions of Kazakhstan and, on this basis, to revise the approaches in the Public Awareness Campaign.

In 2014 – 2015 the KDIF is planning to conduct various informational events associated with 15th anniversary of the deposit insurance system, namely: launch of section "Get to know more about deposits" with following awarding the respondents, who gave more correct answers, establishment of partner relations with JSC "Kazpost" in part of placement of logos and links on the websites of the KDIF and JSC "Kazpost", distribution of brochures for depositors and stickers communicating the hotline number and other contact information among all branches of JSC "Kazpost" across Kazakhstan and other mutual assistance and information support.

In 2014 – 2016 the KDIF is also planning to significantly promote its hotline number and Internet resource via placement of corresponding information in advertisement publications distributed free of charge and on utility companies' invoices for payment.

Within the planned period the KDIF is planning to significantly enhance coordination and partnership in conducting activities associated with maintaining public awareness with the National Bank of Kazakhstan and the member banks. The KDIF is planning to hold lectures for students majoring in economics and finance across Kazakhstan, as well as the member banks' employees

on the occasion of International savings day which is on 31st of October, and engage in popular TV and radio broadcasts associated with raising financial literacy in cooperation with the National Bank of Kazakhstan (Introduction to Capital, Easy Finance and other). Apart of that, the KDIF is also planning to place information on its operations in the periodicals of the National Bank of Kazakhstan.

The KDIF's Internet resource is one of the premiere information sources on the KDIF's operations which serves as its image. However, the design of the Internet resource remained unchanged since 2009.

In this regard, in the forthcoming period (2014 – 2016) the KDIF is planning to upgrade the design of its Internet resource and to add such new features as slide show, feedback submission form and other, as well as to optimize its structure. Also, an option to subscribe to the news releases via e-mail will be added.

Within 2014 – 2016 the KDIF is planning to support close working relationships with mass media via organization of interviews, briefings, press-conferences and other special events, as well as dedicated Internet conferences with senior management of the KDIF. Besides, the KDIF will continue production of the brochures for depositors, informational leaflets and stickers conveying the KDIF's hotline number and its Facebook and Vkontakte accounts for distribution in the member banks' and JSC "Kazpost" offices and branches.

Apart from that, to ensure its operations in the event of court ruling on forcible liquidation of a DIS member bank, withdrawal of license for conducting all banking operations or placement the bank in conservatorship, within 2014 – 2016 the KDIF is planning to utilize SMS-notifications dispatch sending agreements as a dedicated information channel conveying information regarding the order and terms and conditions of reimbursing depositors through the three mobile operators' subscriber base (K-Cell, Tele2, Beeline), and to send detailed messages to e-mail addresses of the failed bank's depositors.

Finally, with the view to raise qualification in effective communication techniques the KDIF is considering to deliver special training to employees who engage in various public events associated with raising people's financial literacy through participation in International special conferences and workshops dedicated to utilizing global best practices in PR and communication.

Generally, the KDIF is willing to continue implementing global best practices in steady advancement of its PR activities.

4. HUMAN RESOURCE MANAGEMENT

One of the key objectives in the human resource management for the KDIF is ensuring adequacy in staffing in line with the principles of high efficiency and operations cost optimization.

Internal factor which negatively affects the KDIF's operations is high staff turnover, which impedes continuity of work and affects negatively the fulfillment of the KDIF's projects. In 2011 the staff turnover ratio was 23.1%, the same being 3.6% and 14.3% in 2012 and 2013, respectively. The KDIF offers the leaving employees to fill in a special survey form, which allows further analysis of the reasons underlying their decisions to leave.

The survey results show that the major reason is divergence in salaries and qualification of staff, as well as complex tasks and excessive workload.

The KDIF supports training and growth in expertise for its employees via assigning employees to various training sessions in Kazakhstan and abroad. Apart of that, the IADI provides distance learning opportunities to its members' staff which cover broad range of issues associated with banking operations and supervision and regulation practices. In this case, employees receive training via FSI Connect, which

is a training tool and online information source hosted by Financial Stability Institute dedicated to delivery of trainings to regulatory authorities' employees. The key element of this tool is a complex of online training sessions in supervision and regulation of financial sector, the major risks of the banking sector, as well as related issues as accounting and financial reporting, deposit insurance and payment systems. Orientation training is also delivered for fresh KDIF employees.

Within the planned period, the KDIF is willing to continue the policy dedicated to creation and retention of strong cornerstone in staff, which means a number of the key people at their positions over all core operations of the KDIF. The KDIF is committed to continue delivery of training and raising expertise of its employees, and primarily the key employees.

In order to ensure comprehensive development of the KDIF employees and raising their understanding of the financial system as a whole, as well as excelling expertise sharing between the KDIF and the National Bank of Kazakhstan the need for holding a joint training and workshops became apparent.



4.1. Development of the remuneration and training systems

Senior employees of the KDIF annually host thematic training sessions covering all aspects of the KDIF's operations for fresh employees. The KDIF appoints its employees to participate in thematic training sessions and workshops and IADI conferences held in Kazakhstan and abroad.

The appointed employees must give presentations for all employees of the KDIF. The KDIF remains committed to support training and rise in qualification of its employees.

Shortlisting the reserve of the qualified universities' graduates (a newly introduced initiative)

In order to arrange the work related to shortlisting and efficient planning of the staff reserve, the KDIF is planning to establish the order of shortlisting and training of the staff reserve from among the graduates of the qualified universities, including setting the rules for selection of candidates being included in the staff reserve.

Holding legal introductory training for the KDIF staff (a new initiative)

In order to raise qualification of employees and support the staff reserve in maintaining high professional level, as well as raising competitiveness of their skills, the KDIF is planning to elaborate the plan for delivery of training and legal introductory training for staff in 2015.

Considering rotation for the KDIF's staff

Rotation is associated with planned shifting in position or significantly changing the job responsibilities of an employee. As a whole, intensive utilization of staff rotation must be deemed a positive factor which affects positively an organization's performance. Staff rotation is also needed due to negative effect on performance and motivation of lengthy work at the same position. Also, employees tend to limit their professional interest to the direct responsibilities. Shifting in the responsibilities profile is believed to introduce the opportunities for comparison and quick adaptation to new conditions.

In the event of unexpected leave or temporary absence of employees, unscheduled contingent rotation is made. In such event the unit directors will ask the management to fill in the position. Then, fresh, often untrained employees will enter the organization.

In order to prevent improper fulfillment of the respective duties and responsibilities of employees, the KDIF is planning to consider the rotation opportunities for its employees.

Attachment 1

Growth outlook for individuals' deposits in banks and compulsory regular premiums accumulation plan for 2014 – 2016

	ACTUAL		OUTLOOK		
	01.01.2013	01.01.2014	01.01.2015	01.01.2016	01.01.2017
Individuals' bank deposits	3 749 641 558	3 945 505 535	4 663 004 876	5 322 218 242	6 074 625 218
Compulsory regular member banks' premiums per year	21 602 781	24 577 484	30 855 957	31 381 772	35 818 243

Attachment 2

Growth outlook for the key indicators of the KDIF for 2014 – 2016

ITEM	PERIOD		
	2014	2015	2016
Income	23%-25%	15%-17%	16%-18%
Investment income	23%-25%	16%-18%	17%-19%
Costs	48%-50%	17%-19%	32%-34%
Human resource related costs	73%-75%	22%-24%	31%-33%
Public awareness campaign costs	5%-7%	7%-9%	8%-10%
Other costs	30%	8%	8%
Net financial result (I-II)	11%-13%	16%-18%	16%-18%
Corporate income tax			
Net income	11%-13%	16%-18%	16%-18%

Attachment 3

Investment assets plan

Period	Assets allocated in sovereign bonds	Regular member banks' premiums	Claim settlement by liquidation commission	Investment portfolio earnings	Investment income per year
2014	13%-15%	14%-16%	50%	4%	15%
2015	16%-18%	22%-24%	-50%	4%	16%
2016	16%-18%	22%-24%	-50%	4%	17%

Attachment 4

Staffing outlook

INDICATOR	2014 г.	2015 г.	2016 г.
Total number of positions	42	50	55
Staff directly employed	42	50	55

Attachment 5

Special reserve for payouts outlook

Period	The KDIF's costs allocated in line with Art. 2, p. 1 of the Deposit Insurance Law	Regular premiums paid by the member banks	Retained earnings	Claim settlement by liquidation commission	Special reserve, total
2014	0%	24%-26%	7%-9%	12%-13%	18%-20%
2015	0%	23%-25%	36%-38%	5%-6%	25%-27%
2016	0%	22%-24%	30%-32%	2%-3%	24%-26%

Attachment 6

Investment portfolio outlook breakdown

	31.12.2014	31.12.2015	31.12.2016
Proprietary assets portfolio			
Financial instruments in National currency	100%	100%	100%
Financial instruments in foreign currency	0%	0%	0%
Special reserve assets			
Financial instruments in National currency	65%-75%	65%-75%	65%-75%
Financial instruments in foreign currency	25%-35%	25%-35%	25%-35%

Attachment 7

Portfolio breakdown for the period commencing 01/01/2011 to 01/01/2014 (mln. tenge)

