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LIST OF ABBREVIATIONS

- ▣ **ADB** – Asian Development Bank
- ▣ **Adhesion Agreement** – the agreement whereby a bank (or a branch of a non-Kazakhstani bank) joins the DIS; the terms of the agreement are determined by the Fund and are the same for all the banks (and branches of non-Kazakhstani banks) joining the DIS
- ▣ **Advisory Council** – a collegiate advisory board of the Fund that represents the interests of member-banks; it includes representatives of the banks and a representative of the Financial Institutions' Association of Kazakhstan
- ▣ **Agent-bank** – a DIS member-bank that acts under the agreement with the Fund to carry out the procedures pertaining to the payout of insured amounts
- ▣ **ARDFM, Agency** – the Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market
- ▣ **Bank, member-bank** – a second tier bank (or a branch of a non-Kazakhstani bank) that is a member of the DIS and whose liabilities to depositors are insured in accordance with the Law
- ▣ **DIS** – the compulsory Deposit Insurance System
- ▣ **EAEU** – the Eurasian Economic Union
- ▣ **EBRD** – European Bank for Reconstruction and Development
- ▣ **EDB** – Eurasian Development Bank
- ▣ **FSAP** – Financial Sector Assessment Program
- ▣ **IADI** – International Association of Deposit Insurers
- ▣ **IMF** – International Monetary Fund
- ▣ **IRD** – Internal regulatory documents of the Fund
- ▣ **Kazakhstan Deposit Insurance Fund, Fund, KDIF** – Kazakhstan Deposit Insurance Fund JSC
- ▣ **Law** – the Law of the Republic of Kazakhstan on Compulsory Insurance of Deposits in Second Tier Banks of the Republic of Kazakhstan
- ▣ **Liquidated Bank** – a failed bank whose banking license has been revoked and that is undergoing the process of forced liquidation
- ▣ **National Bank, NBK** – the National Bank of the Republic of Kazakhstan
- ▣ **P&A** – Purchase and Assumption Transactions
- ▣ **RK** – the Republic of Kazakhstan

CHAIRMAN'S MESSAGE



Adil Utembayev
Chairman of the Kazakhstan Deposit
Insurance Fund JSC

Dear Depositors!

Despite the ongoing economic “aftershocks” rooted in previous years and banking crises in developed countries, the past year of 2023 marked us a period of maintaining a course towards steady growth and further strengthening of public confidence in both the banking system and in the deposit insurance system. Such institutional resilience is explained by the positive dynamics of the domestic deposit market, a significant growth in the Fund’s accumulated reserves, progress in the Fund’s communication policy, and other factors.

The banking crisis of 2023 in the United States and Europe did not affect our financial sector and, above all, the banking system. However, these events sparked heated discussions in the international community of deposit insurers and among experts on the need to review global standards and strengthen the role of the International Association of Deposit Insurers (IADI) as a promoter for best practices. As you know, the Fund has always closely monitored global trends and taken a proactive stance on implementing cutting-edge global experience. And this time, as a member of the IADI Executive Council, I was involved in the Governance Working Group for reforming the activities of the organization. As a result, proposals were formulated to improve the organizational structure of IADI and enhance the fundamental standards in deposit insurance, the implementation of which is scheduled for the next two years. I believe that developments in these areas will bring major benefits both globally and to the domestic insurance system.

It is important to emphasize that bank deposits remain the most reliable financial instrument for the population. To confirm, the retail

deposit market grew by 21% and exceeded 20 trillion tenge in 2023. Deposits in tenge are especially popular, with real yields remaining at an attractive level, covering the level of inflation and currency risks. This explains the continuing growth of the volume of deposits in tenge and reflects the increasing trust the Kazakhstan national currency. Thus, in 2023 the volume of deposits in tenge grew by 34% – the maximum growth rate since 2016, and their share in the retail portfolio of banks reached 73%, while the volume of foreign currency deposits decreased. Today, more than half of the banking deposit base is formed by household deposits.

An important event of the past year for deposit market participants was the liberalization of the regulation of maximum deposit rates, the practical implementation of which will begin next year. This refers to the reform conducted by the Fund jointly with the National Bank regarding the regulation of interest rates on retail deposits. Since 2008, the Fund has set a ceiling on retail deposit rates to prevent the accumulation and materializing of systemic risks in the banking sector. Considering the development of the Kazakhstani market and the improvement of risk management culture in banks, conditions have been formed

● ● ● ● **The retail deposit
market grew by
21% and exceeded
20 trillion tenge
in 2023.**

for transitioning from a directive, or “fixed”, to a more flexible and market-oriented mechanism for regulating interest rates on retail deposits, which will come into force on January 1, 2024. As a result of the implementation of the new mechanism, it is expected to develop adequate market pricing in the deposit market and an increase healthy competition among member-bank. Such changes should have a positive impact on the conditions for attracting depositors and on the quality of service to the population.

Concerning the institutional stability of the deposit insurance system, it is worth noting that today 99.8% of all individual accounts are fully covered by the Fund’s guarantee. This became possible due to the reserves accumulated in the Fund. Thus, in 2023 the volume of the special reserve fund exceeded the record mark of 1 trillion tenge, and its level exceeded the legislative minimum of 5% of the total amount of guaranteed deposits, which corresponds to the best international practice. It should be reiterated that the Fund utilizes advanced practices in forming the special reserve. Thus, the majority of the special reserve volume is accumulated through premiums collected from member-bank in the deposit guarantee system based on differential premium scheme applied by the Fund, depending on the risk profile of each bank. At the same time, the Fund intends to ensure the sufficiency of the special reserve in accordance with the level of risks in the banking system, including by raising premium rates for banks in the future.

An important aspect of the safety of the special reserve funds is the investment policy. Considering our commitments to guaranteed

foreign currency deposits, last year we reviewed the investment policy and increased the foreign currency component in the liquidity portfolio to 15%. This is a common global practice used to ensure the safety of funds and reduce potential losses from negative revaluations. Such a measure will not only help to mitigate the impact of currency risks but also contribute to investment diversification, bringing us closer to the optimal balance of risks, returns and liquidity of the accumulated funds.

It is also worth noting another significant development for us that occurred in 2023 – the new procedure for informing depositors about the deposit guarantee mechanism. Protecting the depositors and increasing financial literacy have always been among the Fund’s top priorities. In this regard,

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Today 99.8% of all individual accounts are fully covered by the Fund’s guarantee.

the Fund has developed and implemented a new notification form for bank clients at the stage of entering a deposit/account agreement. Now each depositor is informed in advance not only about the terms and procedure for payout in case the bank’s license is revoked, but also about the key conditions of the deposit and the specifics of calculating the guarantee amount. Banks carry out this information through digital platforms, including mobile applications, as well as directly in branches. Thanks to these innovations, all important information about the deposit and its guarantee procedure is available to depositors even before

signing the banking agreement, enabling them to make informed financial decisions. Additionally, last year the Fund initiated amendments to legislate uniform requirements for banks to disclose key financial information to clients in deposit agreements. This will ensure the convenience of understanding the proposed terms in the deposit agreement and strengthen the legal protection of depositors.

Additionally, despite the completion of payout for all liquidated banks and the transfer of unclaimed insurance amounts to depositors’ pension accounts, the Fund continues to accept applications for compensation based on “valid” reasons. As a result, in its effort to ensure the full reimbursement of insured funds to every depositor of a liquidated bank, the Fund disbursed insurance payouts for valid reasons totaling 49.9 million tenge.

It is also necessary to highlight another significant event that occurred in 2023 – the completion of the Financial Sector Assessment Program of Kazakhstan, which started in 2022 and was conducted by experts from the International Monetary Fund with the participation of the World Bank. As one of the key elements of the safety-net, the Fund actively participated in working with experts and discussing the results of this assessment. We not only successfully completed this assessment, but also, together with experts, identified areas for improving the deposit insurance system and enhancing the institutional role of the Fund. The results of this assessment allowed us to take a new viewpoint at our strategic goals and development priorities, including the need to align with the best global practices and standards,

as well as the IADI Core Principles for Effective Deposit Insurance Systems.

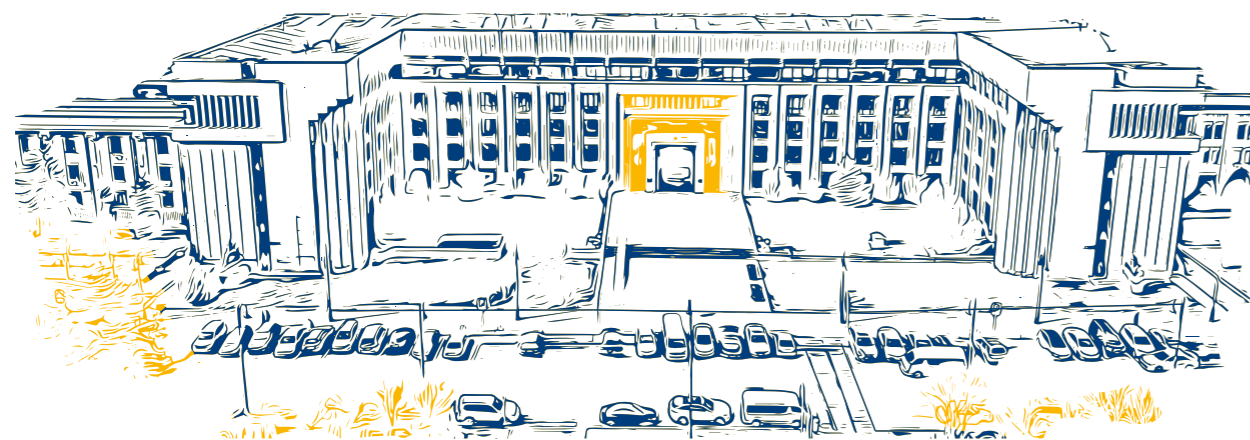
I would like to emphasize once again that the protection of depositors has been and will remain our main priority, and the Fund will continue its work on strengthening the areas that are important for the stability of the deposit insurance system. In the upcoming 2024, the deposit insurance system will celebrate its 25th anniversary. In this jubilee year, we are entering with a sufficient level of special reserve, strong positions, and we are focused on extensive work to achieve future benchmarks based on the analysis of past mistakes and successes.

Adil Utembayev
Chairman of the Kazakhstan Deposit Insurance Fund JSC

KDIF

ҚАЗАҚСТАННЫҢ ДЕПОЗИТТЕРГЕ
КЕПІЛДІК БЕРУ ҚОРЫ
KAZAKHSTAN DEPOSIT
INSURANCE FUND

1



● National Bank building, Almaty

ABOUT THE FUND

Kazakhstan Deposit Insurance Fund JSC was established in pursuance of the Resolution of the NBK No 393 of November 15, 1999, in order to help maintain the stability of the country's financial system after the economic crisis of 1998.

The Fund is a nonprofit organization incorporated as a joint stock company with the NBK as its founder and sole shareholder.



FUND'S MISSION

To effectively participate in ensuring the stability of the financial system and protecting of rights and legitimate interests of depositors of second-

tier banks of Kazakhstan (and branches of non-Kazakhstani banks).

VISION

The Fund aspires:

- to comply with the IADI Core Principles for Effective Deposit Insurance Systems (the IADI Core Principles);
- to carry out its mission using the best international practices.

IADI was established in 2002 with the aim to improve the effectiveness of deposit insurers

worldwide. As the global standard-setting body for deposit insurers worldwide, IADI developed the Core Principles for Effective Deposit Insurance Systems in 2009, which are designed to outline the role and tasks of deposit insurers in contributing to the financial stability system¹. Therefore, the Fund strives to improve its activities in order to comply with the IADI Core Principles and realize its mission, using best international practices.

MAIN PRINCIPLES OF DIS

Deposit insurers operate within a system known as the Deposit Insurance System (DIS), in which they interact with other participants in the financial system who support deposit insurance and bank resolution processes. The principles of the DIS are defined with the aim of protecting depositors (by paying out deposit insurance) and promoting financial stability and include:

- compulsory participation in the DIS for banks (and branches of non-Kazakhstan banks) that accept deposits, open and manage personal bank accounts;
- ensuring transparency of the DIS;
- reduction of risks associated with DIS operations;
- cumulative formation of the special reserve.

¹ In accordance with the IADI Core Principles 2014: The Financial Stability System performs, among other functions, prudential regulation and supervision, insolvency resolution, lender of last resort, and deposit insurance. In many jurisdictions, the financial stability maintenance system also includes a government department or treasury responsible for developing and implementing policies related to the financial sector.

STRATEGIC GOALS

In 2022–2023 the latest Financial Sector Assessment Program of Kazakhstan was conducted, as part of which the deposit insurance system was evaluated. Overall, the FSAP aims to assess the stability and resilience of the financial sector and its ability to support growth and development. In 2023, the Fund actively participated in the FSAP, providing comprehensive support to international experts. The experts from international organizations discussed the state of the deposit insurance system, the obstacles hindering the Fund’s activities, and ways to overcome them. Also, the Fund’s employees interacted with other participants

in the financial safety net reviewed the interim FSAP reports and clarified certain provisions. Based on the FSAP results, the Fund adjusted goals and objectives. In general, the tasks can be systematized along the following strategic directions:

- ▣ timely and full payout;
- ▣ ensuring the sufficiency of the special reserve for payout;
- ▣ strengthening confidence in the deposit insurance system;
- ▣ strengthening operational resilience and institutional effectiveness;
- ▣ participation in the regulation of interest rates in the retail deposit market.

FUND’S FUNCTIONS

- ▣ insured amounts payout on deposits as required by the Law;
- ▣ maintenance of the register of member-banks;
- ▣ participation in the operation pertaining to the simultaneous transfer of assets and liabilities from one bank to another (or several others) in the case set forth in Article 16 of the Law (P&A operation);
- ▣ investment of assets;
- ▣ formation of the special reserve;
- ▣ setting requirements for agent-banks and approval of the preliminary lists of agent-banks that are to pay out insured amounts in the manner determined by the Fund’s governance body;
- ▣ participation in the temporary administration of failed member-banks during the period of conservation;

- ▣ participation in the temporary administration of failed member-banks during the revocation of their banking licenses;
- ▣ participation in the liquidation commission and creditors’ committee of member-banks undergoing forced liquidation (or forced dissolution of branches of non-Kazakhstani banks) until the time the liquidation commission ensures full repayment of the amounts due to the Fund in connection with the payout of insured amounts.

HUMAN RESOURCES MANAGEMENT

The Fund is actively working to create a supportive and inspiring environment for its employees and strives to develop leadership qualities and provide career growth opportunities for each team member. The Fund adheres to the principles of equal opportunities and combating discrimination in all areas of personnel management. Creating a corporate culture that encourages collaboration, stimulates innovation and promotes personal growth is a key priority. The Fund strives to ensure that each employee feels supported and respected, contributing to overall success and the achievement of goals.

Realizing that personnel are a key factor in success, the Fund adheres to a strategy that includes not only the careful selection of personnel but also the desire to diversify skills and experience. The backbone of the Fund’s team is highly qualified specialists with many years of experience, who possess valuable knowledge and skills necessary to ensure stability and the successful fulfillment of set tasks. At the same time, Fund constantly moving towards renewal, attracting talented and promising people to work. By the end of the year, the average number of employees was 77, with about 13% having over 10 years of experience in the Fund, 14% having 5 to 10 years, and 20% having 3 to 5 years. A large number of experienced employees allows preserve and transfer valuable knowledge, as well as successfully integrate new team members. In turn, young employees bring fresh ideas and approaches to the team, contributing to productive interaction for the common good.

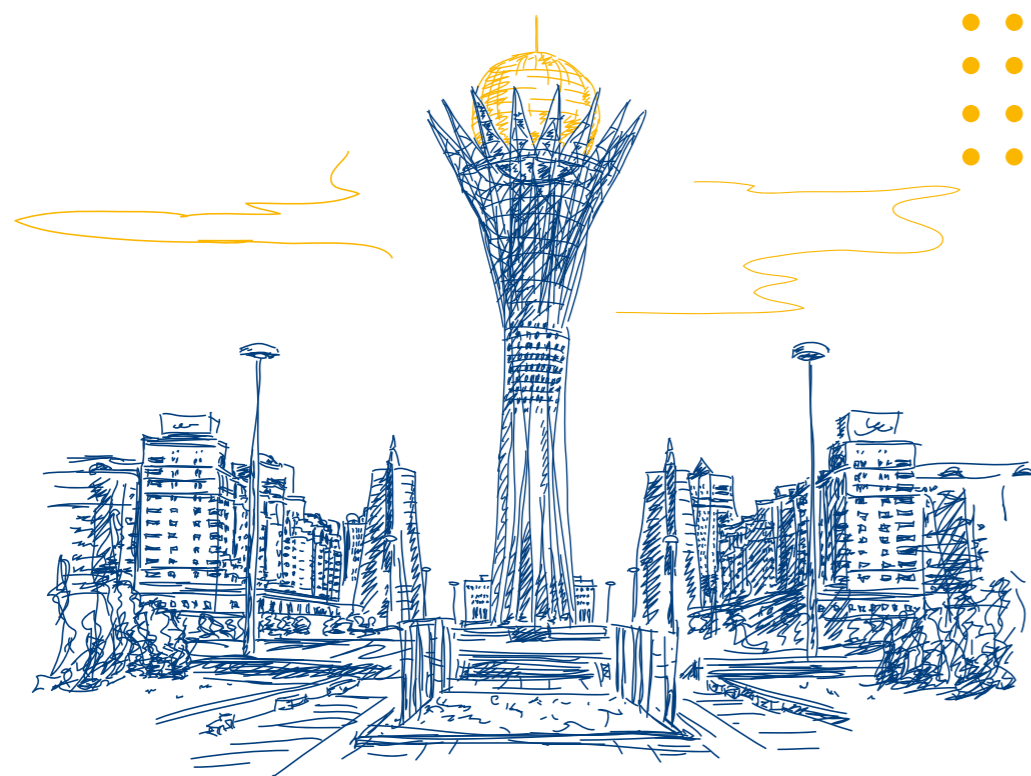
In addition, regular training and development programs are carried out to provide employees with the opportunity to constantly improve and unleash their potential. During 2023 68 employees were participated in the training. Within the framework of this training program,

employees acquired valuable knowledge and skills in information security, programming, working with databases and specialized software, internal audit, development of management competencies, effective teamwork and personnel management. The training contributes to the professional growth of our employees and the overall improvement of the quality of work.

Care for the health and safety of employees holds an important place in the priorities of our Fund. The Fund systematically updates the documentation related to safety and labor protection to ensure high safety standards in the workplace. Every newly hired employee undergoes compulsory introductory safety training before starting their duties. The Fund strives to create a safe and healthy work environment for all employees so that they can be strong and reliable team.

The Fund pays special attention to resolving disagreements and labor disputes. For the effective resolution of such situations, a conciliation commission has been established. The conciliation commission consists of three members who are representatives of both the employer and the employees. During 2023 no cases of employees appealing to the conciliation commission were recorded, indicating a stable situation and good relations within the team.

In 2023 a landmark event took place – the 30th anniversary of the national currency, the tenge. Many employees of the Fund have made a significant contribution to the development of the financial system, for which they have been awarded by various awards. As a sign of recognition of their work, employees were awarded a Letter of Appreciation from the Chairman of the National Bank, the jubilee medal “30 Years of Tenge”, as well as a Letter of Appreciation from the Chairman of the Fund.



● Baiterek, monument and observation tower, Astana

PARTICIPATION IN DIS



As of December 31, 2023 19 out of 21 second-tier banks operating in Kazakhstan were members of the DIS. Two Islamic banks were the exceptions: Al Hilal Islamic Bank JSC and Zaman Bank Islamic Bank JSC.



In the reporting year, the Fund issued 1 certificate for a member-bank and made the corresponding changes to the register of member-banks of the DIS due to the change in the name of Halyk Bank Kazakhstan JSC (the exclusion of the word "savings"). The composition of member-banks of the DIS in 2023 remained unchanged.

TABLE 1.

MEMBER-BANKS AS OF 31.12.2023

No	Name
1	ALTYN BANK JSC (a branch of CHINA CITIC BANK CORPORATION LIMITED)
2	BANK RBK JSC
3	BEREKE BANK JSC
4	FIRST HEARTLAND JUSAN BANK JSC
5	FORTEBANK JSC
6	HOME CREDIT BANK JSC
7	KASPI BANK JSC
8	BANK FREEDOM FINANCE KAZAKHSTAN JSC
9	BANK CENTERCREDIT JSC
10	EURASIAN BANK JSC
11	BANK OF CHINA IN KAZAKHSTAN BRANCH BANK JSC
12	KZI BANK BRANCH BANK JSC
13	HALYK BANK KAZAKHSTAN JSC
14	NURBANK JSC
15	OTBASY BANK JSC
16	CITIBANK KAZAKHSTAN JSC
17	INDUSTRIAL AND COMMERCIAL BANK OF CHINA IN ALMATY JSC
18	SHINHAN BANK KAZAKHSTAN JSC
19	BRANCH ORGANIZATION VTB BANK (KAZAKHSTAN) JSC



● Hotel "Kazakhstan" – a unique historical building, Almaty

DEPOSIT MARKET IN 2023

DEPOSIT MARKET

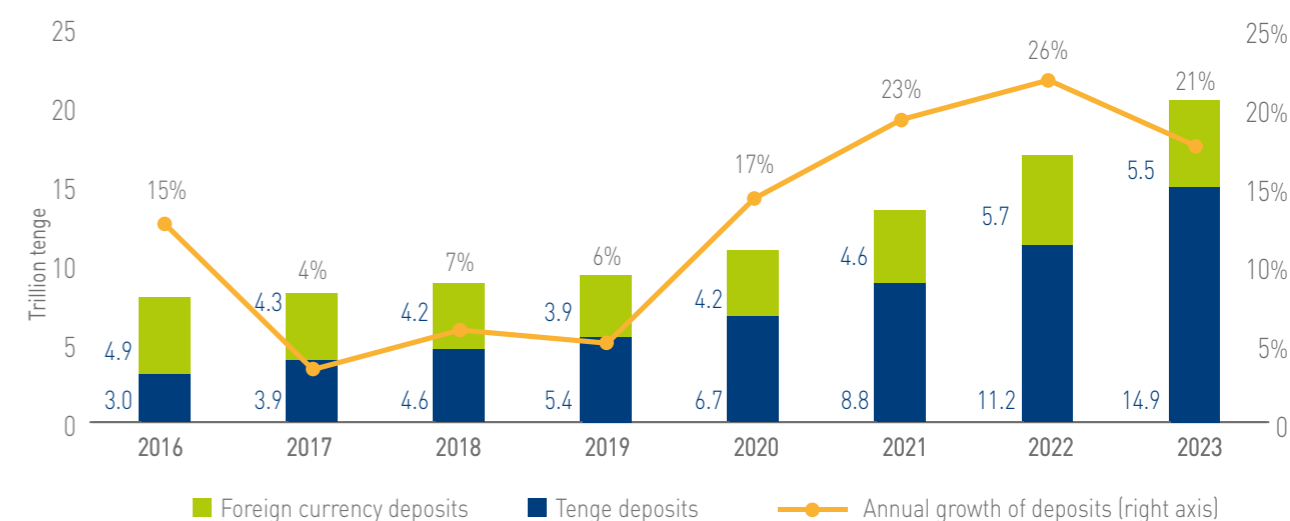
DEVELOPMENT TRENDS OF THE DEPOSIT MARKET

The year 2023 despite the continuing turmoil in international financial markets and instability in the geopolitical space, can be called a year of recovery for the Kazakhstani economy. Due to the joint anti-crisis measures of the Government and financial regulators, the Kazakhstan economy was able to withstand external shocks and in the reporting year it entered a trajectory of sustainable growth –

in 2023 GDP growth was 5.1% (3.2% in 2022)². Pressure on the economy remained due to high inflation level and exchange rate volatility, but the consistent and open monetary policy of the National Bank has allowed to regulate these factors and ensured the stability of the financial sector, which also contributed to a significant growth of the retail deposit market: the total volume of retail deposits in 2023 grew by 20.6% and reached a record 20.4 trillion tenge (Fig. 1).

FIGURE 1.

DEPOSITS OF THE POPULATION EXCEEDED 20.0 TRILLION TENGE



The growth driver of the retail deposit base remains tenge deposits. Their growth, which continues despite the presence of currency risks, is due not only to the high profitability of tenge assets but also to an increase in the confidence of Kazakhstanis in the national currency. At the beginning of 2016, when the population was experiencing a crisis of confidence in the tenge after the devaluations of 2014–2015, the share of retail deposits in tenge was 21%. Thanks to the joint efforts of the National Bank of the Republic and the Fund, over the subsequent years it was possible to stabilize the exchange rate and ensure the attractiveness of deposit

products in tenge by increasing their profitability, covering currency risks. For example, in 2022, the tenge exchange rate decreased by 7%, and at the end of 2023 despite fluctuations, it strengthened by 2%. At the same time, the average yield on deposits in tenge in 2022–2023 ranged within 14%, which is several times higher than the yield fixed by citizens from currency revaluation for the period under review. In addition, it is not always possible to win from fluctuations in the tenge exchange rate – often people buy currency at its peak at an inflated price and sell it already at a decline. Thus, at the moment, deposits in tenge are the most popular financial instrument

² www.primeminister.kz

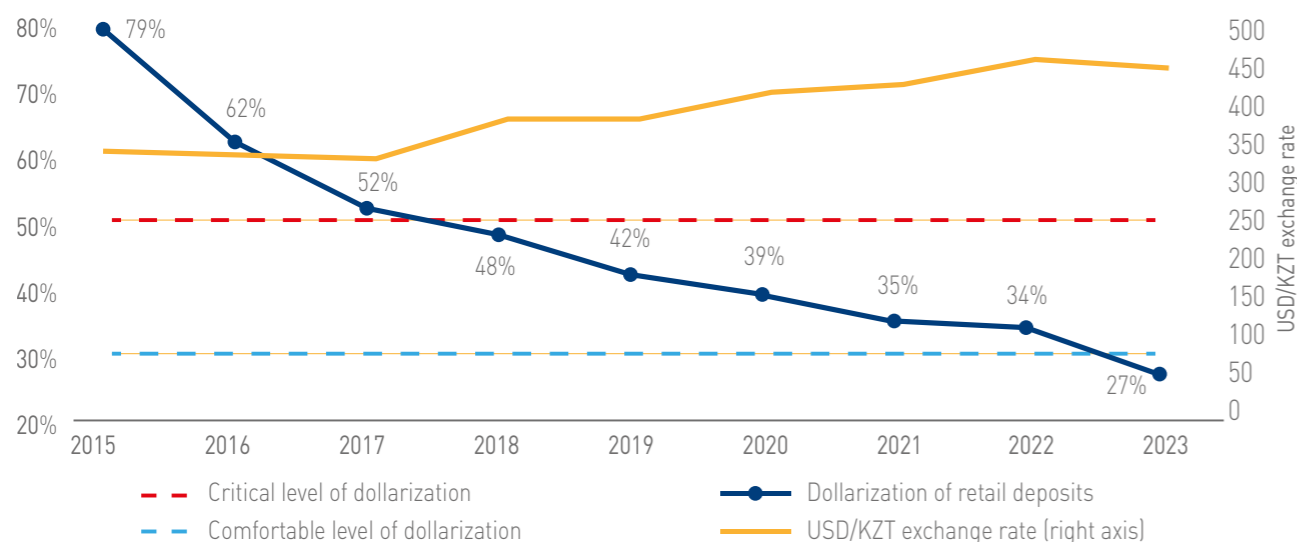
among the population: their growth in 2023 was 33.7% – the maximum value since 2016, and the share of deposits in tenge in the retail portfolio at the end of the year reached 73%.

The share of foreign currency deposits of the population has decreased, despite fluctuations in the tenge exchange rate, and the dollarization of the retail deposit portfolio has reached a comfortable level of 26.8% (Fig. 2). The optimal level of dollarization depends on the size of the economy, the degree of its openness,

the level of financial integration and market development. Nevertheless, foreign studies show that an acceptable level of dollarization can be considered a share of foreign currency deposits of no more than 30%³. Kazakhstan has managed to cross this threshold in several years thanks to the balanced monetary policy of the National Bank of the Republic of Kazakhstan, and today the population keeps the majority of their savings in tenge for basic settlements and ensuring profitability, and a smaller part – in foreign currency for risk diversification.

FIGURE 2.

DOLLARIZATION OF RETAIL DEPOSITS HAS REACHED A COMFORTABLE LEVEL



STRUCTURE OF THE DEPOSIT MARKET

The mass segment is the backbone of the retail deposit market (share of 51.3%), however, the savings capacity of this segment has decreased due to the high level of inflation that has prevailed in recent periods. The growth of nominal incomes of the population and the accrual of interest income at the current high rates led to an increase in the mass segment by 20.0% in 2023. Compared to other market segments, the growth rates of the mass sector are lagging

behind, especially in deposits in the national currency: the annual increase in deposits in tenge of the mass segment (23.5%) is lower than the indicators for the retail market as a whole (33.7%) and for the medium and large segments – 52.9% and 55.7%, respectively. As a result, the share of the mass segment has decreased both in deposits in tenge – by 5.1 percentage points, and in the market as a whole – by 0.2 percentage points (Fig. 3). The lower growth of the mass sector compared to the other segments is due to the excess of the inflation level over the growth of nominal

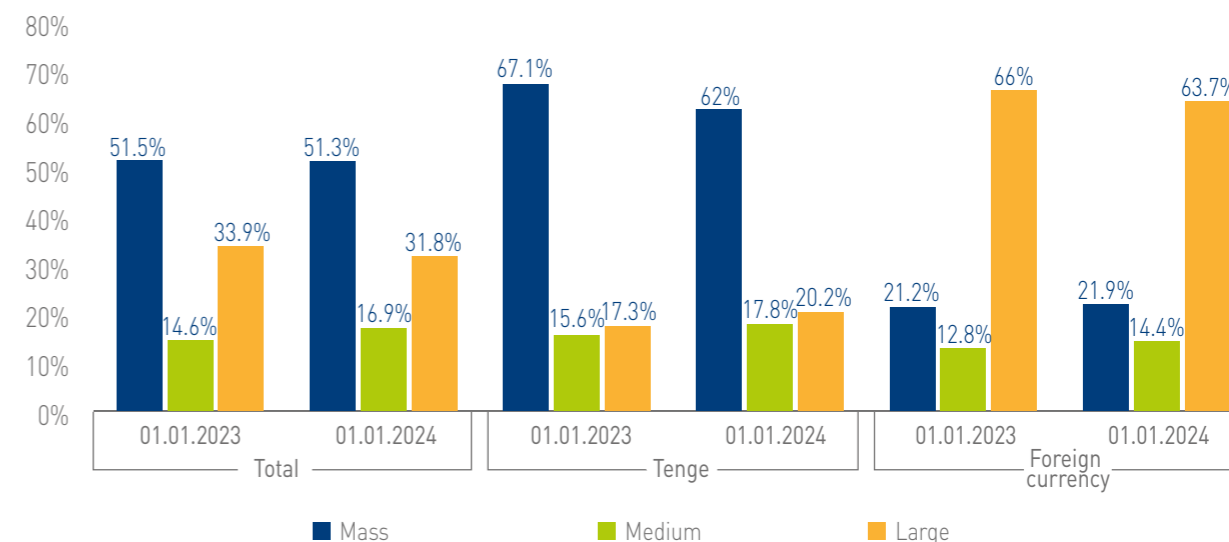
3 A. Kokenyne, J. Ley, R. Veyrone, 2010, Dedollarization, IMF Working Paper. A. Bennett, E. Borensztein, 1999, Monetary Policy in Dollarized Economies, IMF Occasional Paper No. 171.

incomes – so, the index of real income in January 2024 was 99.7%⁴, while the costs of food products occupy half of the cash expenditures of Kazakhstanis (51.3%⁵). Given that these are average indicators for the country, it is

logical to assume that the impact of rising prices is particularly tangible for the part of the population with incomes below the average level and, consequently, reduces their savings activity.

FIGURE 3.

THE SHARE OF THE MASS SECTOR IN DEPOSITS IN TENGE HAS DECREASED



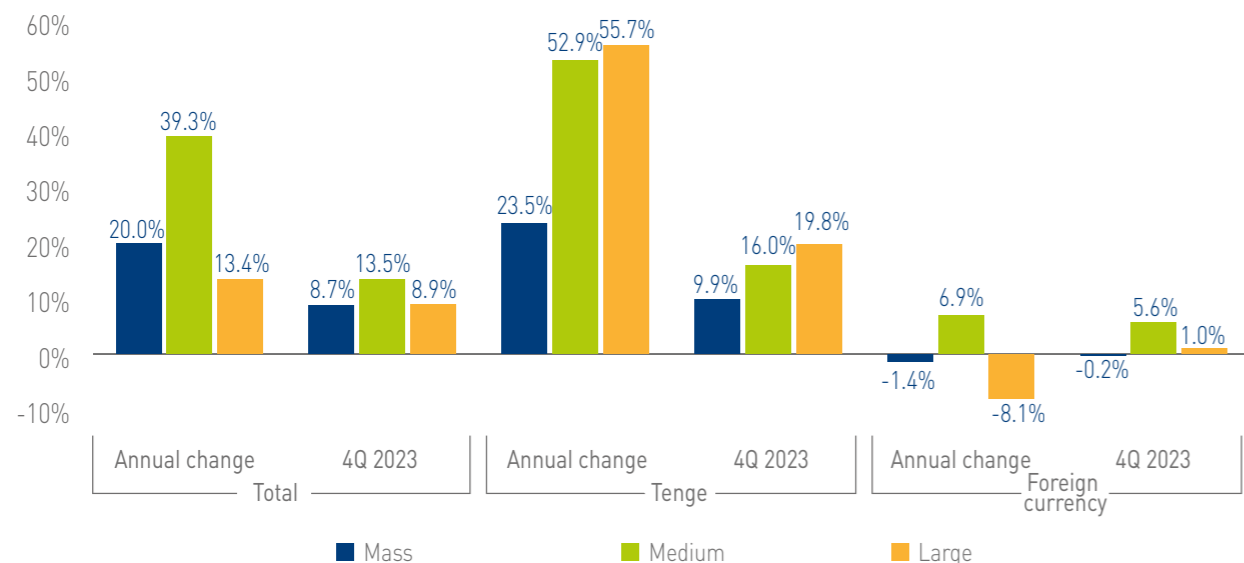
The share of the medium-sized segment is low, but it is the fastest-growing one at the moment. This segment has recorded a high growth rate in deposits in tenge (52.9%), and it is the only segment where deposits in foreign currency did not decrease over the year, but, on the contrary, demonstrated moderate growth (6.9%) (Fig. 4). The rise in prices has a lesser impact on the saving

capacity of depositors in the medium-sized segment compared to the mass segment. As a result, the growth of the segment over the year amounted to 39.3% (compared to 20.0% and 13.4% for the mass and large-sized segments), and the share increased from 14.6% to 16.9%.

4 For January 2024, in % to January 2023, Bureau of National Statistics, <https://stat.gov.kz/ru/industries/labor-and-income/stat-life/>.
5 In % for the 4th quarter of 2023, Bureau of National Statistics, <https://stat.gov.kz/ru/industries/labor-and-income/stat-life/>.

FIGURE 4.

THE MEDIUM-SIZED SEGMENT IS THE FASTEST GROWING ONE

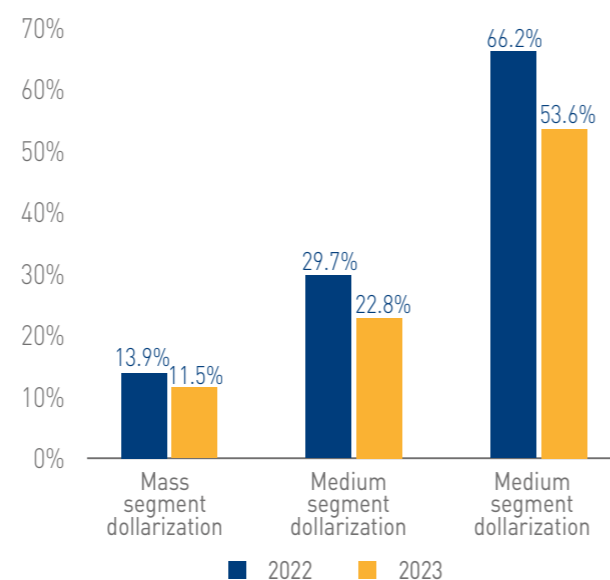


Large-sized segment depositors still prefer to keep their savings in foreign currency, however, in this segment, there is a continued outflow of foreign currency deposits and the share of the segment in the market is declining. It can be assumed that part of the foreign currency deposits was converted into deposits in tenge due to their attractive profitability, and part – into alternative financial instruments in foreign currency, available to large depositors. If earlier the yield on deposits in foreign banks did not exceed the rates set by Kazakhstani banks (maximum 1%), over the past year the interest rates in foreign markets have increased substantially due to high inflation level and tight monetary policy of central banks (high money market rates). As a result, throughout the year, the volume of deposits in foreign currency in the large segment decreased by 8.1%, and its share in foreign currency deposits decreased by 2.3 percentage points. Deposits of the large-sized sector in tenge, on the contrary, increased by more than one and a half times (+55.7%), while their share is still low – 20.2%.

Over the course of several years, Kazakhstan has managed to significantly reduce the level of dollarization thanks to the balanced monetary policy of the National Bank of the Republic of Kazakhstan. Depositors with large savings prefer to keep funds

FIGURE 5.

DOLLARIZATION IS DECLINING IN ALL SEGMENTS



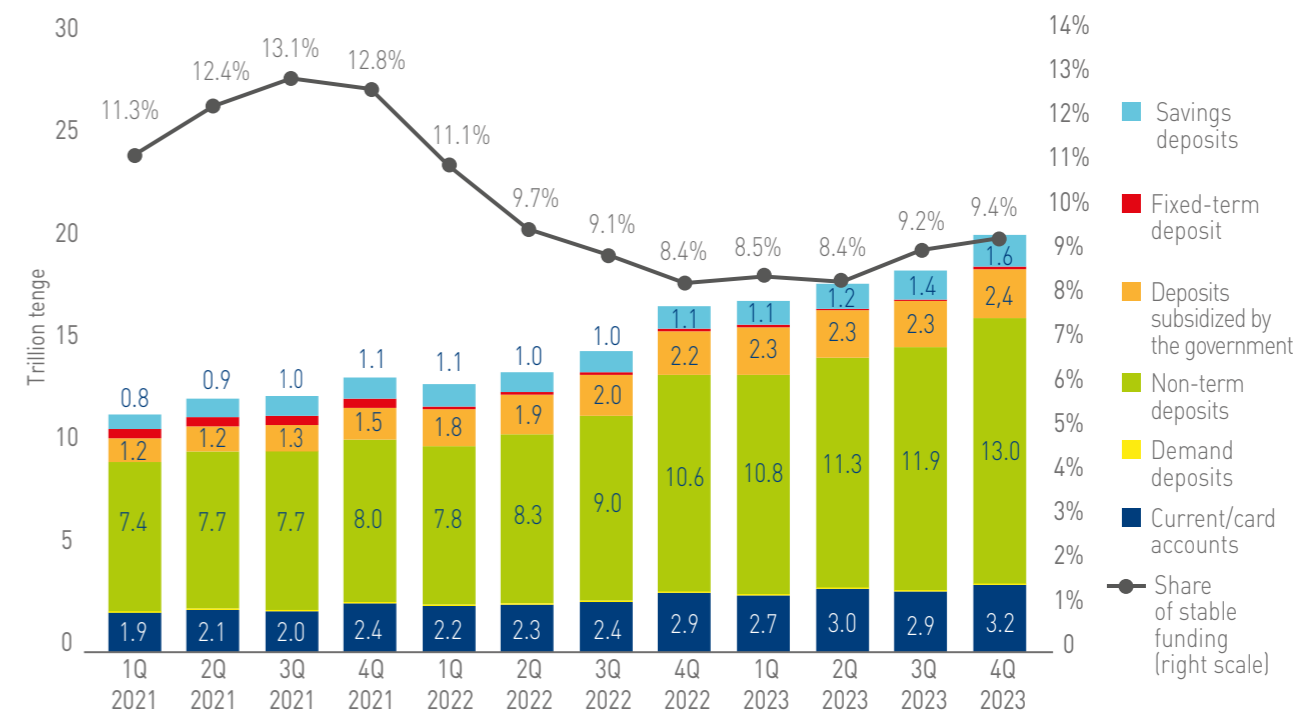
in foreign currency – the level of dollarization in the large-sized segment exceeds the critical level (53.6%), however, in 2023 there was a significant reduction in the share of foreign currency deposits (by 12.6 percentage points). In the mass segment, on the contrary, the lowest share of deposits in foreign currency was recorded – 11.5%, and the level of dollarization in the medium-sized segment (22.8%) is closest to the overall level for the retail deposit market (26.8%) (Fig. 5).

Throughout the year, the share of fixed-term and savings deposits in the market has been growing, indicating the gradual formation of a

savings culture and an increase in the level of financial literacy of the population. Depositors have become more conscious of planning their savings and distributing them across different types of deposits depending on their personal goals: creating a liquid safety cushion or long-term investment to maximize returns. Thanks to the development of financial technologies, depositors have the opportunity to perform banking operations quickly, without visiting bank branches, and at the same time, the development of the financial sector implies an increase in public awareness of investment instruments to make balanced and thoughtful decisions about their savings. Despite strict

FIGURE 6.

THE SHARE OF STABLE FUNDING IS GROWING



restrictions on early withdrawal, banks offer the most attractive rates on savings deposits, and the legislation provides for a higher insurance amount, which is why depositors prefer to invest a part of their savings in this

type of deposit, especially with short terms, to lock in high profitability. As a result, in 2023 savings deposits showed the highest growth – 43.9%, compared to 23.1% for non-term deposits and 12.8% for current and card

accounts, and the share of stable funding⁶ increased from 8.4% to 9.4%. At the same time, non-term deposits, due to their mobility and lack of restrictions, remain the backbone of the retail deposit portfolio – their share in the portfolio at the end of 2023 was 64.0%, increasing by 1.3 percentage points over the year (Fig. 6).

CAP RATES FOR RETAIL DEPOSIT

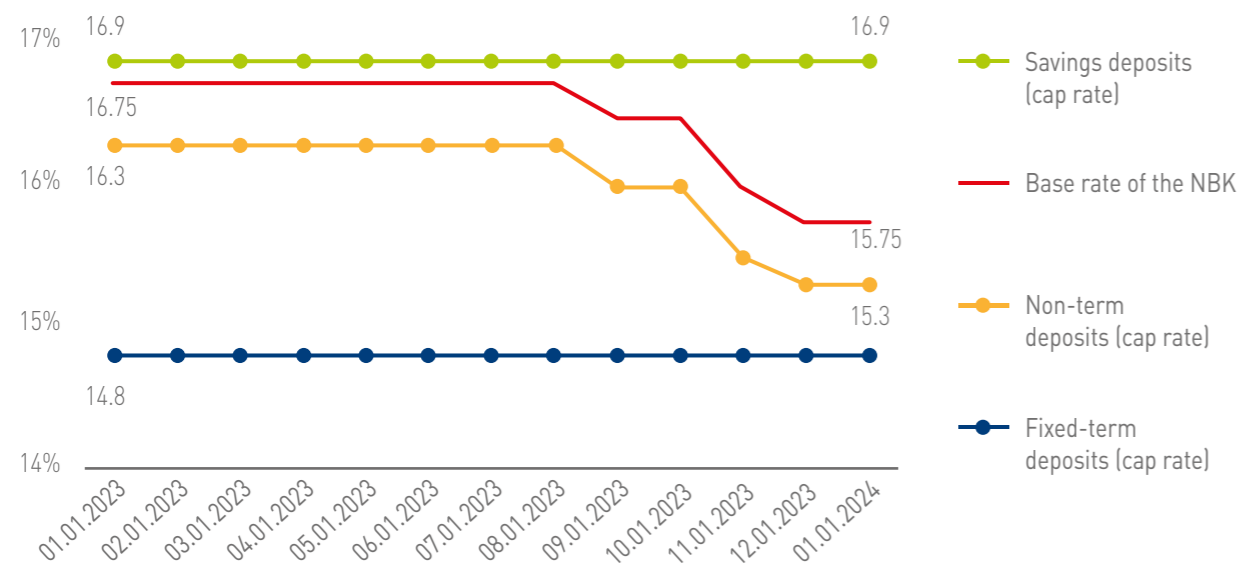
The attractiveness of bank deposits for the population in 2023 was ensured not only by their reliability but also by their high profitability. In 2023 despite the easing of the monetary policy of the National Bank of the Republic of Kazakhstan, the level of the base rate remained high. Since the base rate of the National Bank is a benchmark for the Fund’s cap rates and the deposit policy of banks, the retail deposit rates in 2023 maintained their attractiveness compared to other types of financial instruments available to the population.

The regulation of rates in the retail deposit market has become more market-oriented.

Rates on non-term deposits began to decline from the 4th quarter of 2023 following the base rate. For fixed-term and savings deposits throughout 2023 the Fund maintained the cap rates at the same level: in the first half of the year due to the preservation of the base rate of the National Bank of the Republic of Kazakhstan, and in the second half of the year – in order to provide member-banks with a transition period for their adaptation to the new mechanism for regulating retail deposit rates, which is to be put into effect from January 1, 2024 (Fig. 7). The reform was carried out in order to move from a directive to a market mechanism for regulating the rates on retail deposits. Thus, already from last year, the main factors influencing the market rates on fixed-term and savings deposits were the base rate of the National Bank and the deposit policy of member-banks. As a result, at the end of 2023 the average market rates on non-term deposits in tenge amounted to 14.9%, and on short-term fixed-term and savings deposits they reached 15.5% and 17.5%, respectively.

FIGURE 7.

THE CAP RATE ON NON-TERM DEPOSITS HAS DECREASED FOLLOWING THE BASE RATE, WHILE THE RATE ON TERM AND SAVINGS DEPOSITS HAS REMAINED AT THE SAME LEVEL



⁶ Stable funding includes fixed-term and savings deposits to total deposits minus deposits opened within the framework of housing construction savings and the state educational savings system.



REFORM OF THE REGULATION OF THE RATES ON THE DEPOSIT MARKET

To ensure the stability of the banking sector, the Fund regulates the interest rates on retail deposits. Thus, to increase funding and maintain liquidity, banks can attract funds from the public by inflating the rates on the offered products, which can lead to an outflow of individual savings from more stable banks to less stable ones. To limit unhealthy competition among banks and prevent the accumulation of systemic risks in the banking sector, the Fund has been setting monthly caps on retail deposit for all member-banks. This mechanism not only allowed limiting the aggressive deposit policies of banks, but also contributed to the formation of the term deposit market and the yield curve on deposits, and served as an incentive for banks to improve their risk management systems (interest rate and liquidity risk).

At the same time, directive management of rates is not a market measure, it limits competition between banks and in the long term can harm their activities. Considering the strengthening of supervision and the improvement of risk

management culture in banks, the Fund together with the National Bank decided to introduce more flexible and elastic mechanisms for regulating rates in the deposit market from January 1, 2024.

According to the new mechanism, the cap rates will be set not for all member-banks, but only for a certain category of banks most exposed to liquidity risks and, accordingly, prone to an aggressive deposit policy. This approach to setting cap rates is successfully used by the Federal Deposit Insurance Corporation (FDIC, USA). The Fund, as before, will publish the cap rates on its official website, but only for the information of the respective banks.

At the same time, the benchmark for setting rates on retail deposits will be formed by the market. Banks, as before, will set rates on their deposit products independently, but will pay a premium for systemic risk depending on the spread between the bank’s rate and the weighted average market rate:

the greater the deviation of the bank's rates from the market rate, the greater the amount of its premium to the Fund's reserve for future

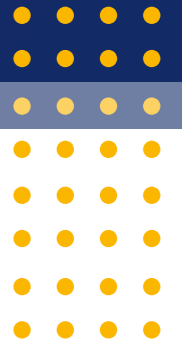
of banks attracting deposits at rates below market. Thus, the market will become self-regulated and the further movement of rates

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Considering the strengthening of supervision and the improvement of risk management culture in banks, the Fund together with the National Bank decided to introduce more flexible and elastic mechanisms for regulating rates in the deposit market from January 1, 2024.

payout. At the same time, if the bank's rate is lower than the market average, the new mechanism provides for a discount on calendar premiums to the reserve, as a result of which the total amount of the premium for systemic risk across all member-banks will be zero, that is, banks attracting deposits more expensive than the market will "pay" instead

in the market will be made up of the decisions of each individual bank. The establishment of an elastic and proportional fee for systemic risk will allow limiting the aggressive deposit policy of banks without the directive intervention of the Fund and the National Bank of the Republic of Kazakhstan.



● Archer

SPECIAL RESERVE FORMATION

STRUCTURE OF THE SPECIAL RESERVE

The Fund is accumulating the special reserve to have the necessary resources to fulfill its obligations as set forth in the Law.

This special reserve can be used for payout, absorb the difference in the Purchase and Assumption Transaction (P&A), reimburse the agent-bank for expenses arising in connection with its operations performed to payout the insured amounts, and makeup

the shortage of funds for paying unclaimed insured amounts.

As of December 31, 2023 the actual size of the Fund's special reserve was 970.2 billion tenge. Considering 70% of the Fund's authorized capital – 1,135.3 billion tenge, or 5.6% of the total amount of insured deposits in member-banks.

TABLE 2.

STRUCTURE OF THE SPECIAL RESERVE, in billion tenge

Sources for formation of the special reserve	Amount
Premiums of member-banks	444.8
Payments from forcibly liquidated member-banks to satisfy the claims of the Fund pertaining to the insured amounts	65.1
Penalties imposed on member-banks for failure to perform or improper performance of their obligations under the Adhesion Agreement	0.07
Fund's expenses not exceeding 70% of its authorized capital	55.6
Earnings from investing the asset of the special reserve and the Fund's own assets net of the expenses and deductions as specified in the Charter of the Fund	505.8
Payout of insured amounts	-101.2
Total:	970.2

The volume of the Fund's special reserve, considering the authorized capital, is higher than the legislatively established threshold of 5%. Compared to the reserves of foreign deposit insurance funds, the Fund's reserve is sufficiently large and conforms to international practices. For example, the level of the deposit insurance system reserve to the population's deposit base is 0.2% in Canada, 0.4% in Japan, 2.8% in Turkey, 0.8% in the Czech Republic, and 1.9% in Poland. Compared to CIS countries, it is 3.0% in Kyrgyzstan, 4.1% in Tajikistan, and 4.7% in Uzbekistan⁷.

According to international standards, the reserves of the deposit insurance system should correspond to the level of expected losses, and not cover the deposit base of the systemically important banks.

Should a case arise when the Fund's special reserve is insufficient for payouts, the legislation of Kazakhstan sets forth procedures for providing backup funding, including additional premiums from member-banks and a loan from the NBK to cover the shortfall amount.

⁷ IADI Annual Survey 2023.

PREMIUMS OF MEMBER-BANKS

Based on international standards, the financing of the deposit insurance system is the responsibility of the banking sector. Ensuring a sufficient level of a special reserve contributes to the stability of the banking sector, reducing the incentives for depositors to withdraw their deposits from banks due to loss of trust in them (bank run), that is, the member-banks directly benefit from the effective functioning of the deposit insurance system. The legislation of Kazakhstan has determined the obligation of the member-banks to pay premiums to the Fund on a quarterly basis to accumulate a special reserve.

The premiums are paid by the member-banks from the moment the deposit insurance system was established in Kazakhstan: initially at a single premium rate, and since 2007 – at differentiated rates. The premium rate varies from 0.03% to 0.5% of the amount of insured deposits and is determined depending on the risk profile of each member-bank: for "risky" banks with unstable financial standing, the premium rate is higher than for stable banks.

The assessment is carried out by the Fund based on its own model, which allows the Fund to comprehensively assess the financial condition of the member-banks. According to the said model, banks are distributed into 5 classification groups: group A – stable banks,

B – sustainable banks, C – less sustainable banks, group D – banks with an increased

The total amount of calendar premiums paid by the member-banks in 2023 amounted to 45.1 billion tenge, which is 12.8 billion tenge more than in 2022.

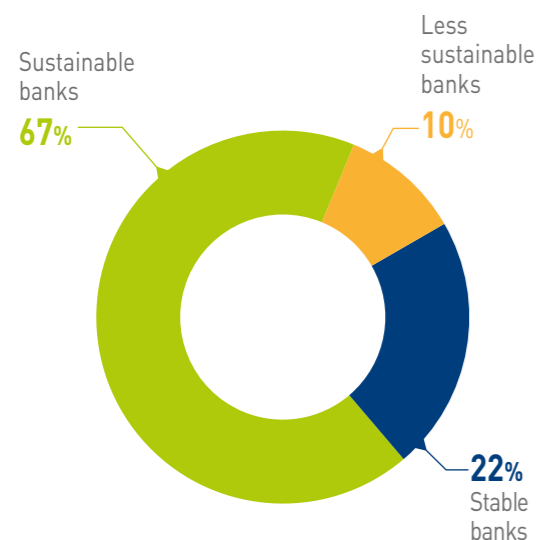
risk level, and group E – banks with a high probability of default. At the end of 2023 17 banks were assigned to groups A, B, and C, i.e., they are stable and sustainable banks; 2 banks were assigned to group D with an increased risk level.

The total amount of calendar premiums paid by the member-banks in 2023 amounted to 45.1 billion tenge, which is 12.8 billion tenge more than in 2022. The significant increase in the amount of premiums is due to the growth of the deposit base. As a result, the accumulated amount of calendar premiums increased by 11.3% over 2023 and reached 444.8 billion tenge. At the same time, based on the logic of the system for determining and paying premiums, the share of banks with a higher risk level in the structure of premiums paid in 2023 is higher than the share of stable banks (Figure 8).

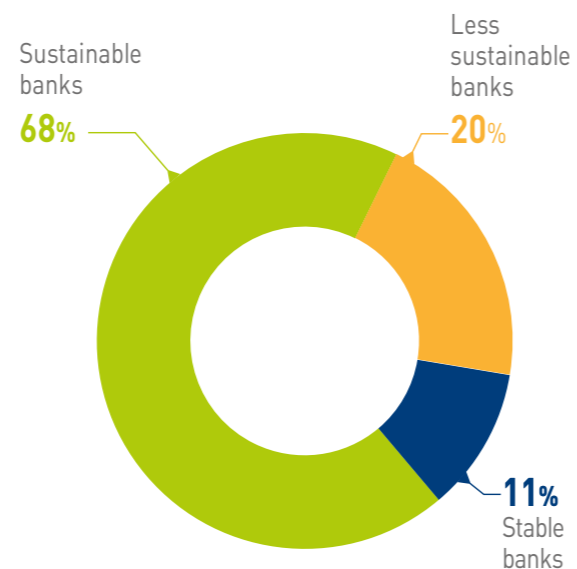
FIGURE 8.

BANK PREMIUMS ARE DIFFERENTIATED DEPENDING ON THE RISK PROFILE OF THE MEMBER-BANK

Share of retail deposits by classification groups for 2023



Share of premiums by classification groups for 2023



RECEIPTS FROM THE LIQUIDATION COMMISSIONS OF BANKS

To accelerate the return of funds directed to the insurance payout to depositors of liquidated banks, the Fund's employees not only form part of the creditors' committee of the bank being liquidated but also participate in the liquidation of the bank as a member of the liquidation commissions until the complete repayment of the debt to the Fund for the amount of the paid insurance payout. Thus, during 2023 the Fund's employees were members of the liquidation commissions of Bank of Astana JSC, AsiaCredit Bank JSC,

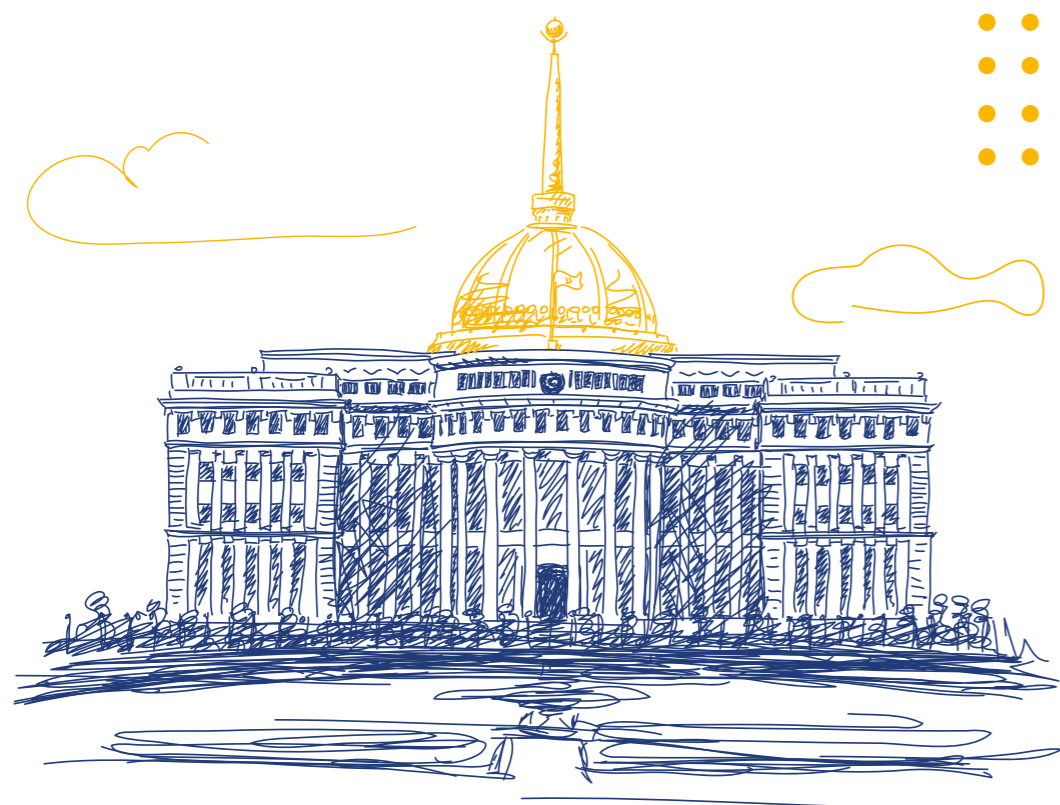
Valut-Transit Bank JSC, and Qazaq Banki JSC, serving as Chairmen of the liquidation commissions in the latter three banks.

In total, as of January 1, 2024 the liquidation commissions have satisfied the Fund's claims for 64.3 billion tenge, or 55.3%. In 2023 receipts to the Fund's special reserve from the repayment of obligations of the banks being liquidated amounted to 4.97 billion tenge or 7.7% of the total amount paid by the banks being liquidated to the Fund.

TABLE 3.

INFORMATION ON THE FUND'S CLAIMS MET BY LIQUIDATION COMMISSIONS AS OF 01.01.2024, in million tenge

Liquidated bank	Ranking	Fund's total claims to the liquidated bank	Fund's Claims met as of 01.01.2024		Claims paid in 2023
			tenge	%	
Valut-Transit Bank JSC	3 rd	18,340.9	10,718.0	58.4%	40.0
	8 th	28.1			
Qazaq Banki JSC	2 nd	20,516.8	5,540.0	27.0%	815.0
	8 th	145.7			
Bank of Astana JSC	2 nd	37,591.1	24,663.0	65.6%	1,997.0
	8 th	323,4			
Delta Bank JSC	3 rd	201.2	201.2	100.0%	
	8 th	1.7			
Eximbank Kazakhstan JSC	2 nd	258.3	258.3	100.0%	
	8 th	2.2			
KazInvestBank JSC	3 rd	2.0	2.0	100.0%	
	8 th	8.5	0.6	6.4%	0.1
Tengri Bank JSC	2 nd	17,755.1	17,755.1	100.0%	
	8 th	64.0			
AsiaCredit Bank JSC	2 nd	19,088.6	3,460.2	18.1%	2,120.7
	8 th	284,4			
Capital Bank Kazakhstan JSC	2 nd	1,685.2	1,685.2	100.0%	
	8 th	6.9	0.3		0.3
Total		116,304.1	64,284.0	55.3%	4,973.1



● Akorda, the Presidential Residence of the Republic of Kazakhstan, Astana

INVESTMENT

ASSET INVESTMENT

The main objective of the Fund's asset investment strategy is to ensure their preservation. The Fund focuses on investing in financial instruments with low level of risk. According to this approach, the Investment Policy defines the conditions of investment management of assets in order to minimize the risk of losses and maintain liquidity.

Asset management of the Fund's assets is performed by the National Bank in accordance with the Asset Management Agreement and the Investment Policy approved by Resolution No. 33 of the Fund's Board of Directors on November 10, 2021. The assets are invested into financial instruments permitted by the Investment Procedure for the assets of the Organization Providing Compulsory Deposit Insurance introduced by Resolution of the NBK Board No 68 of July 14, 2021.

Thus, considering the current market conditions, the Fund's assets as of December 31, 2023 are invested in highly liquid securities with a rating of at least "BB-/Ba3", including bonds of the Ministry of Finance of the Republic of Kazakhstan, deposits of the National Bank of the Republic of Kazakhstan, bonds of the European Bank

for Reconstruction and Development, Eurasian Development Bank, Asian Development Bank, international financial organizations, bonds of the National Welfare Fund Samruk-Kazyna JSC, KEGOC JSC, National Management Holding Baiterek JSC, Kazakhstan Temir Zholy JSC and Development Bank of Kazakhstan JSC.

In order to meet its foreign currency obligations, the Board of Directors of the Fund, by its decision No 19 of June 30, 2023 made amendments and additions to the Investment Policy, which allows for up to 15% of the Special Reserve portfolio assets to be invested in highly liquid foreign currency instruments (US government securities with a maturity of up to 5 years).

PORTFOLIO STRUCTURE

The Fund's asset base kept growing throughout the year. Calendar premiums of DIS member-banks in 2023 amounted to 45.1 billion tenge which was 39,6% more (+12.8 billion tenge) than in 2022.

The investment income from the placement of the Fund's assets in 2023 amounted to 137.6 billion tenge, of which 111.1 billion tenge was from the Special reserve's assets and 26.5 billion tenge was from the Fund's Own assets, which is 21.4% more (+24 billion tenge) compared to 2022.

TABLE 4.

PORTFOLIO OF THE FUND'S SPECIAL RESERVE, billion tenge

Name	December 31, 2023	Share in the portfolio, %
Bonds of the European Bank for Reconstruction and Development, Eurasian Development Bank, Asian Development Bank, international financial organizations	64.4	6
Bonds of National Welfare Fund Samruk-Kazyna JSC, KEGOC JSC, National Management Holding Baiterek JSC, Kazakhstan Temir Zholy JSC and Development Bank of Kazakhstan JSC	80.0	8
Deposits of the NBK	12.9	1
Bonds of the Ministry of Finance of the Republic of Kazakhstan	741.7	72
US Government Bonds	134.1	13
TOTAL	1,033.1	100

As of December 31, 2023 the total size of the Fund's investment portfolios amounted to 1,268.4 billion tenge, of which 235.2 billion tenge were the Fund's Own assets and 1,033.1 billion tenge were the Special reserve assets.

Additionally, on October 1, 2023 the Fund decided to change the business model

assessment of debt securities and reclassified assets from amortized cost assessment to fair value assessment through other comprehensive income. The effect of this reclassification amounted to 109.0 billion tenge in other comprehensive income.



● Yurt, home of nomads

DEPOSIT INSURANCE PAYOUT

In 2022, the Fund completed the deposit insurance payout to depositors of 9 liquidated banks (Valut-Tranzit Bank JSC, KazInvestBank JSC, Delta Bank JSC, Qazaq Banki JSC, Eximbank Kazakhstan JSC, Bank of Astana JSC, Tengri Bank JSC, AsiaCredit Bank JSC, Capital Bank Kazakhstan JSC) with the transfer of unclaimed compensation amounts to the depositors' pension accounts. For Komirbank OJSC and Nauryz Bank Kazakhstan JSC the payout was completed due to the final liquidation of the banks in 2009 and 2019, respectively.

At the same time, in accordance with the Law, the Fund continues to consider applications for the insurance payout if the depositors have valid reasons, that prevented them from applying within the established payout period. The list of such reasons is determined at the legislative level. Applications can be submitted until the final liquidation of the bank or until the depositors' rights to pension payout at the expense of voluntary pension contributions (in case the unclaimed compensation amounts are transferred to their pension accounts).

Thus, in the reporting year, the Fund made an insurance payout for valid reasons in the total amount of 50 million tenge⁸.

Meanwhile, the Fund is currently focused on implementing preventive measures that allow it to promptly and effectively organize the return of insured funds in the event of an insured event.

Considering that citizens' deposits are guaranteed from the moment they conclude bank account (deposit) agreements, the Fund regularly⁹ conducts comprehensive measures to monitor the banks' compliance with the established requirements for the accounting of guaranteed funds. These measures aim to ensure the timely



and high-quality formation of information for payout, ensuring that each bank is ready to form a register of depositors at any date. In 2023, the Fund conducted such measures in five banks, three of which were repeated to eliminate previously identified.

Moreover, in 2023 the procedure for banks to independently monitor the depositor register was significantly modernized through a specially developed system called SaIT Inspect. The Fund conducts a detailed analysis of the results of the banks' verification of the depositor register remotely every three months. Based on this analysis, Fund sends requests for clarification of discrepancies and/or recommendations for their elimination, as well as for the application of preventive measures to prevent future violations.

The Fund also continues to determine the preliminary list of agent-banks every six months (regardless of whether an insured event has occurred), from which it can rapidly select a reliable intermediary to payout the guarantee in the event of insured events.

⁸ Taking into account the expenses related to the payout of the guarantee compensation.

⁹ Annually, according to the plan, primary and secondary (to verify the elimination of discrepancies identified based on the results of the primary events) inspections are carried out. At the same time, the Fund has the right to conduct unscheduled events in the banks.

TABLE 5.

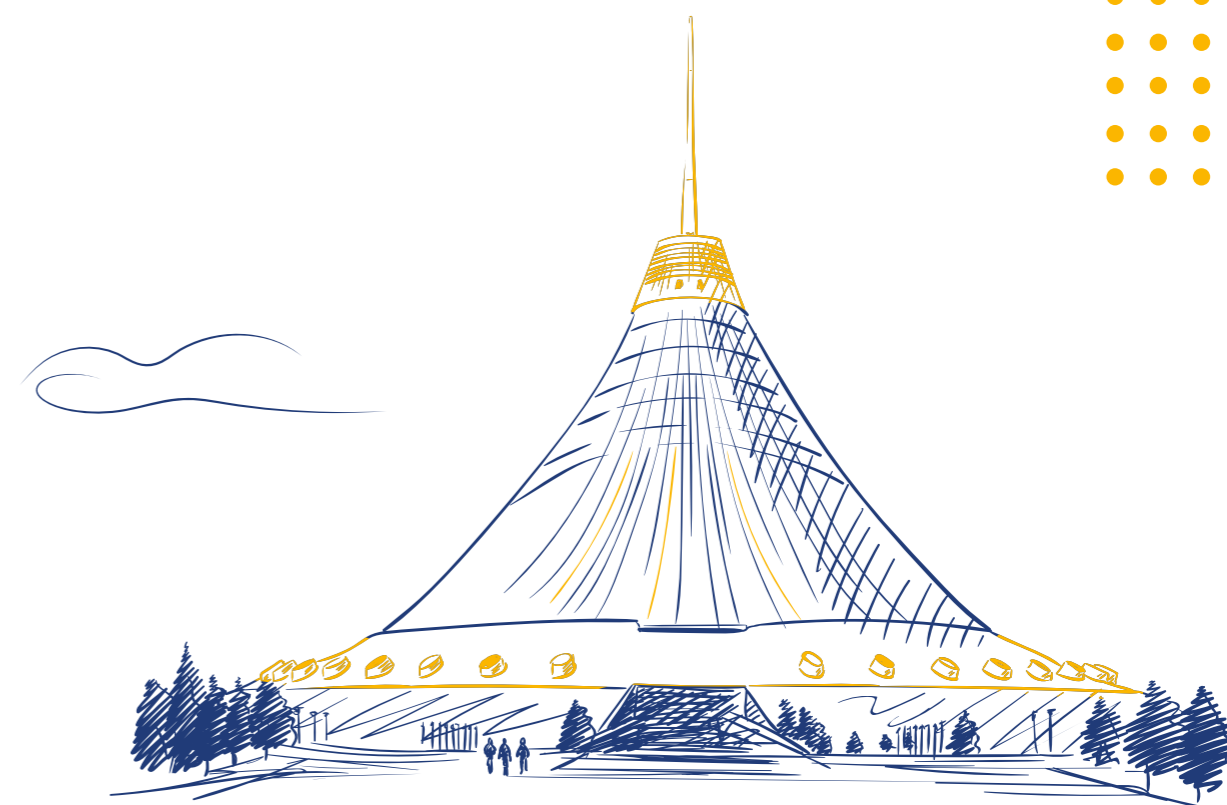
INFORMATION ON THE INSURANCE PAYOUT FOR THE 9 BANKS CURRENTLY BEING LIQUIDATED (AS OF 01.01.2024), million tenge

Bank's name	Maturity	Fund's liabilities		Paid during tenor		Transferred to the UAPF at maturity		Paid due to valid reason*				Paid total*	
								after maturity		paid in 2023			
		num.	amount	num.	amount	number	amount	num.	amount	num.	amount	num.	amount
Valut-Tranzit Bank JSC	26.03.07-01.05.22	267,285	18,340.9	63,234	17,913.0	59	11.4	-	0.0			63,293	17,924.4
KazInvest-Bank JSC	13.02.18-01.05.22	293	2.1	12	2.0	53	0.1	-	0.0			65	2.1
Delta Bank JSC	17.05.18-01.05.22	2,668	201.2	329	107.3	1,209	21.6	-	0.0			1,538	129
Qazaq Banki JSC	24.12.18-01.05.22	18,001	20,516.8	6,011	20,367.3	10,526	112.8	-	0.0			16,537	20,480.1
Eximbank Kazakhstan JSC	04.02.19-01.05.22	299	258.3	120	256.9	141	1.1	-	0.0			261	258
Bank of Astana JSC	26.01.19-01.05.22	268,457	37,591.1**	63,840	37,204.9	180,512	303.2	2	9.7***	1	9.2	244,353	37,517.4***
Tengri Bank JSC	30.09.20-01.05.22	36,583	17,755.2	7,779	17,537.8	22,706	95.3	6	26.3	5	26.2	30,491	17,659.4
AsiaCredit Bank JSC	24.02.21-01.05.22	23,153	19,088.6	5,692	18,559.1	14,509	196.7	10	14.5	10	14.5	20,211	18,770.3
Capital Bank Kazakhstan JSC	03.07.21-03.07.22	47,353	1,685.2	989	1,553.8	41,134	88.4	-	0.0			42,123	1,642.2
Total		664,092	115,439.4	148,006	113,502.2	270,849	830.5	18	50.5***	16	50	418,872	114,382.7***

*Including interest related to insurance payout

** including adjustment of the liability amount by the bank's liquidation commission

***including the return of the unclaimed amount of the insurance payout from UAPF in the amount of 480.4 thousand tenge due to the depositor's valid reason



● Khan Shatyr, a large shopping and entertainment center, Astana

PAYOUT OF COMPENSATION UNDER THE PROGRAM FOR THE INSURANCE OF DEPOSITS IN TENGE

Payout of Compensation under the Program for the Insurance of Deposits in Tenge

The program for payout of compensation on retail deposits placed in the national currency (hereinafter – the Program), regulated by the Resolution of the Government No. 614 dated August 27, 2022 “On Approval of the Rules for Payment of Compensation (premium) on Retail Deposits Placed in the National Currency (tenge)” for the accrual of compensation on deposits in tenge for Kazakhstanis in the amount of 10% of the minimum amount on the deposit for the period from February 24, 2022, to February 23, 2023.



amounts, and other information and documents related to the calculation of the amount of compensation (premium). The Fund also collected registers of compensated deposits prepared by second-tier banks, verified the registers, and sent the summary amount of compensation based on the data from the registers of second-tier banks to the FPL.

Based on the registers of compensated deposits as of February 23, 2023 collected by the Fund from second-tier banks, the FPL and KSF transferred funds to second-tier banks for crediting compensation to 2,615,772 depositors in the amount of 306,651,873,753.6 tenge.

From June to December 2023 the Fund carried out selective verification (monitoring) of the calculation by the member-banks of the amounts of compensation (premium) for compliance with the requirements of the rules in the manner determined by the Cooperation Agreement in nine member-banks: Bank of China Kazakhstan Branch Bank JSC, KZI Bank Branch Bank JSC, Bank Freedom Finance Kazakhstan JSC, Altyn Bank JSC, Nurbank JSC, Bank RBK JSC, Bereke Bank JSC, Home Credit Bank JSC Branch Bank and CenterCredit Bank JSC.

Based on the registers of compensated deposits as of February 23, 2023 collected by the Fund from second-tier banks, the FPL and KSF transferred funds to second-tier banks for crediting compensation to 2,615,772 depositors in the amount of 306,651,873,753.6 tenge.

Within the framework of the Program, the Fund carried out a function aimed at interaction between second-tier banks, the Fund for Problem Loans JSC (hereinafter – FPL) and Kazakhstan Sustainability Fund JSC (hereinafter – KSF) to obtain registers of compensated deposits, reports on the crediting of compensation



TABLE 6.

STATISTICS ACROSS SECOND-TIER BANKS, million tenge

No	Second-tier bank	Number of depositors	Compensation amount in tenge as of end-of-day February 23, 2023
1	2	3	4
1	Bank of China Kazakhstan Branch Bank JSC	1	0.24
2	KZI Bank Branch Bank JSC	16	5
3	Shinhan Bank Kazakhstan JSC	62	11
4	Branch Organization VTB Bank (Kazakhstan) JSC	767	342
5	Bank Freedom Finance Kazakhstan JSC	2,336	821
6	Altyn Bank JSC	2,202	961
7	Nurbank JSC	8,478	3,003
8	Bank RBK JSC	8,874	3,630
9	Bereke Bank JSC	13,232	4,154
10	ForteBank JSC	27,457	6,183
11	Home Credit Bank JSC Branch Bank	51,449	8,038
12	First Heartland Jusan Bank JSC	36,628	9,057
13	Eurasian Bank JSC	28,792	10,469
14	CenterCredit Bank JSC	32,662	12,205
15	Halyk Bank Kazakhstan JSC	310,252	66,229
16	Kaspi Bank JSC	1,237,906	66,397
17	Otbasy Bank JSC	854,658	115,147
Total		2,615,772	306,652





● Kazakh National Opera and Ballet Theater named after Abay, Almaty

DIGITALIZATION OF BUSINESS PROCESSES AND CYBER SECURITY

PROSPECTS FOR DIGITALIZATION

To improve the efficiency of the Fund's operations, it is necessary to introduce modern technologies into the Fund's business processes, which will significantly transform and improve the interaction of the Fund with depositors, banks, government organizations and third-party counterparties. Thus, as part of the digitalization of business processes in 2023, the Fund carried out activities in several areas:

Automation of Document Management

Since January 2023 the Fund's document management has been carried out using the Documentolog Platform software product. The automation of HR administration and the Fund's document management has been implemented, which will allow the transition to a paperless document management system increase the efficiency and quality of work, and eliminate the risk associated with the human factor.

Improvement of the SaIT Inspect is for Checking Depositor Registers

In 2023, the modernization of some rules for automatic verification of the depositor register was carried out, as well as the output and detailing of statistics on violations, which allow the Fund to remotely on a quarterly basis (as part of self-monitoring procedures, without conducting comprehensive measures on the part of banks) to analyze bank data, identify the causes of violations, specify recommendations for their elimination and, as a result, improve the quality of the depositor register in all banks.

In the future, the Fund will continue to automate the procedures for calculating detailed statistical data on the identified violations of the SaIT Inspect IS, which will optimize the procedures for their analysis directly during the activities in the banks. In addition, the Fund,



together with the banks, plans to consider the development of a new version of the SaIT Inspect IS, taking into account modern trends in software development.

In general, the above preventive measures to improve the efficiency of quality control of the banks' depositor register will allow, in the event of an insured event, for timely and high-quality execution of the deposit insurance payout procedure.

Formation of Decisions for the Automated Procedure for Paying Out Guarantees

Considering the progressive development of digital technologies and the need to provide bank depositors with an optimal and prompt way of receiving a guarantee in the event of an insured event, the Fund is forming a new automated payout procedure using advanced digital technologies. The new procedure is aimed at both the effective interaction of all participants in the payout process and the search for optimal solutions for the full return of depositors' funds in the shortest possible time.

In addition, given that the quality of the information (database) for payout provided by the temporary administration of the bank deprived of a license¹⁰ plays an important role

¹⁰ Liquidation commission of the forcibly terminated branch of a non-resident bank of the Republic of Kazakhstan.



in the effectiveness of payout procedures, the Fund, together with the National Bank of the Republic of Kazakhstan, plans to study and search for possible tools to verify customer data, including through electronic interaction with state databases.

Automation of Premium and Cap Rates Calculation, and Analytical Research

As part of the digitalization of the Fund’s business processes and the strengthening of its analytical functionality, the goal was set to develop a new information system for assessing the financial condition of member-banks and calculating differential premium rates. In this direction, in 2023 the Fund began step-by-step work to consider IT solutions for building its own data warehouse and system integration with the information resources of the National Bank of the Republic of Kazakhstan. This solution will provide high performance of analytical queries in the area of deposit insurance due to centralized, reliable storage of subject-oriented data in the future, it will allow for the further automation of the Fund’s business processes in the context of the expansion of its activities.

During the reporting period, business requirements and the concept of the information system were developed based on the results of negotiations with more than 25 suppliers and coordination of the target architecture with the National Bank of the Republic of Kazakhstan. In 2024, the Fund will continue its work in this direction, taking into account the unified concept of automation in the system of the National Bank of the Republic of Kazakhstan. In the future, the developed information system will make it possible to strengthen the monitoring of the financial condition of banks and the deposit market for prompt response to changes in the banking sector.

CYBER SECURITY

In 2023 the Fund continued to actively develop and explore new technologies. As a result, information security issues became even more important, and the Fund took several measures to ensure the protection of its information assets.

The information security development activities are based on the international standard ISO/IEC 27001:2015 “Information technology – Security techniques – Information security management systems – Requirements” and the Unified Requirements in the field of Information and Communication Technologies (hereinafter referred to as the Unified Requirements) and Ensuring Information Security.

The Fund signed an agreement on cooperation in the field of Ensuring Information Security with the National Bank to inform about information security events and incidents and to comply with the Unified Requirements.

In implementing of the road map, the following information security systems were introduced:

1. SIEM (Security Information and Event Management) – a system created to provide real-time information security and protection.

2. PAM (Privileged Access Management) – a highly effective solution for privileged access management, providing strict control over access to the most valuable information in the organization.
3. NTA (Network Traffic Analysis) – an intelligent solution for network traffic analysis that detects and responds to unusual and malicious activities in the network.

Additionally, work was carried out, including the development of new third-level internal regulatory documents within the Information Security Management System (ISMS), as well as the update of existing second-level documents. Modernization of the switching equipment fleet, implementation of strict network segmentation, and the transfer of the Data Processing Center to Tier 3 level, significantly increased the level

of protection and reliability of the information infrastructure.

The Fund successfully adapts to new information security challenges and risks, ensuring effective protection. As a result, the level of risks and threats has been reduced. Regular training and seminars for employees on information security issues were conducted. The assessment showed an increase in staff awareness and a reduction in the risk of internal threats.

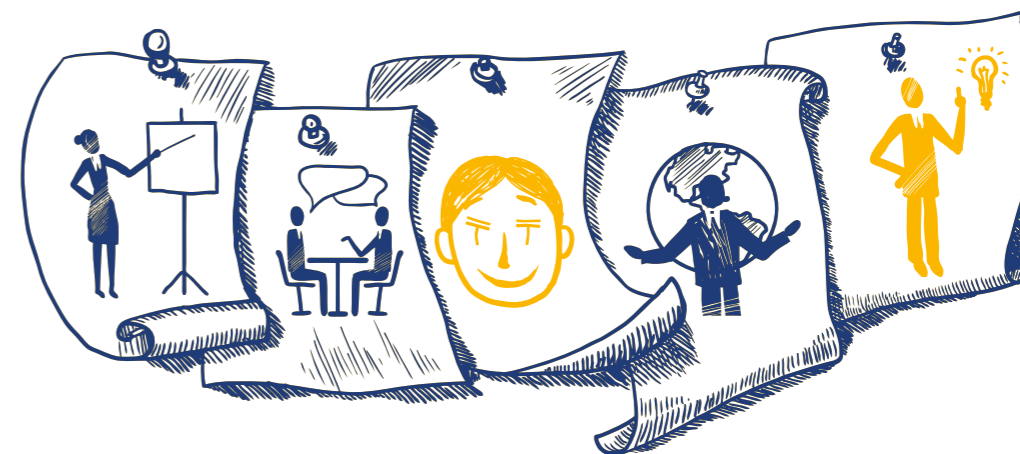
Next year, it is planned to continue improving security of the systems, implementing new protection technologies, and strengthening the monitoring of the security of information resources. Employee training and increasing their awareness of information security will also continue.





● Fountains, city landmarks, Atyrau

PUBLIC AWARENESS



PROVISION OF INFORMATION TO THE PUBLIC

Public awareness is one of the Fund priority areas. Providing the population with reliable, timely and up-to-date information about the deposit insurance system is an integral part of our mission to protect the rights and interests of depositors and maintain the stability of the financial sector.

To ensure wide coverage of the audience, we actively use a variety of communication channels, ranging from publications on the official website of the Fund to information materials in the media and social networks. Our call center, with the short number 1460, has become a convenient tool for depositor's feedback.

In connection with the completion of the insurance payout term for all banks under liquidation in the current reporting period, the main topics of our information work were the terms and procedures for the insurance payout for valid reasons. The Fund regularly notified the population about the need to submit applications for compensation in case of missing the deadline for applying for compensation guarantee for valid reasons, explained what exactly constitutes such reasons, what supporting documents are required, and how applications should be submitted. Additionally, the Fund carried out active explanatory work, answering depositors' questions in corporate accounts.

Work was also undertaken to improve the financial literacy of the population through the "Questions and Answers" section and thematic materials on the Fund's website.

To strengthen public awareness of deposit insurance mechanisms a **new form of notification has been in effect in all member-banks since July 1, 2023**, at the initiative of the Fund. Through this form, **banks are obliged to inform clients about the insurance terms**, including the specifics of calculating the amount of compensation, as well as the procedure and deadlines for insurance payout in the event of an insured event (the information is provided in writing/remotely/by joining a comprehensive banking service agreement). Additionally, according to the new notification form, **the member-banks are required to familiarize clients with information about the key terms of the deposit/account**. Thus, regardless of the application channel, **depositors have, advance access to information about the maximum amount of insurance for a particular type of deposit product**, as well as its type, currency, and conditions for the withdrawal of funds (the information is indicated in the application for the product opening, the agreement or another document provided to the client at the stage of opening the deposit/account).

To protect the rights and interests of depositors, the Fund initiated amendments to the legislation last year to establish uniform requirements for banks to disclose key information on bank deposit and bank account agreements in an easy-to-understand format. These amendments aim to increase clients' focus on the key terms of bank deposits and/or bank accounts and to promote a conscious approach when choosing a deposit.

Until recently, the current legislation did not impose special requirements on the content and design of bank deposit and bank account agreement. As a result, the format of the bank deposit and bank account agreement did not always facilitate easy perception of all the terms by clients. Another difficulty was the misunderstanding by individual depositors of the differences in types of bank deposits and their terms, which are significant factors in depositors' choices.

MEDIA OUTLETS AND SOCIAL NETWORKS

In 2023, the Fund actively worked in the information space, covering key aspects of deposit insurance and its activities through the publication of press releases, analytical materials, and operational information on the website and in social networks. The total number of press releases for the year was 65, and additional information on changes in deposit interest rates was posted in the relevant section of the Fund's website. Compared to the previous year, when the key part of the publications consisted of monthly announcements of the maximum deposit interest rates (about 30% of the total number of publications), in 2023 including due to a change in the approach to publishing the maximum rates, more articles on financial literacy issues were released.

As a result of our efforts, requirements were established for member-banks to indicate the key terms of bank account and bank deposit agreement at the beginning of the agreement in a tabular form and to obtain clients' written confirmation of their familiarization with these terms before concluding the agreement, regardless of the form of conclusion (on paper or in electronic format). This requirement will come into force on August 7, 2024.

In the Fund's opinion, the improved information disclosure procedure will help depositors of Kazakhstani banks to understand in advance the level of coverage of funds by the guarantee in case of the bank's license revocation and in case of exceeding the limits, to timely diversify their funds by placing them in several banks within the maximum amounts of the guarantee established by the legislation.

Particular attention was also paid to the Fund's presence on social networks, where posts about key events, innovations in the field of deposit insurance, and financial literacy issues were regularly shared. In 2023, 290 posts in Kazakh and Russian were published on the Fund's accounts on Instagram, Telegram, and Facebook, which is 45% more than the previous year.

Social networks also play an important role in obtaining feedback from the public, and the Fund quickly responds to users' questions and comments, involving the Fund's management in the communication process.

FINANCIAL LITERACY

Since the goal of the compulsory deposit insurance system is to ensure the stability of the financial system, one of the important elements in the activities of the Fund remains increasing the level of financial literacy of the population about the compulsory deposit insurance system.

In the reporting year, the Fund continued to work in this direction, publishing materials dedicated to various aspects of financial literacy, including such important topics as types of deposits, the size of the insurance, the specifics of receiving compensation guarantee on deposits, and other issues that help depositors make informed decisions about their savings.

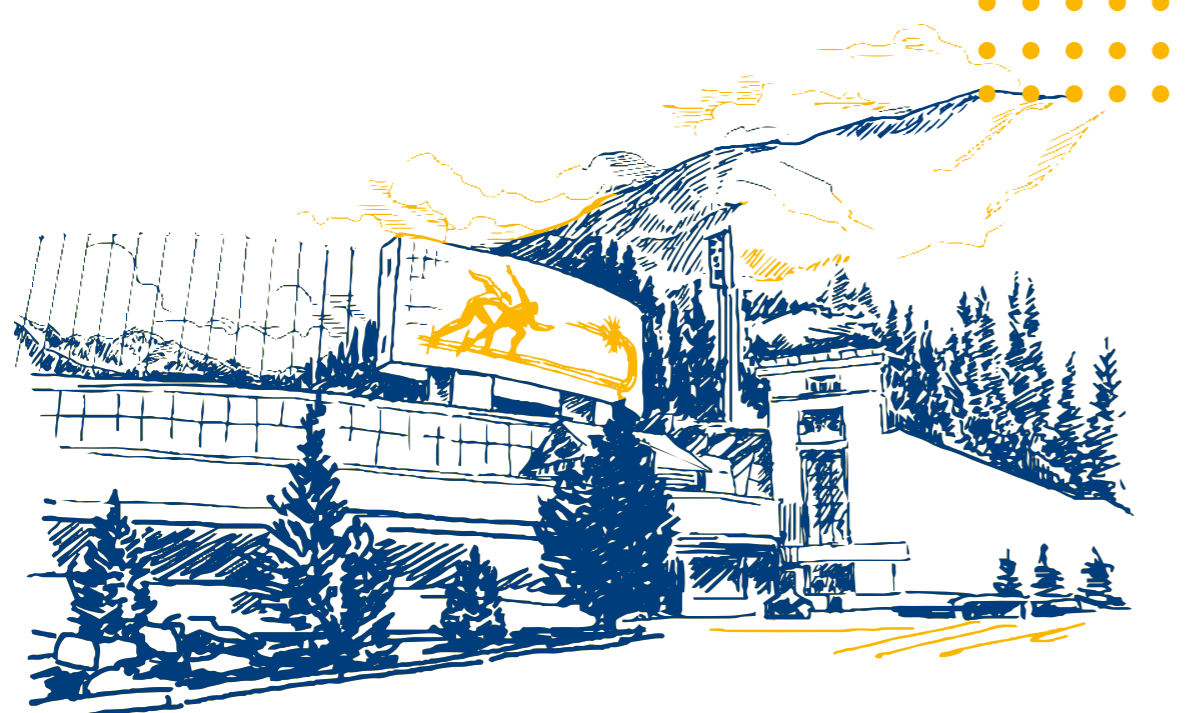
At the same time, in 2023 the Fund expanded its channels of communication and, in addition to traditional publications, used effective tools such as video commentaries for the national TV channels "Khabar 24" and "Almaty", as well as conducting field lectures for students of the economic college in Almaty, within the framework of which the Fund's employees taught not only the basics of the DIS, but also financial literacy in general. We understand that educating students in financial literacy has good prospects. Students who receive knowledge about the deposit guarantee system may in the future become active clients of banks and, having an understanding of the DIS, will be inclined to choose more reliable financial institutions. Additionally, students are effective intermediaries in disseminating information about the DIS and the Fund among their acquaintances, family and friends. This contributes to increasing public awareness about the insurance of their deposits and ensures a greater understanding of the importance of financial stability.

To assess the level of public awareness about the deposit insurance system, in 2023



the Fund also launched surveys through its own social media channels. About 25 surveys were conducted, involving almost 5,500 people. In 2024, it is planned to scale up this work and conduct a full-fledged sociological study involving a specialized agency.

There also appears to be a need for a new comprehensive Public Awareness Program in line with the IADI Core Principles in light of recent events related to the flight of depositors after the banking crisis in the US in 2023. These events have highlighted high risks and threats to financial stability in general, as well as the need to increase information for depositors during "calm" periods to reinforce the idea that even in the event of a bank losing its license, they will receive an insurance payout. In crisis situations, depositors will also be confident in their insurance, considering that 99.8% of all deposits in Kazakhstan are covered by the Fund insurance.



● Medeo, high-altitude sports complex, Almaty

INTERNATIONAL COOPERATION

The Fund strives to deepen international cooperation and exchange experience in the field of deposit insurance. Engaging in international events provides the opportunity to be at the forefront of information exchange, expand bilateral cooperation, obtain up-to-date information, seek advice, and apply experience to improve the work and deposit insurance system. The Fund's international activities are carried out in three directions:

1. IADI committee's activities;
2. bilateral cooperation and exchange of experience with foreign deposit insurers;
3. EAEU countries deposit insurance legislation harmonization.

In 2023, the Fund maintained effort within the framework of IADI activities and through collaboration with foreign deposit insurers.

The Fund participated in the meeting of the Asia-Pacific Regional Committee of IADI in Fukuoka (Japan) in May 2023 and in the meeting of Eurasian Regional Committee of IADI in Ulaanbaatar (Mongolia) in June 2023.

As a member of the IADI Executive Council, the Chairman of the Fund participated in 2 meetings in 2023. The IADI Executive Council consists of 25 members and is the governing body of IADI to ensure its smooth operation.

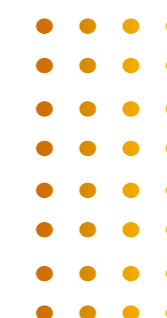
In June 2023 the IADI Executive Council decided to establish a governance working group to reform the activities and structure of IADI for a period of 1 year. The Chairman of the Fund, as a member of the IADI Executive Council, also joined this governance working group. In August 2023 in the city of Brunnen (Switzerland), the Chairman of the Fund participated in an in-person meeting of the group.

Also, in September 2023 in Boston (USA), the Fund participated in the IADI Annual General Meeting, the annual IADI conference "Successfully Managing Systemic Risks:



Deposit Insurance in a Turbulent World", in the meetings of the technical committees, and in the meetings of the Eurasian and Asia-Pacific regional committees of IADI.

Involvement in international activities made it possible to obtain advice from deposit insurers and IADI on topical issues for the Fund and expand bilateral cooperation. For example, the UK deposit insurers shared information about the register of depositors recording. The Fund also consulted on issues of premiums for large and systemically important banks, calculation the level of deposit coverage by the guarantee,



Engaging in international events provides the opportunity to be at the forefront of information exchange, expand bilateral cooperation and obtain up-to-date information.

and recovery of unpaid premiums. Currently, the Fund with IADI is making a questionnaire on differentiated premium rates, which will be used in the future to improve the bank assessment model. In order to develop bilateral cooperation, a Memorandum of Understanding was signed with the Deposit

Insurance Corporation of Mongolia in June 2023. In December 2023 a Memorandum of Understanding was signed with the Savings Deposit Insurance Fund of Turkey. Additionally, the Memorandum of Understanding with the Indonesia Deposit Insurance Corporation was updated.

Concerning EAEU, the Fund takes an active part in the meetings of the Expert Group on the harmonization of legislation in the field of insurance (guarantee) of bank deposits, financial rehabilitation and liquidation of credit institutions on the territory of the EAEU under the Advisory Council on Financial Markets of the Eurasian Economic Commission.

In 2023, the Fund participated in 9 meetings of the Expert Group. The members of the Expert Group agreed on six expert opinions on various issues, including issues of financial stability and resolution of bank insolvency, informing the public about the deposit insurance system, and the selection of agent-banks for the payout of insurance compensation.

The Fund and the Deposit Insurance Agency of the Russian Federation, developed one expert opinion, and together with the Deposit Protection Fund of the Kyrgyz

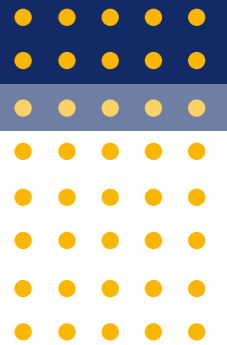
Republic and the Deposit Insurance Agency of the Russian Federation, prepared a report on "Islamic deposit insurance".

In April 2023 the Fund held a meeting of the Expert Group and the Council of Heads in Almaty.

In 2023 a Working Group on Digitalization, Automation and Information Technologies was established under the Council of Heads of Deposit Insurance Organizations of the EAEU Member States.

The purpose of the Working Group is to improve the functioning of the deposit insurance systems of the EAEU member states through active cooperation and exchange of information in the field of digitalization, automation and information technologies in the activities of deposit insurance organizations of the EAEU member states, including in their participation in the resolution and liquidation of credit institutions based on international principles, standards and best international practices.

In 2023, the Fund participated in 4 meetings, during which the members of the Working Group made 10 reports, of which 2 reports were prepared by the Fund.



● Monument to Kenesary Khan, Astana

DIS DEVELOPMENT PROSPECTS

DEVELOPMENT OF THE MECHANISM FOR DEPOSIT INSURANCE PAYOUT

Providing the population with prompt access to their funds and effective solutions for receiving them is one of the key criteria for the effectiveness of the deposit insurance system. This helps to reduce social tension in the event of an insured event and strengthens public confidence in the banking system.

In accordance with the fundamental principles of IADI, the deposit insurer needs to ensure that the majority of insured depositors have prompt access to their funds (within seven business days of the insured event occurring). Despite barriers in international practice that impede the implementation of “benchmark” timeframes, the number of countries ensuring a rapid payout of the guarantee is increasing significantly.

The Fund began to reform the start of the payout period in 2020. The waiting period for depositors to receive their funds was significantly reduced by moving its start from the date the court decision on the forced liquidation of the bank came into legal force to the date the bank lost its license. Previously, depositors had to wait several months for the start of compensation.

Now the insurance payout begins no later than 35 business days from the date the bank loses its license, 20 of which are allotted for the temporary administration of the bank (in agreement with ARDFM) to decide on (not) carrying out the operation to simultaneously transfer the assets and liabilities of the insolvent bank to another bank. In practice, in the last three insured events that occurred in 2020–2021 at Tengri Bank JSC, AsiaCredit Bank JSC, and Capital Bank Kazakhstan JSC, the Fund began paying out the guarantee within 6-8 business days of the banks losing their licenses.

To bring the Kazakhstan Deposit Insurance System closer to global standards and best practices, one of the Fund’s priority tasks in the near future is to optimize the legislative timeline for the start of payouts. Currently, the Fund, together with the Agency for Regulation and Development of the Financial Market of Kazakhstan, is developing solutions for the gradual reduction of the start of the insurance payout, including revising certain procedures for resolving problem banks that precede the occurrence of an insured event. The implementation of the reform is planned for 2024.

It should be noted that this initiative was also supported by the International Monetary Fund as part of the assessment of Kazakhstan’s financial system readiness for crises (Financial Sector Assessment Program) in 2023.



MONITORING THE IMPLEMENTATION OF NEW MECHANISMS FOR REGULATING INTEREST RATES IN THE DEPOSIT MARKET

In connection with the transition from January 1, 2024, from directive to a more market-based regulation of interest rates on retail deposits, in the coming year, the Fund will continue to monitor and analyze the actions of member-banks in terms of setting interest rates on retail deposits to assess the impact of the new regulation mechanism on the retail deposit market.

If necessary, as the banking sector “tests” the developed mechanism, the Fund will work on further improving the mechanism for regulating deposit rates for the population.

As an effect, it is definitely possible to expect the development of adequate market pricing in the deposit market and an increase

in competition among member-banks by improving non-price conditions when attracting deposits – improving the quality of service, developing mobile applications, and developing new products.



REVISION OF PREMIUM RATES FOR MEMBER-BANKS TO THE SPECIAL RESERVE OF THE FUND

To ensure the prompt and full payout of guaranteed compensation in the event of an insured event, the deposit insurer must have available and sufficient funds. For this purpose, the Fund forms a special reserve on an accumulative basis at the expense of premiums from member-banks. The rates are differentiated depending on the financial condition of the bank: stable banks pay a premium at a lower rate than more risky and unstable banks.

The development of the banking market and changes in the regulatory environment require periodic revision of the methodology and approaches to the calculation of premium rates. Thus, due to the outpacing growth of the deposit base and the completion in 2022 of the insurance payouts to depositors of all forcibly liquidated banks, the level of the special reserve in 2023 was at the border

of the legislative minimum (5% of the amount of guaranteed deposits). To maintain the sufficiency of the special reserve, the Fund initiated a discussion with the National Bank and the banking sector on the issue of raising premium rates from January 1, 2025. Favorable conditions for the banking sector will allow the special reserve to be built up by raising premium rates without a significant burden on banks. This practice is consistent with the recommendations of the International Monetary Fund on the use of a countercyclical approach to the collection of premiums: reduction of premium rates during periods of economic recession and accumulation of reserves during periods of economic growth to ensure future payout.

PREPARATION OF THE REGULATORY FRAMEWORK FOR THE TRANSFER OF ASSETS TO A COMPETITIVE ENVIRONMENT

To transfer assets to a competitive environment under the management of private asset management companies that are professional participants of the securities market, changes were approved in the relevant regulatory documents, as well as a new internal regulatory document "Procedure for Selecting Asset Managers and Custodians for the Fund's Assets", approved by the Board of Directors on October 4, 2023 No. 28. Also, in order to effectively manage assets by private asset managers, there was a need to update the Fund's Investment Policy, particularly through the introduction of a benchmark portfolio (hereinafter referred to as the benchmark). Due to the absence of an appropriate benchmark in the securities market

that meets the Fund's objectives of ensuring the preservation and sufficient liquidity of assets, in 2023 work was carried out on its development together with the National Bank and Kazakhstan Stock Exchange JSC. After the development and commissioning of the necessary benchmark, which will be published on the official Internet resource of the Kazakhstan Stock Exchange JSC, the Fund plans to start transferring the first tranche of assets to a competitive environment in 2024. Additionally, based on the results of the management of the Fund's assets by private asset managers, the management conditions and the amount of assets that will be transferred further will be revised.

ENHANCING COMPLIANCE WITH INTERNATIONAL PRINCIPLES

To enhance the effectiveness of deposit insurance system, the IADI published the Core Principles for Effective Deposit Insurance Systems in 2009, which serve as a benchmark for deposit insurers and are recommended to be considered when establishing or reforming deposit insurance systems.

Enhancing the compliance alignment with international principles in the area of the deposit insurance system is an important step to ensure stability and reliability. This is necessary not only to maintain confidence in the deposit insurance system but also to mitigate potential negative consequences for the banking system. The main standard for deposit insurers is the IADI Core Principles.

The Fund strives to adhere to IADI recommendations as closely as possible. In 2016, the World Bank assessed the Fund's activities for compliance with the IADI Core Principles. The experts noted clear public policy objectives and sufficient functions to fulfill the Fund's mandate, an effectively operating insurance payout system, membership and insurance coverage, as well as public awareness.

IADI revises these principles. In 2024, it is planned to start updating this document, considering the lessons learned from the banking crises of 2023. In this regard, the task arises to assess compliance with the updated IADI principles.

Assessing compliance with the updated IADI principles is an important step in ensuring the effective and reliable operation of the deposit insurance system, as it allows identifying vulnerabilities and defining strategic priorities for future development. Therefore, the Fund plans to conduct an assessment taking into account the new IADI principles in order to identify key areas requiring systemic

improvements. This is a complex and multi-stage process, including an analysis of various aspects of the Fund's activities and its compliance with international standards. Adaptation to the updated international standards will strengthen confidence in Kazakhstan's financial system and provide more reliable insurance for depositors.

EFFECTIVE INTERACTION WITH PARTICIPANTS IN THE FINANCIAL STABILITY AND CRISIS MANAGEMENT SYSTEM

Financial stability can be defined as a state in which the financial system can seamlessly support real economic activity and can eliminate financial imbalances arising from shocks. Ensuring financial stability requires coordination of government policies, one of which is the resolution of problem in financial institutions.

The 2023 banking crisis in the US, UK, and Switzerland underscored the importance of effective interaction between participants in the financial stability and crisis management system, including prudential regulation and supervision, bank insolvency resolution, deposit insurance, and the lender of last resort function.

To effectively fulfill its tasks, the Fund coordinates activities and exchanges information with other participants in the safety-net and will continue to develop cooperation with them. Thus, the Fund, within the framework of its mandate, will participate in the development of a common architecture for intra-agency and inter-agency crisis contingency plans, which will be carried out within the framework of the Financial Stability



Council and with coordination by the National Bank of the Republic of Kazakhstan.

Also, the Fund will update and systematize internal plans to cope with possible banking shocks. The current plans will be updated taking into account trends and recommendations of IADI in this area and the planned amendments to legislation that will assign the Fund the function of financing transfer operations to a stabilization bank in the amount of the difference between the transferred assets and the insured deposits of the troubled bank.

NEW APPROACHES TO INCREASING PUBLIC AWARENESS

In the modern world, where financial decisions are becoming increasingly complex, it is important for the population to have a sufficient level of financial literacy. This is a key element of financial stability and the well-being of society as a whole.

A proper level of financial literacy and awareness of the deposit insurance system, in particular, allows citizens to protect their financial interests, promotes trust in the banking system, and aids in risk prevention, which in turn leads to strengthened stability and economic development of the country. Therefore, it is important to understand the level of financial literacy of the population and to determine appropriate measures to improve it in the future.

In accordance with the IADI Core Principles (Criterion 7 of Principle 10 “Public Awareness”), “the deposit insurer undertakes ongoing public awareness activities and conducts periodic independent assessments of the effectiveness of its public awareness program or activities”. At the same time, according to the Guide for the Assessment of Compliance with the IADI Core Principles, the results of public surveys and assessments of public awareness regarding the existence of deposit insurance and its conditions and parameters can serve as confirmation of the implementation of such activities.

For this purpose, in 2023, the Fund conducted surveys among its social media readers to determine the level of awareness on financial topics, with over 5,000 people participating. However, the results of such surveys are less representative compared to independent

research due to the limited coverage (number of respondents and territorial reach). Therefore, in 2024, a large-scale independent sociological study is planned to cover all regions of the country to assess the level of public awareness of the deposit insurance system, as well as the effectiveness of the information and explanatory work carried out by the Fund.

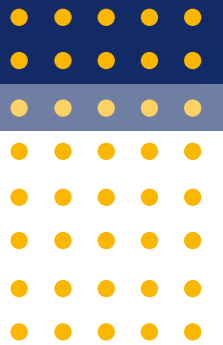
The survey will allow the Fund to determine the current situation and continue the course of expanding information and educational work aimed at increasing financial literacy and protecting the interests of citizens in the field of financial services. This includes developing an Information Program in accordance with the IADI Core Principles. As recent events have shown, following the banking crisis in the US in 2023, there is a high risk to financial stability during such times due to the threat of mass withdrawal of deposits – the so-called bank run. Therefore, it is necessary to increase information for depositors in the “calm” period. They should understand that even in the event of a bank losing its license, they will be paid guaranteed compensation.

In addition, taking into account the dynamics of modern trends and recognizing the importance of informing the population in understandable and accessible ways, we strive to expand communication channels. In 2024, we plan to launch a series of videos that will present information on financial issues in a convenient and simple format for a wide audience. Along with this, the Fund will also continue to publish analytical and review materials on the DIS.

KDIF

ҚАЗАҚСТАННЫҢ ДЕПОЗИТТЕРГЕ
КЕПІЛДІК БЕРУ ҚОРЫ
KAZAKHSTAN DEPOSIT
INSURANCE FUND

12



● Monument of Independence of Kazakhstan and Kok-Tobe TV Tower, Almaty

CORPORATE GOVERNANCE

SOLE SHAREHOLDER OF THE FUND

The NBK is the sole shareholder (hereafter referred to as the "Shareholder") of the Fund that performs the functions of the supreme authority of the Fund.

In accordance with the Order of the Chairman of the NBK, the decision-making power on all the shareholder reserved matters is delegated to the Vice Chairman of the NBK Sholpankulov B.S.

In 2023 the Shareholder adopted three decisions on the most important issues within its exclusive competence:

- ▣ approving the 2022 Annual Financial Statements and distribution of the Fund's net profit;
- ▣ selecting the audit firm to perform the compulsory audit of the Fund's 2023 Annual Financial Statements;;
- ▣ approval of amendments to the Charter of the Fund.

BOARD OF DIRECTORS OF THE FUND

The Board of Directors of the Fund oversees the corporate activities of the Fund in accordance with the Charter of the Fund except for shareholder reserved matters.

The Board of Directors of the Fund did not undergo any changes:

CHAIRMAN OF THE BOARD OF DIRECTORS OF THE FUND:

Baimagambetov A.M., Vice Chairman of the NBK, Representative of the Shareholder

MEMBERS OF THE BOARD OF DIRECTORS OF THE FUND:

Tadzhiyakov B.Sh. – Independent Director

Karagusov F.S. – Independent Director

Tutushkin V.A. – Vice Chairman of the NBK – Head of the Permanent Establishment of the NBK in Almaty, Representative of the Shareholder

Kubenbayev O.M. – Director of the Financial Stability and Research Department of the NBK, Representative of the Shareholder

Utembayev A.N. – Chairman of the Fund

To implement its powers as a governance body, the Board of Directors of the Fund held 38 meetings in 2023, making decisions on issues within its exclusive competence, including:

- ▣ reviewing a report on the implementation of the recommendations of the Department of Internal Audit of the National Bank of the Republic of Kazakhstan, based on a comprehensive audit of the Fund's activities conducted in 2022;
- ▣ approving the Fund's Information Policy;
- ▣ approving the form of notification for a client – an individual who has concluded a bank account agreement and/or a bank deposit agreement;
- ▣ approving reports on the implementation of the Fund's Development Plan (hereinafter referred to as the Plan) for 2022, amendments to the Plan for 2023,

- as well as the Plan for 2022–2026 with budget indicators for 2024 were approved;
- ▣ approving a number of the Fund's documents in the field of internal control and risk management, in particular, the Fund's Risk Management Policy;
- ▣ approving the Business Continuity Management Policy;
- ▣ approving the Fund's Conflict of Interest Management Policy;
- ▣ approving the structure of the Fund in a new version, with a revision of the ranges of official salaries of the Fund's employees;
- ▣ approving the Regulation on the Committees of the Fund's Board of Directors in a new version;
- ▣ approving the Methodology for Determining and Establishing the Maximum Interest Rates on Newly Attracted Retail Deposits in National and Foreign Currencies in a new version;
- ▣ approving changes and additions to the Adhesion Agreement and the Rules for the Fund's Measures to Establish Compliance of a Member-Bank with the Requirements of the Adhesion Agreement, including the automated accounting of the obligations of a member-bank for insurance deposits and the amounts of insurance compensation;
- ▣ amendments and additions to the Fund's Investment Policy;

- ▣ Considering and making decisions on internal audit issues, in particular, audit reports based on the results of audits, reports on the implementation of action plans based on the results of audits, changes were made to the annual audit plan of the Fund for 2023, and approving a similar plan for 2024;
- ▣ Considering and making decisions on compliance control issues, in particular, reports on the implementation of the work plan of the Fund's compliance controller on the formation of the compliance program for 2023, approving the corresponding plan for 2024, and considering an analytical note on the results of the internal analysis of corruption risks of the Fund's activities;
- ▣ approving the Procedure for Selecting Trust Managers of Assets and Custodians of the Fund as part of the implementation of the function of independent investment of the Fund's assets;
- ▣ reviewing quarterly reports on the implementation of the work plan of the Fund's Board of Directors and approving work plans of the Fund's Board of Directors for the next period;
- ▣ approving, the maximum interest rates on newly attracted retail deposits in the national currency were approved as necessary.

COMMITTEES OF THE BOARD OF DIRECTORS OF THE FUND

In 2023 in order to optimize activities and redistribute issues within the competence of the committees, the Regulation on the Committees of the Board of Directors was approved in a new edition.

In 2023, the committees of the Board of Directors of the Fund, with the aim of assisting the Board of Directors of the Fund, carried out work

on the preliminary consideration of the most important issues and the preparation of relevant recommendations to the Board of Directors of the Fund within the framework of the meetings held, as follows:

- ▣ Strategic Planning and Risk Committee – **21** meetings;
- ▣ Committee for Staff – **11** meetings;
- ▣ Audit Committee – **12** meetings.



ADVISORY COUNCIL

The Advisory Council is a collegiate advisory board of the Fund that represents the interests of member-banks regarding the compulsory deposit insurance system.

The main task of the Advisory Council is to facilitate the improvement of the compulsory deposit insurance system by considering the opinions and positions of member-banks and providing recommendations to the Board of Directors of the Fund.

During the reporting period, 11 meetings of the Advisory Council were held, during issues within its competence were discussed, in particular:

- consideration of the Methodology for Determining and Establishing the Maximum Interest Rates on Newly Attracted Retail Deposits in National and Foreign Currencies in a new edition, as well as interim results on its implementation within the framework of the transition period;

COMPLIANCE CONTROL

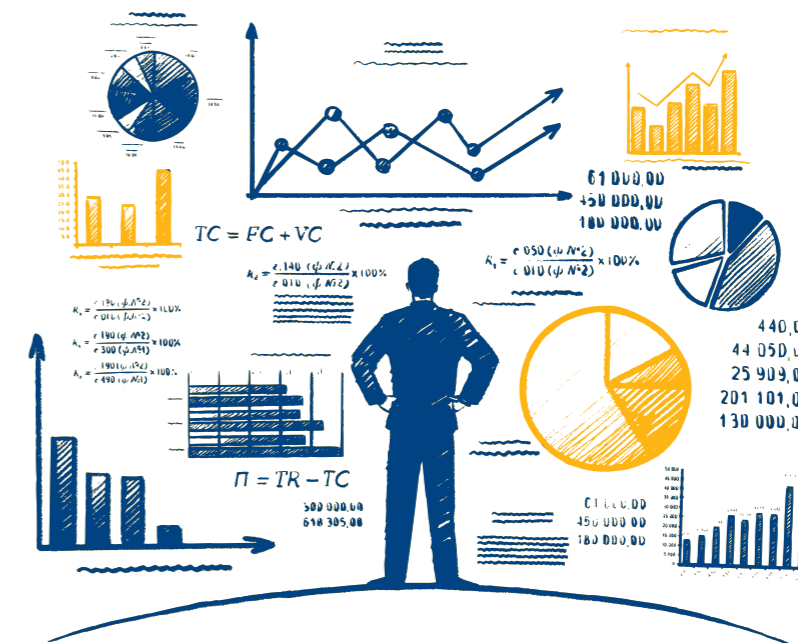
The Compliance Controller is part of the Fund's corporate governance system and ensures the coordination of compliance risk management processes in the Fund.

The Compliance Risk Management System monitors the Fund's compliance with the legislation of the Republic of Kazakhstan, internal documents, and employees' adherence to anti-corruption legislation of the Republic of Kazakhstan, and also includes managing of conflicts of interest and forming an effective internal control system within the Fund.

- approval of the form of notification to the client – an individual who has concluded a bank account agreement and/or a bank deposit agreement, and the list of information on deposit insurance to be included in the form of an application or other document signed by the client when concluding a bank account agreement and/or a bank deposit agreement;
- approval of amendments and additions to the Adhesion Agreement and the Rules for the Fund's activities to establish compliance of the bank – DIS participant with the requirements of the Adhesion Agreement, including the automated accounting of the obligations of member-bank for guaranteed deposits and the amounts of guaranteed reimbursement;
- discussion of the issue of increasing the rates of calendar premiums of member-banks in the compulsory deposit insurance system.

In his activities, the Compliance Controller is accountable directly to the Board of Directors of the Fund and exercises his powers independently of the Fund's officials, including ensuring compliance with anti-corruption legislation requirements.

In 2023 the activities of the Compliance Controller of the Fund were carried out in accordance with the Work Plan of the Compliance Controller of the Fund JSC on the formation of the compliance program for 2023.



RISK MANAGEMENT POLICY

In 2023 the Fund's Risk Management Policy (hereinafter referred to as – the Policy) was developed and approved by the Board of Directors' decision. The Policy is aimed at implementing the following tasks:

- effective risk management of the Fund through timely identification, measurement, control and monitoring of risks;
- formation and maintenance of an appropriate level of risk culture in the Fund;
- compliance of the Fund and its employees with the legislation of the Republic of Kazakhstan, the Policy and other internal regulatory documents of the Fund;
- promoting the effectiveness of the internal control system in the Fund;
- timely detection and elimination of shortcomings in the activities of the Fund and its employees;
- ensuring a continuous and coordinated risk management process based on timely identification, assessment, analysis, monitoring, and control to ensure the goals;
- improvement of the risk management system to prevent and minimize potentially negative events and prevent the occurrence

of events that threaten the achievement of the strategic and operational goals of the Fund;

- accumulation of information about the Fund's risks, creating an information base on realized risks for decision-making and planning processes;
- maintaining a systematic risk management process that is part of the internal control system.

Additionally, as part of the Policy requirements, in 2023 the Procedure for Managing the Fund's Financial Risks and the Procedure for Managing the Fund's Operational Risks were developed and approved by the Board of Directors' decision.

To ensure the effectiveness of risk control and monitoring processes, a report on the Fund's risks is submitted to the Board of Directors for consideration on a quarterly basis.



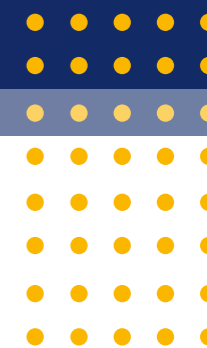
INTERNAL AUDITOR

Internal audit in the Fund is provided by the Fund’s internal auditor, who is guided by the International Standards for the Professional Practice of Internal Auditing (hereinafter referred to as – the Standards).

In 2023 the activities of the internal auditor were aimed at realizing the main goal, tasks and functions of internal audit. Within this framework, in accordance with the Annual Plan of Audits and Internal Audit Work for 2023, 8 audits were conducted. Based on their results, recommendations were presented to the audited entities and interested divisions of the Fund to improve the effectiveness of the risk management and internal control

system. Monitoring of the implementation of measures based on the results of audits was carried out on an ongoing basis to determine the adequacy, completeness and timeliness of the measures taken.

Additionally in 2023, in accordance with the Program for Ensuring and Improving the Quality of Internal Audit of the Fund, an internal assessment of the activities of the Fund’s internal auditor was carried out to ensure compliance with the Definition of Internal Audit, Standards and the Code of Ethics of the Institute of Internal Auditors.



● Monument to Baidibek Bi, city landmarks, Shymkent

STATEMENT OF FINANCIAL POSITION

In thousand tenge	December 31, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents	69,528,522	104,727,079
Investments in debt securities at fair value through other comprehensive income	1,212,700,341	–
Investments in debt securities at amortized cost	–	1,107,836,448
Accounts receivable	7,412,520	3,690,987
Other assets	202,910	440,375
Intangible assets	50,077	19,921
Fixed assets	69,147	48,738
TOTAL ASSETS	1,289,963,517	1,216,763,548
LIABILITIES		
Estimated liabilities	56,337,340	57,934,385
Liabilities to depositors on insurance payouts	–	–
Other liabilities	297,937	491,771
TOTAL LIABILITIES	56,635,277	58,426,156
OWNER'S EQUITY		
Charter capital	235,794,400	235,794,400
Retained earnings	133,013,747	115,828,743
Share premium	544	647
Special reserve	970,240,870	804,355,658
Financial asset revaluation reserve	(108,079,265)	–
Other reserves	2,357,944	2,357,944
TOTAL OWNER'S EQUITY	1,233,328,240	1,158,337,392
TOTAL LIABILITIES AND OWNER'S EQUITY	1,289,963,517	1,216,763,548

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousand tenge	2023	2022
Interest income calculated using the effective interest method	137,590,097	113,320,081
Income from premiums of member-banks and proceeds from liquidation commissions of failed banks	50,111,968	42,573,427
Income from write-off of liabilities to depositors	–	1,103,221
Expenses for paying insurance to depositors of failed banks	(49,988)	(509)
Income net of expenses from derecognition of financial assets at amortized cost	–	(322,930)
Net foreign exchange profit (net losses)	(2,713,620)	(30)
Allowance for expected credit losses	(1,462,894)	(146,433)
Provision for estimated liabilities	1,597,045	3,196,108
Net income from derecognition of financial assets at fair value through other comprehensive income	530	–
Other operating income	56,339	82,625
Administrative and other operating expenses	(2,063,644)	(1,413,203)
Profit before tax	183,065,833	158,392,357
Income tax (expense)/refund	4,383	10,094
PROFIT FOR THE YEAR	183,070,216	158,402,451
Other comprehensive income		
Items that are reclassified or may be reclassified subsequently to profit or loss:		
Change of fair value from reclassification in debt instruments at fair value through other comprehensive income	(109,017,345)	–
Change of fair value after reclassification in debt instruments at fair value through other comprehensive income	(938,541)	–
Amount reclassified to profit or loss as a result of the disposal of debt instruments at fair value through other comprehensive income	(530)	–
Change in the amount of the allowance for expected credit losses on financial assets at fair value through other comprehensive income	1,877,151	–
Other expenses	(103)	–
Total items that are reclassified or may be reclassified subsequently to profit or loss	(108,079,368)	–
Other comprehensive income/(losses) for the year	(108,079,368)	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	74,990,848	158,402,451

STATEMENT OF CHANGES IN OWNER'S EQUITY

In thousand tenge	Charter capital	Share premium	Reserve capital	Financial asset revaluation reserve	Special reserv	Retained earnings	Total
Balance as of January 1, 2022	235,794,400	647	2,357,944	–	685,322,567	76,459,383	999,934,941
Profit for the year	–	–	–	–	–	158,402,451	158,402,451
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income for 2022	–	–	–	–	–	158,402,451	158,402,451
Accumulation and redistribution of special reserve	–	–	–	–	119,033,091	(119,033,091)	–
Balance as of December 31, 2022	235,794,400	647	2,357,944	–	804,355,658	115,828,743	1,158,337,392
Profit for the year	–	–	–	–	–	183,070,216	183,070,216
Other comprehensive income	–	(103)	–	(108,079,265)	–	–	(108,079,368)
Total comprehensive income for 2023	–	(103)	–	(108,079,265)	–	183,070,216	74,990,848
Accumulation and redistribution of special reserve	–	–	–	–	165,885,212	(165,885,212)	–
Balance as of December 31, 2023	235,794,400	544	2,357,944	(108,079,265)	970,240,870	133,013,747	1,233,328,240

STATEMENT OF CASH FLOWS

In thousand tenge	2023 r.	2022 r.
Cash flow from operating activities		
Proceeds from mandatory scheduled premiums	41,492,546	31,478,651
Proceeds from liquidation commissions	4,972,730	10,257,682
Interest received on deposits	16,504,408	10,451,798
Interest received on debt securities at amortized cost	87,070,585	84,880,733
Interest received on debt securities at fair value through other comprehensive income	14,755,160	–
Transfers to agent-banks for insurance payout to depositors	–	(206,447)
Interest income from reverse repo transactions	–	26,119
Returns of amounts unclaimed by depositors from agent banks	–	949,518
Returns from the UAPF	–	480
Insurance payout to depositors	(49,988)	(835,252)
Other operating income received	8,173	13,026
Staff costs paid	(952,512)	(639,686)
Administrative and other operating expenses paid	(845,024)	(725,629)
Net cash received from operating activities	162,956,078	135,650,993
Cash flows from investing activities		
Acquisition of investments in debt securities at amortized cost	(312,052,461)	(412,611,818)
Proceeds from redemption and sale of debt securities at amortized cost	182,746,983	211,067,000
Acquisition of investments in debt securities at fair value through other comprehensive income	(119,519,332)	–
Proceeds from redemption and sale of debt securities at fair value through other comprehensive income	50,000,000	–
Acquisition of fixed assets	(42,511)	(12,541)
Acquisition of intangible assets	(59,492)	(12,019)

In thousand tenge	2023 г.	2022 г.
Net cash used in investing activities	(198,926,813)	(201,569,378)
Effect of foreign currency exchange rate changes on cash and cash equivalents	804,144	-
Estimated reserve (provisions) on cash and cash equivalents under expected credit loss	(31,966)	-
Net (decrease)/increase in cash and cash equivalents	(35,166,591)	(65,918,385)
Cash and cash equivalents as of the beginning of the year	104,727,079	170,645,464
Cash and cash equivalents as of the end of the year	69,528,522	104,727,079



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Payouts of deposits assurance evidence