REPORT
of the Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market
for 2020

Almaty, 2021
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Message from the Agency’s Chairperson to Readers

Dear readers,

The Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market was established in January 2020 by Decree of the President of the Republic of Kazakhstan No. 203 dated November 11, 2019 “On Further Improvement of the Public Administration System of the Republic of Kazakhstan” through the restructuring of the National Bank. The Agency reports to the President of the Republic of Kazakhstan and ensures the protection of the rights of consumers of financial services, contributes to the maintenance of financial stability, regulates, controls and supervises financial agencies, implements the Financial Market Development Policy.

The Agency's activities began during the coronavirus pandemic and economic slowdown, and were focused on ensuring the stability of the financial sector amidst the deteriorating economic environment.

Due to the implementation of the risk-based supervision, by the beginning of the pandemic, banks have formed adequate capital and liquidity reserves, which made it possible to ensure the stability of the system and support the lending capacity. No capital deficit, both at the system level and at the level of single banks was confirmed by the results of an independent Asset Quality Review (AQR, Asset Quality Review) of 14 major banks based on the methodology of the European Central Bank.

To evaluate the degree of stability of the banking system to possible stress scenarios and shocks, the supervisory stress testing and comprehensive analysis of the financial stability of banks have been introduced into the supervisory process. The results of the supervisory stress testing of 14 banks also evidenced that there is a sufficient margin of safety to absorb potential losses.

In addition, during the coronavirus pandemic, the Agency has implemented about 23 regulatory measures. As a result, 468 billion Tenge of banks' capital and 1.8 trillion Tenge of liquidity were released, which were aimed at absorbing the losses incurred and continuing lending to the economy.

In order to support businesses and households, the regulatory reliefs were introduced to banks to stimulate the restructuring of loans, provide deferrals on them, and establish flexible loan payment schedules. In 2020, 83% of borrowers from the affected sectors of the economy received deferrals. At the same time, within the framework of state programs implemented through banks, the debt burden on loans has been reduced for the most affected entrepreneurs through subsidizing interest rates up to 6% and preferential lending of working capital.

The taken anti-crisis and supervisory measures prevented the growth of non-performing assets in banks and a decrease in lending to the economy. Loans to the economy increased by 5.5% to 14.6 trillion Tenge in 2020. NPL level in the banking system decreased from 8.1% to 6.9% by the end of 2020.

For the development of the insurance and stock markets, a package of legislative measures has been implemented aimed at expanding the coverage of the households and businesses with insurance, securing the availability of the full range of brokerage services for bank customers, expanding the capabilities of citizens to
manage their own pension savings and forming additional mechanisms to protect consumers of financial services.

The most significant reform of 2020 in the financial sector was the entering of all microcredit entities into the Agency's regulatory perimeter, including online lending companies, credit partnerships and pawnshops. In this regard, mandatory registration has been introduced by law; strict qualification requirements have been established. 1.1 thousand companies out of about 5.5 thousand microfinance entities have been registered, and an issue of their compulsory winding-up is being addressed in court with respect to the remaining companies. Since 2021, the mandatory licensing of microfinance activities has been effective, which will allow completing efforts on cleaning the market from unfair participants.

In connection with the opening of the National Financial Market for foreign banks branches and insurance companies of the WTO member countries since December 2020, the Agency has formed a legislative environment regulating their activities, introduced prudential standards and qualification requirements similar to those established for local financial agencies.

In collaboration with the Government and the National Bank, the “Concept of Improving Financial Literacy for 2020-2024” and the “Concept for Development of Financial Technologies and Innovations until 2025”, have been developed and adopted respectively.

In 2021, the Agency will keep working to ensure financial stability, provide additional measures to support borrowers in the affected sectors of the economy, and identify key areas for the development of Kazakhstan’s financial sector for the mid-term to expand its capacity and role in the economy.

*M. Abylkassymova*

*Chairperson of the Agency*
1. Anti-crisis Measures to Ensure the Stability of the Financial System

In 2020, in order to mitigate the effects of the global crisis on the Kazakhstan’s economy due to the coronavirus pandemic, to ensure the stable functioning of the financial sector, as well as to support consumers of financial services in a challenging situation, in accordance with the instructions of Mr. K.K. Tokayev, Head of the State, the Agency, in cooperation with the Government and the National Bank, implemented a wide range of anti-crisis measures based on the practice of financial regulators and governments of many countries.

1.1 Stabilization measures during the coronavirus infection control period

Support to citizens and small and medium enterprises

In order to prevent the deterioration of the financial position of borrowers experiencing financial difficulties, the Procedure for suspending payments of principal and interest on loans of the households, small and medium enterprises affected by the imposition of a state of emergency was approved by Order of the Agency’s Chairperson No. 167 dated March 26, 2020. The order establishes a requirement to banks and non-banking credit agencies to provide deferred payments on loans to the households, small and medium enterprises for up to 90 days during the period from March 16 to June 15, 2020.

As of June 15, 2020, 1.9 million citizens in the amount of 268.2 billion Tenge and 12.5 thousand small and medium enterprises in the amount of 165 billion Tenge received approval for deferred payments on loans.

For the period of the state of emergency, the Agency established a ban on the accrual of fines and penalties for late payments on the principal and interest to borrowers the financial standing of which worsened as a result of the imposition of the state of emergency, and on the accrual of interest to individuals for whom the delay in payment on the principal and (or) interest was more than 90 days.

During this period, banks and microfinance organizations suspended the claim administration for borrowers having past due payments, withdrew all collection orders and payment requirements issued to the bank accounts of individuals.

Also, by Order of the Agency’s Chairperson No. 251 dated June 15, 2020 “On additional measures to support small and medium enterprises”, a requirement was introduced to banks and non-banking credit agencies to provide the following support measures: refinancing a loan on preferential terms under state business support programs and providing additional deferred payments on loans to small and medium enterprises the activities of which were restricted, prohibited or suspended, for the period until October 1, 2020, sufficient to recover the financial position and solvency of a small and medium business enterprise.

As of October 1, 2020, a deferral was granted 11.2 thousand bank loans in the amount of 43.9 billion Tenge, and 3.2 thousand refinancing procedures in the amount of 89.7 billion Tenge were approved.
Ensuring the availability of financial services amidst quarantine restrictions

In order to ensure the availability of financial services to the households amidst the current restrictions, in cooperation with banks the Agency has created conditions for remote opening of bank accounts, as well processing online card payments. Consequently, about 2.6 million bank accounts were opened remotely, and 840 thousand payment cards were issued.

During the pandemic, targeted support was provided to more than 100 representatives of persons with special needs in obtaining banking services (opening an account and/or a bank card, receiving benefits, payments and transfers, etc.).

Measures to preclude from the collection of cash from social payments based on the claims of third parties have been taken. Also, when banks credited social and charitable payments to the settlement accounts of citizens, no bank commissions were charged.

The process of remote conclusion of insurance contracts has been streamlined in the insurance market and measures to improve the protection of personal data of the population when concluding online insurance contracts have been taken.

In order to simplify the access of retail investors to the capital market, an opportunity to conclude brokerage service contracts remotely through biometric and dynamic identification instruments was offered. Hence, brokers concluded about 6.5 thousand contracts remotely.

To carry out awareness-raising activities and provide prompt advice to citizens, the Agency launched a hotline in March 2020. Since the launching of the hotline, consultations have been rendered to more than 23 thousand citizens.

Regulatory measures to stimulate the financing the economy and business

In order to prevent a decline in lending to the economy in the context of the coronavirus pandemic and its consequences, and to ensure the financial stability of banks, the Agency has adopted a set of temporary prudential regulation measures of a countercyclical nature.

The measures taken were aimed at the release of banks capital, creating a liquidity reserve for issuing new loans to the economy and forming provisions on credit exposure.

The Agency has implemented three packages of temporary prudential regulation measures.

1. During the period from March 30 to September 30, as part of the first package of measures, the Agency adopted regulatory reliefs directed at the release of banks capital to issue new loans and generation of provisions on credit risks.

The Agency has reduced risk-weighting ratios when calculating capital adequacy on loans issued to small and medium enterprises from 75% to 50%, loans in foreign currency from 200% to 100%, syndicated loans from 100% to 50%.

To ensure the availability of loans for small and medium enterprises having no collaterals, the Agency expanded the list of property recognized as collateralized liquid assets: insurance contracts were included, property that is collateral under
syndicated lending agreements and public private partnership projects with the right to “take or pay”, guarantees of quasi-public companies (Samruk-Kazyna, Baiterek and KazAgro) were recognized as liquid collateral.

To restrict speculative operations and excessive volatility in the foreign exchange market, the limits of a long foreign exchange position have been reduced from 12.5% to 7.5%, the limits of the total foreign currency net position from 25% to 12.5% of the capital.

In order to encourage banks to restructure loans related to deferred payments during the state of emergency and post-quarantine period, the restructuring factor was excluded from the criteria for automatic loan impairment when forming allowances.

2. As part of the second package of prudential measures, the Agency has taken measures to create additional provisions and stimulate credit activities.

The Agency has temporarily eased the requirements to banks' capital adequacy by reducing the size of the conservation buffer by 1 p.p. from 2% to 1%, which enabled to release of capital for new loans due to a decline in fixed capital for systemically important banks (k1) from 9.5% to 8.5%, and other banks from 7.5% to 6.5%.

The weighting coefficient for guarantees and sureties issued by banks in favor of small and medium enterprises has been reduced by half.

Banks have been granted the opportunity to restructure loans to the households and businesses in connection with the allowed credit holidays during the state of emergency or due to quarantine restrictions without forming additional provisions for such loans, provided that the borrower has no above 30 days past due payments.

To reduce the pressure on liquidity of banks from March 30, 2020 to April 1, 2021 the requirements to the liquidity coverage ratio were relieved by reducing the minimum allowable values from 0.8 to 0.6 and cash outflow review due to liabilities to the Government, the National Bank, international financial institutions, local executive bodies from 40% to 20%.

In order to avoid a decrease in the volume of the available funding base, the deadline for the introduction of a target tightening the calculation of Net Stable Funding Ratio (NSFR) has been postponed. In particular, until July 1, 2021, banks were given the opportunity to include deposits of legal entities with the possibility of unconditional early withdrawal as part of stable funding instruments, which allowed banks to lend to the economy at the expense of these resources.

3. In September 2020, upon the expiration of the temporary measures taking into account the analysis of their efficiency within the scope of the third package of measures, the Agency decided to extend 17 of the 23 temporary measures of prudential regulation until July 1, 2021.

Until October 1, 2021, in order to expand the collateral base of entrepreneurs, the criteria for recognizing an off-take contract as collateralized liquid assets for the purposes of calculating regulatory provisions were temporarily relaxed, the required customer rating was lowered from “BB+” to “BB-” and the delay of up to 60 calendar days is not a negative credit history of the supplier.
To stimulate the restructuring of loans of SMEs experiencing difficulties with repayment of credit liabilities in connection with the introduction of quarantine restrictions and business slowdown, the provisions forming grace for restructured loans has been extended. In this regard, taking into account the recommendations of international organizations (Basel Committee on Banking Supervision, International Association of Insurance Supervisors, European Banking Authority), until April 1, 2021, the approach to classify restructured loans with deferred payments to the number of impaired ones when calculating regulatory provisions and provisions according to the International Financial Reporting Standards have been improved. Thus, on restructured loans, now the bank must assess the probability of timely repayment by the borrower of liabilities under the loan agreement after the end of the deferral period, in the absence of which such a loan is classified as impaired.

As a result, the measures taken made it possible to release the capital of banks by 468 billion Tenge and liquidity by 1.8 trillion Tenge, and support lending to the economy. Thus, by the end of 2020, loans to the economy increased by 5.5% to 14.6 trillion Tenge. At the same time, loans to small and medium enterprises increased by 7.2% to 4.2 trillion Tenge.

1.2 Interactions with the Government and the National Bank in the framework of ensuring the implementation of government programs to support business entities

To support small and medium enterprises affected by the spread of coronavirus infection, on behalf of the Head of the State, the National Bank jointly with the Agency launched a Program of Preferential Lending to Small and Medium Enterprises with a financing scope of 600 billion Tenge. Under the Program, financing was provided to entrepreneurs for up to 12 months at a rate of no more than 8% per annum.

In order to expand access to concessional resources on behalf of the Head of the State in October 2020, the duration of the Program was extended until the end of 2021, expanded its coverage by adding large businesses, allocated 200 billion Tenge, of which 100 billion Tenge designated for lending to SMEs involved in the field of production and processing in the agricultural sector.

As of December 31, 2020, banks issued 5,158 loans worth 528 billion Tenge under the Program of Preferential Lending to SMEs.

In order to secure the availability of loans for private entrepreneurs operating in the manufacturing industry and the agro-industrial complex, a Program to ensure Tenge long-term liquidity for lending to priority sectors of the economy “Economy of Simple Things” with a financing scope of 1 trillion Tenge is being implemented, providing for the financing the borrower at 6% final rate.

As of December 31, 2020, 778 applications amounted to 516.2 billion Tenge were signed within the framework of the “Economy of Simple Things” Program.

In accordance with the instructions of the Head of the State, the Government, together with the Agency and “Atameken” National Chamber of Entrepreneurs, has developed a mechanism for state subsidizing interest rates up to 6% per annum on all
existing loans to small and medium enterprises in 29 affected sectors of the economy for the period of 12 months.

Referring to information of “Damu” EDF JSC, as of December 31, 2020, 3,796 SMEs were subsidized (89.2% of the total number of approved borrowers-SMEs) in the amount of 16.6 billion Tenge.
2. Development of the Financial Sector in 2020

In 2020, financial sector of Kazakhstan was under the influence of crisis phenomena caused by the coronavirus pandemic. The existing overall margin of safety of the banking sector and the financial system and coordinated operational anti-crisis measures allowed to limit the negative impact of shocks, ensuring financial stability and preserving the lending capacity to the economy.

2.1. Banking sector

As of 01.01.2021 the banking sector is represented by 26 banks, of which 15 banks with foreign participation, including 12 second-tier subsidiary banks, 1 bank with 100% state participation. The decrease in the number of participants in the banking sector compared to 2019 is due to the revocation in September 2020 of Tengri Bank JSC’s license to conduct banking and other operations (Table 2.1.1). This event did not affect the stability of the banking system since the bank’s assets accounted for 0.5% of the banking sector’s assets.

Table 2.1.1

<table>
<thead>
<tr>
<th>Banking Sector Structure</th>
<th>01.01.2020</th>
<th>01.01.2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of second-tier banks, including:</td>
<td>27¹</td>
<td>26</td>
</tr>
<tr>
<td>- banks with 100% state participation in the authorized capital</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>- second-tier banks with foreign participation</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td>- second-tier subsidiary banks</td>
<td>12</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: The National Bank

Anti-crisis measures let the country's banking sector complete 2020 with positive results and significant reserves of capital and liquidity in case of deterioration of the economic situation. Despite the pandemic’s consequences, the key performance indicators of the banking sector were characterized by positive dynamics.

Thus, according to the regulatory reporting data, by the end of 2020, the assets of the banking sector increased by 16.4% and amounted to 31,171.7 billion Tenge. The growth was due to a rise in deposits placed in other banks - by 95%, and the loan portfolio of banks - by 7.1%. The largest share in the structure of assets belongs to the loan portfolio - 47.6%, securities – 20.0%, and deposits placed in other banks – 14.4% (Table 2.1.2).

As of 01.01.2021 highly liquid assets of banks amounted to 12,650 billion Tenge or 40.6% of total assets, having increased by 37.9% or 3,475 billion Tenge in 2020.

¹ In September 2020, Tengri Bank JSC’s license to exercise banking and other operations was revoked in accordance with the Resolution of the Agency's Board No. 80 dated 17.09.2020.
The main share in the structure of highly liquid assets of the banking sector was held by deposits in the National Bank - 47.8%, government securities - 25.1%, notes of the National Bank - 15.4%, cash and metal accounts - 6.6%.

The growth in 2020 was mainly due to the increase in a risk-free asset portfolio, including: deposits in the National Bank (by 87% from 3.2 to 6.0 trillion Tenge) and government securities of the Ministry of Finance (by 52% from 2.1 to 3.2 trillion Tenge). At the same time, there was a decline in investments to the notes of the National Bank (by 14.3% from 2.3 to 2.0 trillion Tenge).

Table 2.1.2

<table>
<thead>
<tr>
<th>Item</th>
<th>01.01.2020</th>
<th>01.01.2021</th>
<th>Change, in %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>bln Tenge</td>
<td>in % to total</td>
<td>bln Tenge</td>
</tr>
<tr>
<td>1</td>
<td>Cash, refined precious metals and correspondent accounts</td>
<td>3 049.7</td>
<td>10.5</td>
</tr>
<tr>
<td>2</td>
<td>Deposits placed in other banks</td>
<td>2 449.8</td>
<td>8.5</td>
</tr>
<tr>
<td>3</td>
<td>Securities</td>
<td>5 977.1</td>
<td>20.7</td>
</tr>
<tr>
<td>4</td>
<td>Bank loans and reverse REPO transactions</td>
<td>14 743.0</td>
<td>50.9</td>
</tr>
<tr>
<td>5</td>
<td>Investments in capital</td>
<td>484.3</td>
<td>1.7</td>
</tr>
<tr>
<td>6</td>
<td>Other assets</td>
<td>2 236.0</td>
<td>7.7</td>
</tr>
<tr>
<td>7</td>
<td>Total assets (excluding reserves (provisions))</td>
<td>28 940.0</td>
<td>100.0</td>
</tr>
<tr>
<td>8</td>
<td>Reserves (provisions) in accordance with the requirements of international standards</td>
<td>-2 154.0</td>
<td>-7.4</td>
</tr>
</tbody>
</table>

Total assets | 26 785.9 | 31 171.7 | 16.4 |

Source: The National Bank

Loans to the economy\(^2\) made up 14,623.1 billion Tenge, having increased in 2020 by 5.5%, mainly due to the growth of loans to small and medium enterprises and loans to individuals.

At the same time, loans to legal entities decreased by 1.5% and amounted to 7,097.0 billion Tenge (as of 01.01.2020 – 7,203.6 billion Tenge).

According to regulatory reports, loans to large business entities amounted to 3,838.8 billion Tenge, having decreased by 6.5% or 266.5 billion Tenge in 2020. The decrease in the volume of loans to large businesses is caused by a slowdown in economic activities due to imposed quarantine restrictions during 2020, and a drop in demand due to a reduction in foreign trade, as well as the completion of actions to clear up the balance sheets from non-performing loans.

\(^2\) According to monetary statistics
Table 2.1.3

Loan Portfolio Structure

<table>
<thead>
<tr>
<th>Item/date</th>
<th>01.01.2020 amount, bln Tenge</th>
<th>in % to total</th>
<th>01.01.2021 amount, bln Tenge</th>
<th>in % to total</th>
<th>Change, in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Loan portfolio (principal), including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans to legal entities</td>
<td>13 864,9</td>
<td>100</td>
<td>14 623,1</td>
<td>100</td>
<td>5,5</td>
</tr>
<tr>
<td>- Loans to large enterprises</td>
<td>7 203,6</td>
<td>52,0</td>
<td>7 097,0</td>
<td>48,5</td>
<td>-1,5</td>
</tr>
<tr>
<td>- Loans to small and medium enterprises</td>
<td>3 962,9</td>
<td>3 838,8</td>
<td>4 246,2</td>
<td>7,1</td>
<td></td>
</tr>
<tr>
<td>2 Loans to individuals, including:</td>
<td>6 661,3</td>
<td>48,0</td>
<td>7 526,1</td>
<td>51,5</td>
<td>13,0</td>
</tr>
<tr>
<td>- Mortgage loans</td>
<td>1 767,2</td>
<td>2 373,2</td>
<td>34,3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Consumer loans</td>
<td>4 211,1</td>
<td>4 390,9</td>
<td>4,3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: The National Bank

Loans to small and medium enterprises amounted to 4,246.2 billion Tenge, having increased by 7.1% in 2020 (as of 01.01.2020 –3,962.9 billion Tenge). The growth of the loan portfolio of small and medium enterprises was largely due to government programs to support businesses – entities the “Economy of Simple Things”, “Program of Preferential Lending to Small and Medium Enterprises”, etc.

Table 2.1.4

Banking Sector Asset Quality

<table>
<thead>
<tr>
<th>Item/date</th>
<th>01.01.2020 Principal amount, bln Tenge</th>
<th>Share, %</th>
<th>01.01.2021 Principal amount, bln Tenge</th>
<th>Share, %</th>
<th>Change, in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Loans with above 90 days past due</td>
<td>1 200</td>
<td>8,1</td>
<td>1082</td>
<td>6,9</td>
<td>-9,8</td>
</tr>
<tr>
<td>2 Loans to legal entities with above 90 days past due, including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Loans to large enterprises with above 90 days past due</td>
<td>213</td>
<td>5,2</td>
<td>190</td>
<td>5,0</td>
<td>-10,8</td>
</tr>
<tr>
<td>- Loans to SMEs with above 90 days past due</td>
<td>579</td>
<td>14,6</td>
<td>506</td>
<td>11,9</td>
<td>-12,6</td>
</tr>
<tr>
<td>3 Loans to individuals with above 90 days past due, including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Mortgage loans with above 90 days past due</td>
<td>73</td>
<td>4,1</td>
<td>54</td>
<td>2,3</td>
<td>-26,0</td>
</tr>
<tr>
<td>- Consumer loans with above 90 days past due</td>
<td>312</td>
<td>7,2</td>
<td>317</td>
<td>6,8</td>
<td>1,6</td>
</tr>
<tr>
<td>4 Provisions under IFRSs</td>
<td>1 994,2</td>
<td></td>
<td>1 830,8</td>
<td></td>
<td>-8,2</td>
</tr>
<tr>
<td>5 Provisions for loans with above 90 days past due</td>
<td>962</td>
<td></td>
<td>840,8</td>
<td></td>
<td>-12,6</td>
</tr>
</tbody>
</table>

Source: The National Bank

Loans to individuals amounted to 7,526.1 billion Tenge, increased for 2020 by 13.0% or 864.7 billion Tenge (as of 01.01.2020 - 6 661.3 billion Tenge).
The mortgage loan portfolio for 2020 increased by 34.3% or 606.1 billion Tenge, and made up 2,373.2 billion Tenge. The growth was due to the increase in the loan portfolio of “Housing Construction Saving Bank of Kazakhstan” JSC (HCSBK/ Otbasy Bank JSC), as well as the implementation of state programs with affordable terms – “7-20-25” and “Baspana Hit”.

The total volume of consumer loans amounted to 4,390.9 billion Tenge, an increase of 4.3% or 179.8 billion Tenge in 2020 (for 2019 – an increase of 26.9%). The slowdown in the growth of the consumer loan portfolio was due to a drop in consumer demand and a decline in business operations amid the coronavirus pandemic, as well as regulatory measures taken by the Agency to restrain the growth of consumer lending and the introduction of restrictions on the size of the debt burden of individuals (Table 2.1.3).

In 2020, there was a decrease in the level of non-performing loans in all segments of bank lending. Thus, loans with above 90 days past due amounted to 1,082.1 billion Tenge, having decreased over the year from 8.1% to 6.9%. At the same time, the share of loans to legal entities with overdue payment above 90 days decreased in 2020 from 9.8% to 8.6%, to individuals – from 6.4% to 5.4% (Table 2.1.4).

<table>
<thead>
<tr>
<th>Banking Sector Liability Structure</th>
<th>01.01.2020</th>
<th>01.01.2021</th>
<th>Change, in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item/date</td>
<td>bln Tenge</td>
<td>in % to total</td>
<td>bln Tenge</td>
</tr>
<tr>
<td>1 Interbank deposits</td>
<td>206,2</td>
<td>0,9</td>
<td>234,3</td>
</tr>
<tr>
<td>2 Borrowings received from other banks and organizations carrying out certain types of banking operations</td>
<td>677,8</td>
<td>2,9</td>
<td>572,3</td>
</tr>
<tr>
<td>3 Borrowings received from the Government of the Republic of Kazakhstan</td>
<td>195,4</td>
<td>0,8</td>
<td>262,9</td>
</tr>
<tr>
<td>4 Borrowings received from international financial institutions</td>
<td>25,9</td>
<td>0,1</td>
<td>55,9</td>
</tr>
<tr>
<td>5 Customer deposits</td>
<td>17 977,0</td>
<td>77,6</td>
<td>21 559,2</td>
</tr>
<tr>
<td>6 Outstanding securities</td>
<td>1 798,1</td>
<td>7,8</td>
<td>1 758,1</td>
</tr>
<tr>
<td>7 REPO transactions with securities</td>
<td>360,9</td>
<td>1,6</td>
<td>330,1</td>
</tr>
<tr>
<td>8 Other liabilities</td>
<td>1 917,3</td>
<td>8,3</td>
<td>2 444,3</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>23 158,6</td>
<td>100</td>
<td>27 217,2</td>
</tr>
</tbody>
</table>

Source: The National Bank

By the end of 2020, the provisions formed in accordance with requirements of IFRS to the banking sector loan portfolio amounted to 1,830.8 billion Tenge, or 11.6% of the total loan portfolio. The level of provision coverage for loans with overdue payments over 90 days past due was 77.7%.

The banks' liabilities amounted to 27,217.2 billion Tenge or 87.3% of total assets, having increased by 17.5% or 4,058.6 billion Tenge over the year. The growth occurred as a result of an increase in the customer deposit base by 19.9% or 3,582.2 billion Tenge (Table 2.1.5).
In the structure of liabilities, the main share is held by customer deposits – 79.2% of total liabilities. The growth of the deposit base is associated with an increase in deposits of both legal entities and individuals (Figure 2.1.1). The share of deposits in foreign currency decreased from 42.4% to 38.7%.

Net profit gained at year-end of 2020 amounted to 726.1 billion Tenge, which is by 8.2% less than at year-end of 2019 (in 2019 - 790.9 billion Tenge) due to accrual, mainly, of interests on loans.

The indicator of return on bank assets (ROA) was 2.3% (as of 01.01.2020 – 3.7%), return on equity (ROE) - 17.6% (as of 01.01.2020 - 30.7%).

Figure 2.1.1

Banking Sector Liability Trend

![Banking Sector Liability Trend graph](image)

Source: The National Bank

The regulatory capital of banks is 4,821.9 billion Tenge, having increased by 7.1% or 318.3 billion Tenge in 2020. The increase in equity is related to an increase in profits gained in 2020 and prior periods.

Table 2.1.6

<table>
<thead>
<tr>
<th>Item</th>
<th>01.01.2021</th>
<th>01.01.2021</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>bln Tenge</td>
<td>%</td>
</tr>
<tr>
<td>1 Tier I capital:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Core capital</td>
<td>3 806,9</td>
<td>78,9%</td>
</tr>
<tr>
<td>- Additional paid-in capital</td>
<td>3 802,3</td>
<td>78,9%</td>
</tr>
<tr>
<td>2 Tier II capital</td>
<td>1 015,1</td>
<td>21,1%</td>
</tr>
<tr>
<td>3 Adjustment to equity 7</td>
<td>60,8</td>
<td>1,3%</td>
</tr>
<tr>
<td>4 Total estimated equity</td>
<td>4 821,9</td>
<td>100%</td>
</tr>
<tr>
<td>5 Equity adequacy ratio k1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Equity adequacy ratio k1-2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Equity adequacy ratio k2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: The National Bank

7 positive difference between the deposits of individuals and the balance equity multiplied by a ratio of 5.5; positive difference between provisions (reserves) under the Manual and provisions (reserves) under IFRSs.
As of 01.01.2021, the banking sector has a sufficient capital cushion. The core capital adequacy ratio (k1) is 21.3%; equity adequacy ratio (k2) is 27.0%, which on average significantly exceeds the statutory standards in the system (Table 2.1.6).

### 2.2 Banking conglomerates

As of 01.01.2021, the structure of banking conglomerates is represented by 13 participants. Changes for 2020 are connected with the establishment of banking conglomerates: KCC Finance LLC, Freedom Finance JSC, First Heartland Jusun Bank JSC, SB Kazakhstan-Ziraat International Bank JSC, and with the expelling the following participants from the structure of conglomerates: ForteBank JSC, KNG Finance LLP, and AsiaCredit Bank JSC (Asia Credit Bank)* (Table 2.2.1).

Assets of banking conglomerates amounted to 23,704.9 billion Tenge, having increased by 19.7% or 3,893.1 billion Tenge in 2020 (Table 2.2.2). The largest increase is stated under the item “Cash and cash equivalents” - by 41.6% or 1,327.4 billion Tenge. Loans issued amounted to 41.0% of the total assets of banking conglomerates, increased by 8.5% to 9,714.3 billion Tenge in 2020. The increase of this indicator is observed in the banking conglomerate ALMEX Holding Group JSC (by 693.8 billion Tenge), and is also associated with the appearance of new participants – KCC Finance LLC (490.5 billion Tenge) and SB Kazakhstan-Ziraat International Bank JSC (51.5 billion Tenge).

The securities portfolio of banking conglomerates made up 6,049.3 billion Tenge, having increased by 10.4% or 569.0 billion Tenge in 2020. A significant increase in this indicator is observed in “Kaspi.kz” JSC banking conglomerate (by 392.6 billion Tenge) and KCC Finance LLC (by 193.9 billion Tenge).

---

*revocation of AsiaCredit Bank JSC’ (AsiaCredit Bank) license to conduct banking and other operations and activities in the securities market*
Table 2.2.2

Total Asset Structure of Banking Conglomerates

<table>
<thead>
<tr>
<th>Item</th>
<th>01.01.2020</th>
<th>01.01.2021</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>bln Tenge</td>
<td>in % to total</td>
<td>bln Tenge</td>
</tr>
<tr>
<td>1 Cash and cash equivalents</td>
<td>3 189.5</td>
<td>16,1</td>
<td>4 516.9</td>
</tr>
<tr>
<td>2 Securities portfolio</td>
<td>5 480.3</td>
<td>27.7</td>
<td>6 049.3</td>
</tr>
<tr>
<td>3 Loans issued</td>
<td>8 953.7</td>
<td>45.2</td>
<td>9 714.3</td>
</tr>
<tr>
<td>4 Other assets</td>
<td>2 188.3</td>
<td>11.0</td>
<td>3 424.3</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>19 811.8</strong></td>
<td><strong>100</strong></td>
<td><strong>23 704.9</strong></td>
</tr>
</tbody>
</table>

Source: The National Bank

As of 01.01.2021, the largest banking conglomerates in terms of assets size are the following: ALMEX Holding Group JSC (10,405.3 billion Tenge), First Heartland Securities JSC (3,253.6 billion Tenge) and “Kaspi.kz” JSC (2,806.7 billion Tenge). Assets of the three largest banking conglomerates amounted to 16,456.6 billion Tenge, or 69.5% of total assets of banking conglomerates, 70.4% of total loan portfolio and 66.8% of total securities portfolio of banking conglomerates.

Due to the fact that maximum concentration of assets of banking conglomerates by sector is represented in banking sector, the financial stability of conglomerates depends on the quality and return on bank assets. As of 01.01.2021, the concentration of total assets of banking conglomerates in banking sector made up 89.9%, insurance services sector - 2.6%, securities market - 1.5%, and non-financial sector - 6.0%.

Table 2.2.3

Total Liability Structure of Banking Conglomerates

<table>
<thead>
<tr>
<th>Item</th>
<th>01.01.2020</th>
<th>01.01.2021</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>bln Tenge</td>
<td>in % to total</td>
<td>bln Tenge</td>
</tr>
<tr>
<td>1 Funds of customers</td>
<td>13 115.5</td>
<td>77.7</td>
<td>15 924.2</td>
</tr>
<tr>
<td>2 Securities issued</td>
<td>1 592.2</td>
<td>9.4</td>
<td>1 624.4</td>
</tr>
<tr>
<td>3 Borrowings received</td>
<td>590.7</td>
<td>3.5</td>
<td>664.6</td>
</tr>
<tr>
<td>4 Other liabilities</td>
<td>1 572.3</td>
<td>9.3</td>
<td>1 933.6</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>16 870.7</strong></td>
<td><strong>100.0</strong></td>
<td><strong>20 146.8</strong></td>
</tr>
</tbody>
</table>

Source: The National Bank

The liabilities of banking conglomerates amounted to 20,146.8 billion Tenge, having increased by 19.4% or 3,276.1 billion Tenge in 2020. This was contributed by an increase in funds of customers (79.0% of total liabilities of banking conglomerates) by 21.4%. A significant increase in this indicator is noticed in the banking conglomerate of ALMEX Holding Group JSC (by 1,122.5 billion Tenge), as well as the emerging liabilities of new banking conglomerates by 689.3 billion Tenge (Table 2.2.3).

The liabilities of three major banking conglomerates as of 01.01.2021 amounted to 13,903.3 billion Tenge or 69.0% of the total liabilities of banking conglomerates. Besides, 71.8% of total customer funds fall to 3 major banking conglomerates, 69.8% - of securities issued and 52.6% - of borrowings raised.
In 2020, the equity of banking conglomerates increased by 19.8% or 520.1 billion Tenge and as of 01.01.2021 amounted to 3,147.0 billion Tenge. The growth is reasoned by an increase (by 291.5 billion Tenge) in retained earnings and an increase (by 171.9 billion Tenge) in the authorized capitals of banking conglomerate participants. Retained earnings for 2020 totaled to 1,979.2 billion Tenge, having increased by 17.3% over the year (Table 2.2.4).

<table>
<thead>
<tr>
<th>Item</th>
<th>01.01.20</th>
<th>01.01.21</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>bln Tenge</td>
<td>in % to total</td>
<td>bln Tenge</td>
</tr>
<tr>
<td>1 Authorized capital</td>
<td>826,7</td>
<td>31,5</td>
<td>998,6</td>
</tr>
<tr>
<td>2 Retained earnings</td>
<td>1,687,7</td>
<td>64,2</td>
<td>1,979,0</td>
</tr>
<tr>
<td>3 Other capital</td>
<td>112,5</td>
<td>4,3</td>
<td>169,1</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td><strong>2,626,9</strong></td>
<td><strong>100</strong></td>
<td><strong>3,147,0</strong></td>
</tr>
</tbody>
</table>

Source: The National Bank

### 2.3 Non-banking institutions and microfinance market entities

#### Non-banking institutions

As of 01.01.2021, the non-banking sector of the Republic of Kazakhstan is represented by 2 mortgage companies and 4 non-banking institutions (Table 2.3.1).

<table>
<thead>
<tr>
<th>Non-banking Sector Structure</th>
<th>01.01.20</th>
<th>01.01.201</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of mortgage companies, including:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Mortgage company with 100% state equity interest</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Number of other companies carrying out certain types of banking operations, including:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Companies the sole shareholder of which is the National Managing Holding in the field of agro-industrial complex</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>- National Post Operator</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: The National Bank

The decrease in the number of mortgage companies by 1 unit is related to the voluntary return of the banking license to conduct bank borrowing operations by MO “Baspana” JSC in connection with the merger into Kazakhstan Sustainability Fund JSC.

Total assets of non-banking institutions amounted to 2,595.5 billion Tenge, having increased by 41.8% in 2020. The assets of mortgage companies amounted to 1,361.9 billion Tenge, having increased by 86.9% in 2020 that is due to the merger of Baiterek Development JSC into Mortgage Organization “Kazakhstan Mortgage Company” JSC in July 2020 (Figure 2.3.1).
In the structure of assets of mortgage companies, a significant share falls to loans to customers – 22.3% (303 billion Tenge) and securities - 65.1% (887.1 billion Tenge).

The share of loans with above 90 days past due amounted to 8 billion Tenge or 2.6% of the loan portfolio.

In the assets of other non-banking institutions, loans granted to legal entities and individuals occupy 52.2% (644.4 billion Tenge), finance leases - 21.8% (269.2 billion Tenge), cash and cash equivalents - 8.3% (101.9 billion Tenge).

As of 01.01.2021, total loan portfolio, taking into account provisions of other companies carrying out certain types of banking operations, amounted to 1,033.7 billion Tenge. The share of loans with past due in total loan portfolio was 13.6% (140.7 billion Tenge). Loans with above 90 days past due principals and/or accrued interests as of the reporting date amounted to 81.9 billion Tenge or 7.9% of total loan portfolio.

Total amount of liabilities of mortgage institutions versus data at the beginning of 2020 increased by 160.8% or 714.9 billion Tenge, and as of 01.01.2021 equaled to 1,159.5 billion Tenge.
Liabilities in terms of borrowing received (34.3%) and outstanding securities (61.6%) prevail in the structure of liabilities of mortgage companies (Figure 2.3.2).

Total amount of liabilities of other non-banking institutions for 2020 increased by 17% and as of 01.01.2021 amounted to 817.1 billion Tenge. The structure of liabilities of other non-banking institutions is mostly represented by liabilities in terms of borrowings received (53.7%) (Figure 2.3.3). As of 01.01.2021, the amount of the estimated equity of mortgage companies amounted to 191.8 billion Tenge. Whereas at the beginning of 2020, this indicator was 284.0 billion Tenge due to the exclusion of the mortgage company MO “Baspana” JSC from this segment.

The balance equity of other non-banking institutions amounted to 417.2 billion Tenge, having increased by 3.2% or 13.1 billion Tenge in 2020.

As of 01.01.2021, the amount of regulatory equity of other non-banking institutions amounted to 413.8 billion Tenge, including subsidiaries of the National Management Holding in the field of agro-industrial complex - 377.0 billion Tenge, as well as the National Post Operator - 36.8 billion Tenge.

As of 01.01.2021, other organizations exercising certain types of banking operations received a net profit of 31.0 billion Tenge, mortgage companies - 7.1 billion Tenge (Figure 2.3.4).

![Non-banking Sector Financial Performance](image)

Source: The National Bank

**Microfinance Organizations**

In accordance with the amendments to the legislation of the Republic of Kazakhstan, since January 1, 2020 all legal entities granting loans to citizens had to register as organizations exercising microfinance activities (hereinafter – “OEMFA”) prior to July 1, 2020. This made it possible to introduce all microfinance entities into the Agency's regulatory perimeter, including microfinance organizations, pawnshops, online lending companies, and credit partnerships.
In 2020, the Agency completed the registration of all non-banking lending entities. As a result, the Agency currently controls 1.1 thousand institutions, including 230 microfinance organizations, 216 credit partnerships, and 664 pawnshops (Table 2.3.2). Unregistered microfinance market entities (3.5 thousand institutions) now are under compulsory winding-up by court.

In 2020, as a result of the adoption of the above-mentioned legislative norms, there was a significant increase in the number of OEMFA (Figure 2.3.5.).

![Number of Microfinance Market Participants](image)

### OEMFA Structure

<table>
<thead>
<tr>
<th>OEMFA activity item</th>
<th>OEMFA number as of 01.01.2020</th>
<th>OEMFA number registered in 2020</th>
<th>Number of excluded from OEMFA Register</th>
<th>OEMFA number as of 01.01.2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microfinance organizations</td>
<td>202</td>
<td>48</td>
<td>20</td>
<td>230</td>
</tr>
<tr>
<td>Pawnshops</td>
<td>0</td>
<td>693</td>
<td>29</td>
<td>664</td>
</tr>
<tr>
<td>Credit partnerships</td>
<td>0</td>
<td>216</td>
<td>0</td>
<td>216</td>
</tr>
<tr>
<td>Total</td>
<td>202</td>
<td>957</td>
<td>49</td>
<td>1 110</td>
</tr>
</tbody>
</table>

*Source: The National Bank*

In the context of regions, the largest number of acting OEMFA falls to Almaty (20.0%), Nur-Sultan (10.4%), Karaganda (10.5%), and Almaty (9.6%) oblasts.

![OEMFA Assets](image)

*Source: AIS “Financial Regulatory Statistical Indicators”*
In 2020, the assets of the microfinance sector increased by 245% or 870.5 billion Tenge and made up 1,225.7 billion Tenge due to an increase in the number of new organizations that entered this market segment from the beginning of the first quarter 2020. As of 01.01.2021, OEMFA assets amounted to 3.9% of total assets of the banking sector.

In OEMFA asset structure the largest share falls to credit partnerships – 535.2 billion Tenge or 43.7%, microfinance organizations - 519.5 billion Tenge or 42.4%, pawnshops - 171.1 billion Tenge or 14.0% (Figure 2.3.6).

The largest share in OEMFA total assets is taken by microcredits issued (less allowances for impairment) - 85%.

The loan portfolio (on a gross basis) of the microfinance organizations sector amounted to 1,031 billion Tenge, 42.3% of which accounted for credit partnerships, 46.7% - for MFO and 10.9% - for pawnshops.

In the structure of OEMFA loan portfolio, the share of microcredits issued to individuals amounted to 41.5% or 427.8 billion Tenge, share of private entrepreneur amounted to 25.1% or 259.0 billion Tenge, share of microcredits issued to legal entities amounted to 33.4% or 344.0 billion Tenge.

The quality of microfinance sector loans is rated as satisfactory. The share of loans with past due on principals and (or) accrued interests was 8.9%. At the same time, the share of loans with above 90 days past due amounted to 3.4% of OEMFA total loan portfolio.

As of 01.01.2021 OEMFA total liabilities amounted to 763.3 billion Tenge. Total equity capital of the microfinance sector amounted to 462.4 billion Tenge and was formed mainly from the authorized capital and retained earnings (Figure 2.3.7).

The cumulative financial result in all sectors of the microfinance segment is positive. By the year-end of 2020, OEMFA total net profit amounted to 71.6 billion Tenge, including the profit of microfinance organizations - 34.7 billion Tenge, profit of pawnshops - 28.6 billion Tenge, and credit partnerships - 8.4 billion Tenge.
2.4 Insurance Sector

As of 01.01.2021, the insurance sector of the Republic of Kazakhstan is represented by 28 insurance companies, of which 9 are life insurance, 12 insurance brokers, and 58 actuaries. 2 insurance companies from 28 insurance companies are with 100% state participation.

The consequences of the coronavirus pandemic did not have a significant negative impact on quantitative indices of the insurance industry. In 2020, there is a positive trend of insurance sector indicators.

As of 01.01.2021 the assets of the insurance sector amounted to 1.5 trillion Tenge, having increased by 23% in 2020. This increase was mainly due to the collection of insurance premiums, primarily on endowment insurance and property insurance products, as well as positive revaluation of securities denominated in foreign currency.

As of 01.01.2021, securities account for the largest share in the asset structure (69.4% of total assets) – 1,032 billion Tenge that increased by 33.2% or 257 billion Tenge in 2020 (Table 2.4.1).

<table>
<thead>
<tr>
<th>Item</th>
<th>01.01.2020</th>
<th>01.01.2021</th>
<th>Change, in %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>bln Tenge in % to total</td>
<td>bln Tenge in % to total</td>
<td></td>
</tr>
<tr>
<td>1 Cash and deposits</td>
<td>202 16,8</td>
<td>214 14,4</td>
<td>6,0</td>
</tr>
<tr>
<td>2 Securities</td>
<td>775 64,3</td>
<td>1 032 69,4</td>
<td>33,2</td>
</tr>
<tr>
<td>3 Reinsurance assets</td>
<td>69 5,7</td>
<td>67 4,5</td>
<td>-3,5</td>
</tr>
<tr>
<td>4 Insurance receivables</td>
<td>39 3,2</td>
<td>36 2,4</td>
<td>-7,7</td>
</tr>
<tr>
<td>5 Other assets</td>
<td>121 10,0</td>
<td>137 9,2</td>
<td>13,6</td>
</tr>
<tr>
<td>Total assets</td>
<td>1 206</td>
<td>1 486</td>
<td>23</td>
</tr>
</tbody>
</table>

Table 2.4.1

Insurance Sector Asset Structure

Source: The National Bank

Liabilities of insurance companies as of 01.01.2021 amounted to 821 billion Tenge, of which 83.5% or 686 billion Tenge accounted for insurance reserves. In 2020, the amount of liabilities increased by 26% (168 billion Tenge) due to an increase in insurance reserves in line with the conclusion of new insurance contracts, and an increase of REPO transactions (Figure 2.4.1).
Equity amounted to 665 billion Tenge, having increased by 20% in 2020. The growth of equity is explained by an increase in the authorized capital of insurance companies and net profit for 2020, which was obtained mainly due to income from insurance and investment activities (Figure 2.4.2).

In 2020, the volume of insurance premiums\(^9\) accepted under insurance and reinsurance contracts amounted to 511 billion Tenge that is 10.5% more than in 2019. The volume of insurance premiums transferred for reinsurance\(^9\) for 2020 amounted to 93.7 billion Tenge (or 18.3% of the total volume of insurance premiums) that is 13.6% more than in 2019.

The total volume of insurance payments\(^9\) effected in 2020 amounted to 147 billion Tenge, which is by 32.5% less than in 2019, the decrease was mainly due to the property damage insurance class (in 2019 – a large loss in the amount of 52 billion Tenge, the share of reinsurance - 99%).

\(^9\) Insurance premiums and payments are stated taking into account the termination of insurance and reinsurance contracts
Reimbursement of expenses on risks transferred to reinsurance for 2020 made up 44.6 billion Tenge or 30.3% of total insurance payments (for 2019 – 114.6 billion Tenge or 52.6%) (Table 2.4.2).

### Infrastructure Organizations

#### Insurance Payment Guarantee Fund JSC

Insurance Payment Guarantee Fund JSC is a non-profit organization in the form of a joint-stock company, and is the only entity within the territory of the Republic of Kazakhstan that guarantees insurance payments under guaranteed types of insurance.

Guaranteed types of insurance include the following:

1) Compulsory Insurance of Civil Liability of Motor Vehicle Owners;
2) Compulsory Insurance of Civil Liability of the Carrier to Passengers;
3) Compulsory Tourist Insurance;
4) annuity insurance made in accordance with the laws of the Republic of Kazakhstan “On compulsory insurance of an employee against accidents during performance of the labor (official) duties” and “On Retirement Insurance in the Republic of Kazakhstan”.

As of 01.01.2021, the assets of Insurance Payment Guarantee Fund JSC amounted to 16.7 billion Tenge (taking into account audit findings), having increased by 11% or 1.6 billion Tenge versus to 01.01.2020. The guarantee provisions of Insurance Payment Guarantee Fund JSC amounted to 10.7 billion Tenge, having increased by 18% or 1.6 billion Tenge in 2020.

In 2020, in connection with the forced liquidation of “Kompetenz” Insurance Company JSC, Insurance Payment Guarantee Fund JSC assumed obligations to make guarantee payments to creditors for insured events under contracts of compulsory insurance of civil liability of vehicle owners, compulsory insurance of civil liability of the carrier to passengers.

Insurance Payment Guarantee Fund JSC had effected guarantee payments to creditors during the period from January 15 to July 17, 2020. In total, during the
specified period, Insurance Payment Guarantee Fund JSC made 287 guarantee payments to creditors totaling 158,989 thousand Tenge, of which 158,930 thousand Tenge are under contracts of Compulsory Insurance of Civil Liability of Motor Vehicle Owners, and 59 thousand Tenge under contracts of Compulsory Insurance of Civil Liability of the Carrier to Passengers.

2.5 Securities market

As of 01.01.2021, the securities market is represented by 38 brokers and (or) dealers (18 banks and 20 non-banking institutions), 9 custodian banks, 19 investment portfolio managers, 2 transfer agents, as well as 2 infrastructure organizations: Kazakhstan Stock Exchange JSC and Central Securities Depository JSC.

Figure 2.5.1

Number of Active Issues of Shares and Bonds

Source: The National Bank

Compared to 2019, the number of valid licenses decreased by 2 units due to:
- revocation of Tengri Bank JSC’ license to exercise brokerage and (or) dealer activities;
- voluntary return of Tengri Partners Investment Banking JSC (Kazakhstan)’s license to carry out investment portfolio management activities;
- voluntary return of Alibi Securities JSC’ license to conduct brokerage and (or) dealer activities and investment portfolio management activities;
- issuance to ForteFinance JSC a license to conduct brokerage and dealer activities and investment portfolio management activities.

The total number of issuers of non-government emission securities at the end of 2020 was 1,653, of which the number of joint-stock companies with active share issues was 1,144 (Figure 2.5.1).

At the end of 2020, the stock exchange's trading lists included shares of 142 items, 281 issues of corporate bonds, and 54 other non-government financial instruments.

During 2020, the Agency registered 42 issues of shares. For the purpose of the enforcement of rulings of local specialized economic courts on the compulsory winding-up of joint-stock companies and based on resolutions of general meetings of shareholders on the restructuring or winding-up of these joint-stock companies, 42 issues of shares were canceled.
At the end of 2020 the number of active bond issues amounted to 474 with the total face value of 20,011.7 billion Tenge, of which 281 issues are listed in Kazakhstan Stock Exchange JSC, including 27 bond issues being traded on an alternative platform.

In 2020, 66 issues of non-government bonds in the total amount of 4,369.2 billion Tenge and 11 bond programs in the total amount of 3,210 billion Tenge were registered.

**Infrastructure Organizations**

**Central Securities Depository JSC**

Central Securities Depository JSC is an infrastructure organization in the securities market that carries out such exceptional types of professional activities in the securities market as depository activities and activities for maintaining a Securities Holders Register System.

As of 01.01.2021 the number of open subaccounts of participants’ clients in the recording system of Central Securities Depository JSC amounted to 136,604, since the beginning of 2020 the number of subaccounts has been increased by 12.7% or 15,436 units, of which the number of subaccounts of individuals is 134,417 (+15,175 or 12.7% for 2020), legal entities – 2,187 (+261 or 13.6% for 2020).

The total volume of financial instruments in nominal holding amounted to 85,889 billion Tenge, which is by 28.3% (+18,961 billion Tenge) more than the same indicator in 2019. Thereby, the volume of government securities in nominal holding amounted to 14,284 billion Tenge, or 16.6% of the total volume of financial instruments in nominal holding, which is by 27.4% more compared to the same indicator in 2019.

The integration of the stock market of Kazakhstan infrastructure into the ecosystem of global capital markets is secured by the Central Securities Depository JSC through inter-depository bridges with the Clearstream Banking International Depository, National Settlement Depository of the Russian Federation, and other central depositories of EEU countries. 43 foreign financial institutions including Citigroup Group, Morgan Stanley, Goldman Sachs, Credit Suisse, J.P. Morgan, UBS, HSBC, BNP Paribas, The Bank of New York Mellon, etc. are represented in the Central Securities Depository JSC directly or through local custodian banks.

**Kazakhstan Stock Exchange JSC (On-exchange/regulated securities market)**

At the year-end of 2020, 477 items of non-government securities of 191 issuers and 314 issues of government securities of 24 issuers were listed in Kazakhstan Stock Exchange JSC. In the structure of non-government securities are 58.9% or 281 issues of corporate bonds and 29.7% or 142 issues of shares of corporate issuers.

At the end of 2020, there were 281 issues of corporate bonds of 73 issuers in KASE’s trading lists, of which 127 issues were issued by quasi-public sector companies and 151 issues were issued by the private sector.
In 2020 the total volume of investments on the securities market amounted to 2.2 trillion Tenge, of which the quasi-public sector attracted 2 trillion Tenge, by placing 40 bond issues. Private sector companies attracted 200 billion Tenge through placement on securities market 10 bond issues.

Figure 2.5.2

281 issues from 314 government securities issues were issued by the National Bank, the Ministry of Finance, and local executive bodies.

In 2020 total capitalization of the non-government securities market listed in Kazakhstan Stock Exchange JSC increased by 15% and amounted to 33,751 billion Tenge or 49% of GDP. At the same time, the capitalization of the equity market is 19,050 billion Tenge or 28% of GDP, and the volume of corporate debt in circulation is 14,701 billion Tenge or 21% of GDP (Figure 2.5.2).

In 2020 total trading volume on the Kazakhstan Stock Exchange JSC amounted to 117,986 billion Tenge and decreased by 0.1% or 152.1 billion Tenge compared to 2019.

At the year-end of 2020 the volume of trading on the securities market increased by 49.0% and amounted to 7,787 billion Tenge.

The volume of exchange transactions on non-government securities (taking into account the REPO sector) on the regulated market in 2020 amounted to 18,352 billion Tenge, an increase of 178% compared to 2019 due to an increase in the volume of REPO transactions. In 2020, Kazakhstan Stock Exchange JSC provided with an opportunity to carry out REPO transactions with securities denominated in Tenge and listed in Kazakhstan Stock Exchange JSC, the issuer of which is a national company of the Republic of Kazakhstan, or an entity, 75 or more percent of the total number of outstanding shares or of the paid-up authorized capital of which belong to the state, national holding or national management holding.

In 2020 the volume of exchange transactions on government securities (with respect to the REPO sector) on the on-exchange market amounted to 78,093 billion Tenge, having decreased by 9.4% compared to 2019 due to an increase in the volume of placement on the primary market and repo transactions.
In 2020, securities of 14 new issuers were listed: three in the equity sector, nine in the corporate bonds sector (including three microfinance companies), and two in the securities sector of investment funds.

At the year-end of 2020, the value of the KASE index increased by 13.2% to 2,675.58 points. Leaders of the value growth of shares in the basket of the KASE index were common shares of National Atomic Company Kazatomprom JSC that increased in price by 37% in 2020, common shares of KAZ Minerals PLC - 33.2%, and common shares of Kcell JSC - by 18.5%.

**Asset structure of brokers and (or) dealers and investment portfolio managers**

As of 01.01.2021, total assets of brokers and (or) dealers and investment portfolio managers amounted to 410.9 billion Tenge (Figure 2.5.3).

Total volume of liabilities as of 01.01.2021 made up 115.2 billion Tenge, having increased by 57.2% in 2020 mainly due to a raise in the volume of REPO operations of one of the professional participants in the stock market (Figure 2.5.3).

In 2020, the securities portfolio increased by 116.4 billion Tenge, or by 77.9%, mainly as a result of the portfolio ramp-up of one of the professional participants due to previously received dividends.

Figure 2.5.3

**Financial Indicators of Brokers and (or) Dealers and Investment Portfolio Managers**

![Financial Indicators of Brokers and (or) Dealers and Investment Portfolio Managers](image)

*Source: The National Bank*

In 2020, the total assets increased by 43.2%. In the structure of assets of brokers and (or) dealers and investment portfolio managers, the main share is held by securities in the amount of 265.9 billion Tenge or 64.7% of the total assets (Table 2.5.1).

Table 2.5.1

<table>
<thead>
<tr>
<th>Item</th>
<th>01.01.2020</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>bln Tenge</td>
<td>in % to total</td>
</tr>
<tr>
<td>Reverse REPO transaction</td>
<td>17 868,7</td>
<td>6,2</td>
</tr>
<tr>
<td>Cash</td>
<td>7 545,1</td>
<td>2,6</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>13 552,4</td>
<td>4,7</td>
</tr>
<tr>
<td>Other</td>
<td>15 828,4</td>
<td>5,5</td>
</tr>
<tr>
<td>Securities</td>
<td>149 482,3</td>
<td>52,1</td>
</tr>
</tbody>
</table>
The equity of brokers and (or) dealers and investment portfolio managers amounted to 295.7 billion Tenge, having increased in 2020, by 38.5%, mainly due to an increase in the authorized capital of individual professional participants.

The total net profit of professional participants of the securities market for 2020 amounted to 126 billion Tenge. At the same time, the ROA index was 30.7%, ROE - 42.6%.

**Pooled Investment Market**

As of 01.01.2021, the securities market operated 35 mutual investment funds, of which 20 are interval mutual investment funds (IMIF), 14 are closed-end mutual investment funds (CMIF) and 1 is open-end mutual investments fund (OMIF), as well as 20 equity mutual investment funds, 8 of which are venture capital mutual funds.

Compared to 01.01.2020, the number of mutual investment funds decreased by 4 due to the termination of the business of 3 interval mutual investment funds and 1 closed-end mutual investment fund. In addition, during 2020, the number of equity investment funds increased by 1.

The total volume of assets under management in the pooled investment market amounted to 234 billion Tenge, having increased by 106% or 120.6 billion Tenge in 2020. This increase was primarily due to the positive revaluation of securities held as part of the assets of mutual investment funds and the attraction of investors' assets through placing investment fund units (Figure 2.5.4).

At the year-end of 2020, the principal asset of mutual funds is still a securities portfolio (84% of total assets), while 99% of the portfolio consists of securities denominated in foreign currency.
Table 2.5.2

Mutual Investment Fund Asset Structure

<table>
<thead>
<tr>
<th>Item/date</th>
<th>01.01.2020</th>
<th>01.01.2021</th>
<th>Change, in %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>bln Tenge</td>
<td>in % to total</td>
<td>bln Tenge</td>
</tr>
<tr>
<td>1 Assets, including:</td>
<td>113.4</td>
<td>100</td>
<td>234.0</td>
</tr>
<tr>
<td>2 Cash and cash equivalents</td>
<td>3.6</td>
<td>3</td>
<td>27.9</td>
</tr>
<tr>
<td>3 Deposits</td>
<td>2.1</td>
<td>2</td>
<td>1.92</td>
</tr>
<tr>
<td>4 Securities, including</td>
<td>102.3</td>
<td>90</td>
<td>189.3</td>
</tr>
<tr>
<td>- RK government securities</td>
<td>2.4</td>
<td>3.8</td>
<td>2.4</td>
</tr>
<tr>
<td>- securities of international financial institutions</td>
<td>3.0</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>- securities of foreign issuers</td>
<td>79.5</td>
<td>168.7</td>
<td>112</td>
</tr>
<tr>
<td>- securities of foreign states</td>
<td>5.0</td>
<td>2.2</td>
<td>-57</td>
</tr>
<tr>
<td>- non-government securities of RK residents</td>
<td>12.4</td>
<td>12.3</td>
<td>-1</td>
</tr>
<tr>
<td>5 Depository receipts</td>
<td>0.9</td>
<td>1</td>
<td>1.2</td>
</tr>
<tr>
<td>6 Units of mutual investment funds</td>
<td>3.2</td>
<td>3</td>
<td>6.2</td>
</tr>
<tr>
<td>7 Requirements to reverse REPO transactions</td>
<td>1.1</td>
<td>1</td>
<td>1.9</td>
</tr>
<tr>
<td>8 Investments in the capital of legal entities that are not joint-stock companies</td>
<td>0.03</td>
<td>0.03</td>
<td>0.02</td>
</tr>
<tr>
<td>9 Accounts receivable</td>
<td>0.1</td>
<td>0.1</td>
<td>5.6</td>
</tr>
</tbody>
</table>

Source: The National Bank

As of 01.01.2021, non-government securities of non-resident issuers in the portfolio of mutual investment funds equal to 168.7 billion Tenge or 72% of total assets, issuers-residents of the Republic of Kazakhstan - 12.3 billion Tenge or 5% of total assets, represented mainly by Eurobonds of Halyk Savings Bank of Kazakhstan JSC and Bank CenterCredit JSC. The assets also include units of foreign investment funds in the amount of 6.2 billion Tenge or 3% of total assets (Table 2.5.2).

Cash on current accounts as of 01.01.2021 amounted to 27.9 billion Tenge or 12% of total assets. Accounts receivable in the assets of mutual investment funds as of the specified date amounted to 5.6 billion Tenge. These receivables occurred in connection with the partial redemption of the bonds of Halyk Savings Bank of Kazakhstan JSC on December 31, 2020.

Due to the low interest rates on foreign currency deposits, there is still a demand of investors for units of mutual investment funds, the investment strategy of which provides for the acquisition of foreign currency assets.

As of 01.01.2021, the number of unit holders was 1,410 individuals and 47 legal entities, of which 48% are holders of units of foreign mutual investment funds (referring to the Central Securities Depository). Compared to the beginning of 2020, the number of unit holders increased by 360 (351 individuals, 9 legal entities).
3. Ensuring Financial Stability and Expanding the Capacity of the Financial Sector

In 2020, the key activity of the Agency was the implementation of system solutions to strengthen the stability of the banking sector and expand its potential for financing the economy. In particular, the Asset Quality Review (AQR) of banks has been completed, supervisory stress testing, and comprehensive analysis of the financial stability of banks have been conducted, which allowed the regulator to develop preventive measures to minimize potential risks and shocks. Large-scale work has been launched to further reduce the level of "bad" assets in the banking system.

The microfinance sector keeps “cleaning up” the financial market from unfair participants the business of which pose a threat to financial stability and the interests of consumers of financial services.

Conditions have been established to ensure increased competition in the financial market through the expansion of remote channels of customer service and the admission of new players represented by branches of foreign financial institutions.

Additionally, the Agency has implemented a wide range of legislative initiatives to develop alternative lending and business financing instruments, as well as to increase the attractiveness of insurance services, and mainstream the securities market.

3.1 Ensuring financial stability

Monitoring of banking sector risks

The main focus of the regulator is aimed at keeping track of credit exposure, which is at a high level in the banking sector of Kazakhstan. It is associated with the regulation of systemic risks caused by the high concentration of non-performing loans on the balance sheets of single banks. The volume of non-performing assets, in its turn, puts pressure on the rate of return, liquidity and capitalization of the banking sector.

In order to regulate credit risk during the period from 2017 to 2020, the regulator had taken systematic measures to revitalize the banking sector, mainly, by writing off non-performing and doubtful assets from banks' balance sheets. During the above period, the share of NPL problem loans in the banking sector was reduced from 9.3% to 6.9%.

During 2019, the Asset Quality Review (AQR) procedure was accomplished, the main task of which was to conduct the most unbiased appraisal of the asset quality of second-tier banks.

Follow-up AQR results, it was determined that the share of stage 3 loans in accordance with IFRSs, which, in addition to above 90 days past due, takes into account restructured loans with signs of deterioration of the borrower's financial condition, as well as other loans with signs of impairment, amounted to 21.1%. This definition is in line with IFRSs and the recommendations of the Basel Committee on Banking Supervision, which provide for a broader definition of problem assets.
The measures undertaken by banks and their shareholders (improving the quality of the portfolio, writing off problem debts, collecting additional collateral) after AQR allowed reducing this indicator. At the end of 2020, the share of stage 3 loans under IFRSs for AQR participating banks was 16.9%. Reducing stress assets in an expanded sense is recognized as an important driver of the regulator’s performance.

At the beginning of 2021, the NPL level amounted to 1.1 trillion Tenge, having decreased during 2020 from 8.1% to 6.9% of total loan portfolio (Figure 3.1.1). In absolute terms, NPL decreased by 117.9 billion Tenge or 9.8%, mainly due to the clearing of balance sheets from problem loans by large banks.

![Loan Portfolio Quality](source: The National Bank)

Meanwhile, in 2020 the global community faced a new challenge related to the spread of the COVID-19 pandemic. The widespread introduction of quarantine restrictions effected a significant reduction in economic activities, which contributed to an increase in risks of the banking sector.

Against the background of the decline in household revenue and business, as well as economic uncertainty, the banking sector’s credit risks have significantly increased. The expected result could be a decrease in lending to the economy and an even greater contraction in economic activities.

On-the-spot anti-crisis measures by the Government, National Bank, and Agency helped the banking sector to a large extent to mitigate the expected pressure through state subsidies and preferential lending to business entities.

As a result, the loan portfolio quality has not significantly deteriorated. Also, the credit risk is mitigated by a fairly high level of provisions coverage of NPL problem loans by 77.7%. At the same time, if we take into account the total level of provisions formed for all past due debts, including NPL, coverage is about 120% (Figure 3.1.2).
As part of the credit risk monitoring in 2020, special attention was also paid to the accelerated growth of consumer lending, which was observed during previous years. Over 5 years, the volume of consumer loans has been increased almost 2 times in the amount of about 1.9 trillion Tenge.

At the beginning of 2020, the growth rate of consumer loans reached 26.9%, therefore, some systemic measures were taken to restrain the risks of consumer lending (Figure 3.1.3).

Consequently, during 2020 there was a slowdown in the growth rate of consumer lending, which is also due to a reduction in consumer demand and a decrease in business activities against the background of the coronavirus pandemic.

**Completion of AQR and new banking supervision instruments**

In 2020, the Agency introduced new banking supervision instruments: Asset Quality Review of second-tier banks (AQR), supervisory stress testing, and analysis of financial stability of banks.

During the reporting period, the Agency completed AQR, which covered 14 banks providing 87% of the banking sector assets, and 90% of the total loan portfolio.
The results of the AQR proved that, both at the system level and the level of the banks participating in AQR, there is no shortage of capital. The capital stock at the system level amounted to about 800 billion Tenge, and the level of capital adequacy was 12.7%. Based on the results of AQR, the Program for Improving the Financial Stability of the Banking Sector has been improved, and measures have been identified within the framework of the Corrective Action Supervisory Plan.

**As part of the monitoring of Corrective Action Plans based on the AQR results**, the Agency coordinated corrective action supervisory plans for banks with deadline until the end of 2023, which will significantly transform the key business processes of banks in accordance with international best practices to ensure long-term sustainable development of the banking sector. Within the framework of these corrective action plans, on average, 2,500 corrective measures are taken per 1 bank to improve the internal processes of banks.

In 2020, the AQR member banks updated the internal methods of crediting borrowers, assessing collateral, and increased the reliability of borrowers' reporting. In 2020, banks implemented all corrective measures in the amount of 4,592 in full, or 17.2% of the total volume of planned actions within the framework of corrective measures.

**The Program for Improving the Financial Stability of the Banking Sector** has been adjusted taking into account AQR results. The total amount of losses on the loans of banks participating in the Program as of March 1, 2020 amounted to 209 billion Tenge.

The losses identified by AQR results were covered at the expense of the shareholders of the banks and the use of a guarantee instrument to cover the credit risks of banks (BCC, ATFBank, Eurasian Bank and Nurbank).

The program is being implemented ahead of the schedule. As of January 1, 2021, the volume of the remaining loss on loans from participating banks amounted to 45.8 billion Tenge, having decreased by 78%.

In 2020, shareholders additionally capitalized banks by 125.3 billion Tenge and banks formed additional provisions for loans in the amount of 158 billion Tenge.

**Assessment of financial stability of the banking sector amidst a crisis**

In order to assess the depth of the impact of the crisis associated with the spread of the coronavirus pandemic on the stability of the banking sector, the Agency, in collaboration with the National Bank, made supervisory stress testing of 14 banks for the first time in 2020 based on the methodology of the European Central Bank.

The results of stress testing showed that there is a sufficient margin of safety to absorb potential losses associated with external shocks.

In addition, to assess the ability of banks' business models to withstand the crisis in the medium term, the Agency conducted a comprehensive analysis of the financial stability of banks, supplementing AQR and stress testing.

Hence, the banks were divided into the following three groups: banks with low, moderate and high risks in terms of their financial stability in a crisis. Banks with high and moderate risks have developed Strategies to ensure financial stability.
Banks with high and moderate risks have approved action plans in case of a stressful situation and identified measures for the medium-term period to qualitatively restructure the business model and eliminate the risks identified by the results of the Financial Stability Analysis.

The Agency continuously monitors the implementation of measures in accordance with the developed strategies by providing banks with information on the measures taken and the trend of key indicators of financial stability on a regular basis.

**Reducing the volume of distressed assets in the banking sector**

Over the last years, the regulator has been systematically “cleaning up” banks' balance sheets from non-performing loans. Since 2016, licenses have been revoked from 6 insolvent banks, a full write-off of shareholders' capital has been made for 3 banks, the Program for Improving the Financial Stability is being implemented by shareholders participating in the process of the bank rehabilitation.

In accordance with the instruction of the President of the Republic of Kazakhstan, as part of the development of risk-based supervision and strengthening control over the work of banks with distressed assets in 2020, the Agency agreed on 17 individual action plans to reduce the level of non-performing assets over a five-year period. Individual plans have been developed by banks holding a significant concentration of distressed assets on their balance sheet. According to the action plans, it is planned to reduce stress assets by 64.1% or 1,782 billion Tenge during the five-year period.

The set of measures included in these plans provides for the use within 5 years of such instruments as the sale of collateral, debt write-off, debt collection of the debtor, assignment of the right of claim to third parties, refinancing of loans.

To stimulate transactions with problem assets, Law No. 382-VI dated December 10, 2020\(^1\) introduced measures to exempt legal entities from paying taxes when the bank writes off its debts, as well as reduced tax expenses for investors buying distressed assets from the Fund of Problem Loans.

The following regulatory measures have been taken to involve into economic turnover the assets “frozen” on banks' balance sheets: 1) the duration of the presence of distressed assets in the subsidiaries of banks and Organizations for the Management of Distressed Assets (OMDA) is limited to no more than five years; 2) the powers of OMDA in terms of providing the option of writing off bad loans from the balance sheet, asset management together with investors through the establishment of joint ventures, participation in their authorized capital have been expanded; 3) requirements to bank CEOs for non-fulfillment of individual action plans have been stiffened.

The strategic objective is to create a liquid market for distressed assets. For this purpose, a draft law aimed at creating favorable conditions for the development of the distressed assets market will be developed.

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Moreover, measures will be taken to eliminate systemic barriers in the field of taxation, strengthen regulatory conditions for the management of problem assets and ensure the transparency, reliability and consistency of information on transactions with problem assets, as well as with collateral.

**Systemic measures to limit risks in the segment of consumer lending and settlement of problem debts**

In 2020, as part of the execution of the Head of the State’s order, systemic risks associated with the growth of consumer lending remained to be restrained.

Due to the downturn in business activities and increased risks of business lending in 2019, banks significantly increased their portfolios of consumer loans including due to the high marginality of these operations. The active growth of consumer lending could have negative consequences for the stability of banks and create conditions for the emergence of risks of social tension among borrowers. Therefore, the regulatory measures taken were aimed at preventing the excessive growth of consumer loans, limiting the growth of the debt burden of citizens, preventing the issuance of unsecured loans to obviously insolvent borrowers.

In this regard, a ban on the accrual of penalties and fees on all above 90 calendar days past due unsecured consumer loans and microcredits of individuals has been imposed at the legislative level. The Agency prohibited banks from issuing loans to citizens with incomes below the minimum cost of living, as well as in case of exceeding the amount of the debtor's monthly liabilities for all loans received by 50% of his/her income.

Additionally, the Agency tightened prudential requirements to consumer loans; therefore, banks were required to increase more than double the capital reserves for portfolios of unsecured consumer loans to cover potential risks.

Hence, since 2020, there has been a consistent decline in the growth rate of consumer lending and a shift in focus to less risky mortgage lending. Thus, loans to individuals amounted to 7,526.1 billion Tenge as of 01.01.2021, having increased by 13.0% in 2020 (25.6% in 2019), which, in many respects, was secured due to an increase in mortgage lending by 34.3% to 2,372.2 billion Tenge. In 2020 consumer loans increased by 4.3% (26.9% in 2019) to 4,390.9 billion Tenge.

In the conditions of the pandemic and quarantine restrictions, the activities of many business entities were banned, which affected in incomes decline of the population involved in the affected sectors of the economy. As a result, borrowers experienced difficulties in repaying the loans and obtained microcredits, which led to past due loans and negative credit history.

To resolve these issues, the Agency has developed a mechanism for the rehabilitation of borrowers-individuals with problem loans providing for the introduction of a rehabilitation treatment, at the end of which the borrower is assigned with a “rehabilitated” status reflected in the borrower's credit report at the credit bureau. In order to create conditions for the repayment of problem debts for the entire period of rehabilitation, it is prohibited to carry out claim administration,
impose arrests or other restrictions on the borrower's accounts, foreclosure on the mortgaged property, assign or transfer of debt to a collection agency.

Currently, this status has already been assigned to 1.6 million loans of 1.4 million citizens with a negative credit history who have previously repaid problem loans.

3.2 Introduction of regulation and ensuring transparency of microfinance market entities

In order to mitigate risks in the non-banking sector, increase its transparency and protect the rights of consumers of financial services, in accordance with the instruction of the Head of the State, all microcredit entities, including online lending companies, credit partnerships and pawnshops, were entered into the Agency's regulatory perimeter in 2020. As a result, microfinance entities were subject to mandatory registration with the Agency.

To pass the registration, microcredit entities were required to form authorized and equity capital at a level not lower than the minimum values, as well as to ensure the availability of technical means and personnel that meet all qualification requirements.

In 2020, the Agency completed the process of registration of microfinance institutions. As a result, as of January 1, 2021, 1.1 thousand companies, including 230 MFOs, 664 pawnshops, 216 credit partnerships out of about 5.5 thousand microfinance market entities, were registered with the Agency. In respect to other companies, their compulsory winding-up is exercised in court.

In order to perfect the regulation of the activities of microfinance market entities, strengthen supervision over their activities and protect the rights of consumers of financial services, licensing of microfinance activities has been introduced on behalf of the Head of the State since January 1, 2021. For this purpose, the Agency has developed a block of legislative amendments, including providing for:

- recognition of microfinance entities as financial institutions rendering financial services;
- application of strict regulatory, qualification and technical requirements to microfinance organizations;
- strengthening the requirement to the business reputation of founders (participants, shareholders) and executive officers of microfinance entities.

3.3 Raising competition in the financial market

In order to maintain a favorable competitive environment in the financial market, the Agency has taken measures to increase the availability of financial services for consumers, and expand the conditions for new participants to enter the market.

In particular, the Agency has taken measures to transition the financial market participants to a remote format of public and business services. For this purpose, the
range of financial services and products offered in digital format through mobile services and remote identification has been expanded.

Thus, in the conditions of a pandemic and quarantine restrictions, the Agency developed an algorithm for remotely opening accounts and receiving payment cards without visiting bank divisions and branches. As a result of the execution of the algorithm of online remote servicing by banks, about 2.6 million bank accounts were opened; 840 thousand payment cards were issued. This measure helped to improve the financial situation of citizens and allowed them to receive social benefits from the state in connection with the loss of income.

In order to transform the services of insurance companies into a digital format, the Agency continued its work to ensure the entering into online insurance contracts for mandatory types of insurance. To improve the process of concluding online contracts, additional requirements have been established to verify information on the policyholder, and secure the protection and safety of personal data. Also, measures have been taken to transfer the process of checking by the internal affairs bodies of the existence of an insurance contract in real-time mode (through the integration of state databases with a Unified Insurance Database).

In 2020, 2.6 million compulsory car insurance contracts were online concluded. The option of concluding insurance contracts through special post terminals has been implemented at customs posts and in public service centers.

The Agency has also adopted measures to ensure the digitalization of procedures to carry out activities in the securities market, including the conclusion of brokerage contracts by investors remotely through biometric and dynamic identification tools. As a result, brokers concluded about 6.5 thousand contracts remotely in 2020.

In order to maintain and develop competitiveness within the framework of the implementation of the obligations assumed upon joining the World Trade Organization, the Agency has created the necessary legal conditions for the activities of branches of foreign institutions in the financial market.

Since December 16, 2020, it is permitted to open branches of foreign banks, insurance (reinsurance) companies and insurance brokers in the territory of the Republic of Kazakhstan.

Before launching its activities within the territory of the Republic of Kazakhstan, a foreign financial institution shall obtain a Permit to Open the Branch from the Agency. Afterwards, the foreign branch shall have the right to obtain the appropriate license of the Agency to start operating in the financial market of Kazakhstan.

Appropriate prudential standards and requirements to financial solvency and stability have been introduced to the branches of foreign financial institutions. Moreover, the parent company shall provide the branch with a sufficient amount of assets accepted as a reserve placed on the terms of an irrevocable deposit with the National Bank (for branches of foreign banks - 10 billion Tenge, for branches of insurance companies - from 1.5 million Tenge MCI up to 10.5 million MCI).
To open a foreign branch, a foreign bank shall have a minimum amount of assets at the level of 20 billion US Dollars. A branch of the foreign bank shall have the right to accept deposits from individuals in the amount of 120 thousand US Dollars in equivalent and deposits from legal entities - without restrictions.

To open a branch in the territory of the Republic of Kazakhstan, the foreign insurance (reinsurance) company shall have a minimum amount of total assets at the level of 5 billion US Dollars, as well as have at least 10 years of working experience.

The Agency applies the entire set of regulatory requirements and standards that apply to the activities of existing financial institutions to branches of foreign banks, insurance (reinsurance) companies and insurance brokers.

The Agency has additionally introduced a perimeter of consolidated supervision of foreign branches and their affiliates within financial groups. Therefore, the Agency and the financial regulator of the state the resident of which is the parent company of the foreign financial institution in relation to the branch shall enter into the Supervisory Agreement on Cooperation and Information Exchange.

In order to ensure the protection of the rights and interests of consumers of financial services for branches of foreign banks and insurance (reinsurance) companies, the Agency has established the responsibility, along with banks and insurance (reinsurance) companies, to participate in the systems of mandatory deposit and insurance payment guarantee.

3.4 Expanding the financial sector’s capacity

Development of alternative forms of business financing and lending

In 2020, the Agency's activities were also aimed at improving new forms of financing and lending to businesses, legal regulation of new forms of lending, and the development of alternative instruments for financing the economy.

Financing of large investment projects of national importance, raising of long-term funding will contribute to the recovery of investment activities and economic growth. To finance large investment projects of the real sector of the economy associated with increased risks and to attract capital, the establishment of a banking syndicate is required. Syndicated lending makes it possible to finance capital-intensive industrial projects at the expense of private creditors without attracting state funds, and disturbing risks between them.

In order to develop syndicated financing mechanisms for large investment projects, the Agency has developed relevant amendments adopted by Law No. 399-VI dated January 2, 2021.

In particular, the law defines the procedure for the distribution and management of collateral between co-holders, additional measures to protect the borrower when making decisions on key issues affecting the rights of the borrower.

At the legislative level, banks are provided with the opportunity to deduct contributions for provisions generated by factoring operations from the total annual income of banks. This measure will ensure the alignment of the tax treatment on loans and factoring, raise the interest of banks to factoring and the availability of factoring instruments for a larger number of small and medium enterprises.
Alternative forms of lending to the economy, such as factoring and leasing, allow an entrepreneur to obtain financing for current activities without diverting his own funds and encumbrance of the property.

For the development of factoring and leasing financing, the Agency with the participation of the Ministry of National Economy, Ministry of Finance, National Bank, Association of Financiers of Kazakhstan, “Atameken” National Chamber of Entrepreneurs of the Republic of Kazakhstan, banking community, Industrial Development Fund JSC, Development Bank of Kazakhstan JSC, worked out initiatives to develop alternative forms of lending to enterprises that were submitted to the Government.

Namely, for the further development of factoring and leasing, it is proposed to extend subsidies to private leasing companies, expand the sources of preferential funding for private leasing and factoring companies. In order to develop competition in the market of factoring services and increase the availability of services of private factoring companies, a greater number of business entities are proposed to include factoring in the sphere of public procurement by fixing the mechanism of assignment of government accounts payable under the factoring agreement. As a tax incentive measure, it is proposed to exempt factoring operations from VAT and factoring income from corporate income tax.

Expanding the capacity of the insurance market and improving its regulation

In 2020, the Agency took systematic measures to develop the insurance market to secure the availability of insurance services for households, implemented reforms aimed at the development of socially-oriented insurance products:

- the cost of the pension annuity has been reduced by 40% and the deferred pension annuity has been introduced with the option of concluding a contract at 45 years old age (the cost of an annuity for men has been reduced from 11 to 7 million Tenge, for women from 16 to 9 million Tenge) within the framework of Law No. 399-VI\(^2\) dated January 2, 2021. The deferred pension annuity will enable future pensioners to participate in long-term pension planning, increase their financial literacy and interest in the final result of pension savings;

- tax privileges for personal income tax on endowment life insurance contracts have been introduced to stimulate endowment insurance by Law No. 382-VI\(^3\) dated December 10, 2020;

- conditions for the implementation of individual investment strategies for the Unit-linked life insurance investment product have been established by Resolution of the Agency's Board No. 59 dated May 25, 2020. This made it possible to create a new product for citizens, which is an alternative to a bank deposit. In the future, it is expected that the development of products such as Unit-linked will enhance the role

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of life insurance companies as institutional investors in the capital market of Kazakhstan;

- the process of remote conclusion of insurance contracts has been streamlined, and measures have been taken to improve the protection of the population’s personal data during the online conclusion of insurance contracts by Board Resolution No. 50 dated April 27, 2020. During the state of emergency and quarantine restrictions, online insurance has evidenced its relevance and timeliness. For this purpose, the integration of the Unified Insurance Database with state databases has been completed, which made it possible to simplify the process of concluding insurance contracts and transferring them into a remote format. At the moment, 90% of car insurance contracts are made online without visiting the insurers' office.

With the beginning of the coronavirus pandemic and the quarantine period, in order to maintain the stability of the insurance sector, the Agency took temporary measures to support insurance market participants. In particular, the requirements to ratings of financial instruments included in the calculation of capital adequacy and liquidity ratios have been relaxed.

The Agency has extended the inclusion of insurance premiums to be received from the National Management Holdings Group, system-forming companies that meet certain reliability criteria, as well as retained earnings of the current year in the calculation of the actual solvency margin in the calculation of assets by quality and liquidity prior to July 1, 2021. This allowed insurance companies to continue forming the necessary provisions to cover risks without fear to violate prudential standards.

In order to sustain and further develop the direction of medical insurance, the Agency has reduced the minimum margin of solvency by 30% for insurance (reinsurance) companies with the main type of activity under the classes “insurance in case of illness” and “compulsory tourist insurance”.

Additionally, within the framework of improving prudential regulation and increasing solvency, a deferred rate was adopted for calculating the standards of asset diversification by the insurance company from the amount of total insurance reserves since 2022, the standard of diversification for Reverse REPO transactions was deleted, and shares of Insurance Payment Guarantee Fund JSC were excluded from the calculation of assets by quality and liquidity.

In 2020, the Agency continued improving the legislative framework focused on expanding coverage of insurance needs of the households and businesses, as well as forming additional mechanisms to protect the rights of consumers of insurance services.

The Agency has developed a supplemental package of legislative initiatives to improve regulation and development of the insurance market. Key innovations include the following:

- the introduction of joint (marital) pension annuities will expand the options for pension plans by combining the pension savings of spouses (close relatives) when concluding a pension annuity agreement. This social instrument will improve the well-being of elderly people;
- involvement of a life insurance company in the state educational accumulative system, which allows subsidizing endowment insurance products intended for the education of children in higher educational institutions;
- arrangement of conditions for the development of imputed insurance of professional liability of business entities to third parties in order to protect citizens and businesses from professional mistakes and low-quality services;
- expansion of the list of insurance classes to be guaranteed by the Insurance Payment Guarantee Fund, as well as the introduction of mandatory pre-trial settlement by the Insurance Ombudsman of customer disagreements with the insurance company to protect the rights and interests of policyholders; and
- expansion of the range of services within the framework of further digitalization of insurance services through remote access of the population to insurance using the function of the Unified Insurance Database. In particular, the introduction of the online settlement of insurance claims and the implementation of a flexible tariff classification mechanism to increase the availability of insurance services for the population.

**Enhancing the role of the stock exchange market**

In order to provide additional options for managing pension savings and obtaining additional income thereof, Law No. 399-VI dated January 2, 2021 implemented the option of transferring a part of citizens' pension savings under the management of private management companies.

To invest financial resources in various sectors of the economy, the Agency granted the right to investment funds to form a flexible investment strategy. To ensure access to investment funds by retail investors, shares of risk investment funds, both open-end and interval, are adopted to be placed in the Stock Exchange Trading System.

Measures have been taken to increase the availability of brokerage services in a remote format. The Agency has introduced new process requirements to biometric and dynamic identification, remote service information systems. As a result, 50% of brokers hold electronic trading platforms; they have realized the option of concluding contracts for brokerage services in a remotely.

In 2020, the Agency has implemented a number of measures to increase competition in the brokerage services market, through legislative expansion of the capabilities of banks with a brokerage license to provide a full range of brokerage services to their client, and purchase any types of financial instruments for their clients.

Conditions for the diversification of sources of financing for non-financial sector entities have been created; for this purpose, the procedures for issuers entering the stock market have been significantly simplified, and the option of issuing new types of financial instruments, including investment bonds, bonds intended for private placement, and clearing participation certificates is provided.
Together with international institutions, Kazakhstan's positions in the MSCI and FTSE indices to the category of “Emerging Markets” have been promoted. Now the stock market of Kazakhstan is classified in the “Frontier Markets” category.

In 2020, the Agency held two meetings of the Managing Committee, approved the Work Plan of the Managing Committee and the Working Group to upgrade Kazakhstan's positions from “Frontier Markets” to “Emerging Markets” and “Secondary Emerging Markets” in the international indices MSCI and FTSE, respectively.

According to the updated estimates of the MSCI index services (MSCI Global Market Accessibility Review, June 2020) and FTSE (FTSE Quality of Markets Assessment Matrix, September 2020), the stock market of Kazakhstan meets the main qualitative criteria in terms of legislation, regulation and infrastructure sufficient for Kazakhstan to enter the “Emerging” category.

In order to reduce the pressure on the capital and liquidity of professional participants in the securities market during the pandemic, the requirements to financial instruments included in the calculation of liquid assets were eased, and the increase in the regulatory value of the liquidity ratio from 1.4 to 1.5 was canceled. As a result, the volume of investments at the expense of the equity of professional participants for 2020 amounted to 280.6 billion Tenge, has been increased by 65.7% over the year. Additionally, in order to reduce the operational burden, the deadlines for the submission of periodic regulatory and financial statements to be submitted by professional participants of the securities market were extended.

In 2020, the Agency implemented a set of measures aimed at developing the stock market infrastructure. In particular, in 2020 the introduction of a central counterparty in the stock, currency, monetary and futures markets was completed. This will minimize the risk of default for all traders and guarantee the completion of settlements on transactions with financial instruments. Exchange trading on the KASE stock market has been transferred to the new ASTS+ trading and clearing system, which provides a full cycle of trading and post-trading services.

The Agency's attention was also focused on creating conditions for the gradual transformation of Central Securities Depository JSC into a regional recording and settlement hub. For this purpose, the functional of the Central Securities Depository has been significantly expanded at the legislative level by providing the option to carry out conversion operations with foreign currency, storage of documentary financial instruments, cross-identification of clients, the establishment of an over-the-counter platform for securities transactions and other services.

In 2020, the current international line between Clearstream and Central Securities Depository JSC was also improved to the Delivery versus Payment type (DvP - delivery versus payment), which reduced the risks of global investors when investing in GS. As a result, the investment conditions for foreign participants in the government securities market have been significantly improved. At the beginning of 2021 investments of foreign investors in government securities reached 430 billion Tenge.

Supplementary, a number of legislative initiatives have been prepared aimed at
modernization of the regulation and development of the securities market, which is provided for by the draft Law of the Republic of Kazakhstan “On amendments and additions to certain legislative acts of the Republic of Kazakhstan on the regulation and development of the insurance market and the securities market”. Within the framework of the draft law, the Agency proposed strengthening consumer protection in the market of pooled and retail forms of investments, introducing intermediaries and investment consultants into the FOREX regulation perimeter, creating a legal environment for hedging risks of Kazakhstan’s companies and activating the derivatives market, forming an effective corporate governance system, and ensuring further digitalization of the securities market.
4. Supervisory activities

In 2020, the Agency continued to improve the supervisory tools based on the risk-based approach. Supervisory activities were aimed at identifying risks and shortcomings in the activities of supervised entities for the purpose of early intervention, taking preventive supervisory actions, and preventing an increase in risks in their activities. The work on "cleansing" the financial market from unscrupulous participants whose activities posed a threat to financial stability and the interests of consumers of financial services continued.

4.1 Improving risk-based supervisory instruments

Banking sector

Since 2019, the Agency towards developing risk-based supervision in accordance with best European practice, a supervisory process using the SREP (Supervisory Review and Evaluation Process) methodology has been implemented, which allows identifying negative changes in the financial condition of banks at the early stages of their occurrence and timely and adequately applying the necessary supervisory and corrective measures.

SREP is an annual supervisory process of the bank's financial risk review and assessment by the regulator based on the analysis of quantitative (33) and qualitative (122) indicators in the following four main areas: 1) assessment of business model; 2) capital risks; 3) liquidity risk; 4) corporate governance system.

In 2020, a risk assessment of 27 banks was made using the SREP system, following-up the results of which, in addition to the risks based on the results of the AQR at the system level, the following main drivers were identified in banks that influenced the final ratings of banks:

1) insufficient depth of analysis of competitors' indicators in the market when elaborating development strategies, lack of confirmation of an adequate SWOT analysis procedure, dependence on state support;

2) lack of updated plans to ensure capital adequacy in case of unforeseen circumstances, lack of grading of risk appetite levels of banks (Risk Assessment Framework (RAF)), maintaining a high proportion of non-performing loans taking into account restructured loans (Non-Performing Assets (NPA));

3) credit risk management issues related to the assessment of the level of provisions, analysis of the financial condition of borrowers and taking into account signs of restructuring and qualitative assessment of collateral;

4) low level of automation of business processes, the presence of outdated and non-functional automated systems;

5) high level of loans in relation to deposits, dependence on unstable sources of financing;

6) improving the quality of capital planning procedures, assessment of necessary investments, liquidity adequacy (Internal Capital Adequacy Assessment Process (ICAAP)/Internal Liquidity Adequacy Assessment Process (ILAAP), as well as the lack of a methodology for determining the acceptable level of risks (RAF) and (or) relevant indicators that determine the risk appetite of banks.
According to the results of the assessment of the banking sector by the SREP system, banks were ranked according to the degree of risk and, depending on the level of risks; supervisory measures were applied to banks.

**Mechanisms of settlement of problem banks.** The settlement mode for problem banks, which came into force in 2019, provides for the classification of problem banks depending on their financial condition.

Within the framework of the supervisory process, problem banks depending on the severity of their financial situation are classified into 2 categories: 1) banks with unstable financial situation; 2) insolvent banks.

Triggers for early detection and mandatory recognition of problem banks are defined at the legislative level, as well as a deadline for raising the capital of such banks.

The Agency's Bank Settlement Committee has been established, the competence of which includes consideration of issues related to the settlement of banks, including in terms of classifying a bank as “with an unstable financial position”, as an “insolvent bank” before submitting these issues for the review of Agency's Board.

**Insurance sector**

In 2020, based on the international regulatory system Insurance Regulatory Information System (IRIS), a system of independent risk assessment for insurance companies was developed, which was adopted by the Agency's Board Resolution No. 126 dated December 22, 2020.

This risk assessment system has been adapted to the domestic insurance market, and will be conducted by insurance companies on a periodic basis.

In 2021, insurance companies will conduct a risk assessment using this instrument for the first time. As a result, insurance companies will be able to independently identify risks in their activities, take timely measures to improve their financial condition, and increase the level of awareness and responsibility of both management and owners for the results of their activities. This risk assessment system together with the regulator’s risk-based supervision instruments will contribute to obtaining a comprehensive picture of the insurance company activities.

Also, measures have been taken to conduct a comprehensive assessment of the adequacy of insurance reserves for each insurance company, taking into account new approaches developed in 2020. The adequacy of insurance reserves will be assessed based on their coverage by highly liquid assets, and will include both qualitative and quantitative assessment indicators.

As part of the operational supervisory response, the main focus was on further automation of supervisory components that made it possible to automate the output forms on the financial position of insurance companies, and therefore, more effectively use the human, financial and timing resources of the regulator.
Securities market

In 2020, the Agency developed and implemented a new risk-based methodology for assessing the risks of professional — Risk Assessment and Supervision System (RASS). The methodology provides for the Agency’s periodic assessment of professional securities market participants’ risks based on an analysis of 11 qualitative and 21 quantitative indicators.

As part of the implementation of the new risk assessment system for professional securities market participants in accordance with the new Methodology, a large-scale survey of professional securities market participants was conducted to assess key issues related to the organization of the risk management and internal control system and behavioral indicators of professional securities market participants in the provision of intermediary services.

This methodology allows, depending on the results of the assessment, to rank professional participants by the degree of risk, to differentiate the supervision treatment according to the degree of its intensity (frequency, volume and depth of supervisory actions) and to identify the areas of professional securities market participants’ activities that are most exposed to risks and require more intensive supervisory attention on the regulator’s part.

4.2 Supervisory response

Banking sector

Within the framework of supervisory activities, the most important task was to monitor the financial condition and financial stability of second-tier banks under risk-based approach.

On a weekly basis, monitoring of changes in the main financial indicators of the supervised entities was carried out, analysis of significant changes in individual balance sheet items, allowing to identify the sources of borrowed funds, the structure of their placement, as well as the overall state of liquidity and profitability. For banks in an increased risk zone, daily monitoring of changes in key financial indicators and the current situation was conducted.

Special attention in the sphere of supervision was paid to banks those experience problems with financial stability. On a daily basis, individual banks were monitored for the current liquidity situation, the size of available liquid funds, outflows and inflows from customer accounts and the rate of new loans being issued.

Within the scope of the existing powers, the representatives of the Agency on a daily basis monitored information on the balances of deposits and current accounts of individuals and legal entities in the amount of over 100 million Tenge.

Within the framework of the institution of representation in banks, the Agency’s employees participated in meetings of collegial bodies of supervised banks (General Meeting of Shareholders, Board of Directors, Board, committees under the Board of Directors and Board).

Control was carried out (in terms of timeliness of relevant information submitted to the Agency, implementation completeness of measures) and analysis of the Action Plans implementation by the supervised entities aimed at eliminating
violations and shortcomings identified as a result of inspections, including the AQR findings.

Action Plans of the Organizations for Management of Doubtful and Bad Assets (OMDBA) were considered, the OMDBA statements were analyzed with regard to implementation of Action Plans for the management of doubtful and bad assets in accordance with the requirements.

During the reporting period, within the scope of supervisory activities, 8 second-tier banks were inspected:

1) 1 inspection based on risk assessment (scheduled inspection);
2) 7 unscheduled inspections, including: 3 inspections of three banks on the issue of compliance with the requirements of banking legislation, including those related to risk management and internal control systems, 3 inspections together with employees of the National Bank on the issue of quality and timely implementation of the Action Plan based on the results of AQR and compliance with the requirements of foreign exchange legislation Republic of Kazakhstan; 1 audit on the issue of assessing the quality of assets.

17 desk audits were conducted in connection with complaints received from bank customers and requests from government agencies.

Based on the results of off-site supervision and inspections, the following measures were applied to second-tier banks:

- 25 supervisory recommendations;
- 46 measures to improve the financial condition and (or) minimize risks in terms of a written notice;
- 10 measures to improve the financial condition and (or) minimize risks in terms of a written notice;
- 2 compulsory supervisory response measures in terms of the requirement for additional capitalization of banks in relation to 2 bank holding companies;
- 280 administrative fine enforcements in the amount of 95.8 million Tenge for late submission of annual reports, violation of prudential standards, failure by the bank to fulfill the obligations taken by it through the application of supervisory response measures, violation of the requirements of the legislation on credit bureaus and the formation of credit histories;
- 1 sanction in terms of the license revocation from Tengri Bank JSC.

Supervisory response measures were applied on the following issues: violation of the requirements of banking legislation, accounting legislation, that on credit bureaus and the formation of credit histories, payments and payment systems, as well as international financial reporting standards, violation of prudential standards and other norms and limits, the deadline for the provision of annual financial reporting, incorrect calculation of regulatory equity, submission of inaccurate information; failure to ensure the required level of additional provisions (reserves) for assets and contingent liabilities in accordance with IFRSs; insufficient organization and assessment of the credit risk management and internal control system; the presence of deficiencies associated with a high level of non-performing assets, non-fulfillment of the Plan to reduce the share of non-performing loans; non-fulfillment in time of the
measure stipulated by the Plan based on the audit findings, the obligations assumed by the bank through the application of supervisory response measures.

Within the frame of licensing and permitting activities, 7 recommendatory supervisory responses were applied to the supervised entities.

**Non-bank institutions**

In 2020, the Agency together with the General Prosecutor’s Office, the Ministry of Finance and Internal Affairs from March to September 2020 conducted inspections of the activities of credit bureaus in order to identify signs of pyramid scheme and illegal banking operations in the activities of microfinance organizations.

To inspect pawnshops, 39 inspection groups were formed with the participation of employees of the territorial bodies of the General Prosecutor’s Office, the Agency, the Ministry of Internal Affairs (taking into account the distraction of strengthening law enforcement during the quarantine period), local offices of the State Revenue Committee of the Ministry of Finance, local offices of the Economic Investigation Service of the Ministry of Finance.

597 microfinance organizations were inspected; inspections in 751 organizations were terminated due to the absence of an entity at the place of registration, non-functioning, termination of activities or liquidation.

As part of the inspections, the following violations were revealed:
- failure to indicate or indicate the incorrect size of the maximum annual effective interest rate, excess of the penalty amount for violation of the liability to return the loan amount and (or) payment of interest under the loan agreement;
- lack of internal control rules within the scope of compliance with the requirements of AML/CFT legislation, failure to notify the authorized body for financial monitoring of the start of its activities, violation of the deadlines for sending information to the financial monitoring body on the threshold and suspicious transactions;
- lack of accounting policies, transactions without proper reflection of their results in accounting, lack of financial reporting;
- establishing facts of non-compliance with the requirements for ensuring the safety and technical strength of the premises of pawnshops.

The Agency applied 133 limited enforcement measures in the form of written instructions, following the results of inspections, 952 cases of administrative violations were initiated, implying administrative fine enforcements.

In 2020, following the results of supervision over the activities of organizations engaged in certain types of banking operations, the following supervisory response measures were applied and administrative enforcements were imposed for administrative offenses: 9 supervisory recommendations; 1 measure in terms of a written notice to improve the financial condition and (or) minimize risks; 1 administrative infraction fine.

The Agency filed lawsuits for the compulsory liquidation of legal entities against 3,544 organizations involved in the illegal provision of loans, including 1,682
pawnshops, 1,217 credit partnerships, 62 microfinance organizations, 321 microcredit agencies, 27 online lenders, 235 other organizations.

**Insurance sector**

As part of the remote supervision of insurance market participants, the Agency studied the financial condition of insurance companies, insurance brokers and the Insurance Payment Guarantee Fund, analyzed actuarial opinions and the adequacy of the formed insurance reserves, as well as evaluated the exposure to investment and operational risks of the Insurance Payment Guarantee Fund.

Also, a qualitative and quantitative assessment of the risks of insurance companies was carried out to establish the level of risk-based supervisory attention, verify the correctness of calculations of prudential standards, inspect the Internet resources of insurance market participants with regard to the fulfillment of the requirements for posting information on the Internet resource, including identifying signs of fraudulent and other illegal actions by means of monitoring advertising activities, etc.

Representatives of the Agency were appointed in 11 insurance companies operating in the “general insurance” industry, and 9 in the “life insurance” industry that carried out an inspection on the formation of insurance reserves, transfer of risks to reinsurance, insurance contracts, reinsurance and other issues affecting the solvency indicators.

In 2020, within the framework of off-site supervision, the following activities were carried out: cross-checking data on financial assets of insurance companies in second-tier banks and Central Securities Depository JSC, checking the timeliness and reliability of entering data on insurance contracts into a unified insurance database, checking investment activities of insurance companies, etc.

Based on the results of the control and supervisory functions in relation to the insurance market entities, the following measures were taken:

1) sanctions in terms of suspension of the license for violation of solvency and financial stability standards in relation to one company (Grain Insurance Company JSC);

2) 41 administrative fine enforcements, totaling 24.4 million Tenge;

3) 15 written notices to eliminate violations of the Republic of Kazakhstan legislation requirements, of which 2 are measures to eliminate violations identified during inspections;

4) 29 supervisory recommendations (of which 7 — in relation to the life insurance company and 6 — to actuaries).

As part of early response measures, 6 insurance companies have requested action plans to improve the financial stability of an insurance company, to prevent the deterioration of its financial position and increase the risks associated with insurance activities.
Securities market

As part of the remote supervision of the professional securities market participants, the Agency monitored risks using the RASS method, monitored financial stability, monitored the results of professional activities, monitored transactions on the securities market, monitored mass media to identify false advertisements, disclosure of mandatory information about professional activities in the securities market.

The Agency also checked the compliance of the professional securities market participants with prudential standards, other indicators and criteria (standards) of financial stability.

Within the framework of remote supervision and monitoring of the activities of the professional securities market participants, 14 reports on administrative violations were drawn up and fines were imposed for a total of 4.0 million Tenge.

The main violations that entailed the application of administrative enforcements were:

1) closing of transactions for the purpose of manipulation in the securities market;
2) dissemination of false, incomplete or misleading information;
3) submission to the authorized body of incomplete and inaccurate statements;
4) violation of coordinating terms of executives.

2 written orders were issued for violations revealed by the results of inspections conducted at the end of 2019. No inspections were conducted in 2020.

Based on the results of off-site supervision, 22 supervisory responses were applied to professional participants (with the exception of Central Securities Depository JSC), 17 of which were applied for violation of the deadlines for submitting reports, information and other data, or provision of incorrect information, 5 measures were applied for other types of violations.

In 2020, the Expert Committee for Consideration of the issues for recognizing transactions in securities and other financial instruments as executed for the purpose of manipulation, considered 11 issues on suspicious transactions made at Kazakhstan Stock Exchange JSC with signs of manipulation. As a result, the Expert Committee on one issue recognized the existence of grounds for recognizing the transaction as executed for the purpose of manipulation, on seven issues, there was the absence of grounds for recognizing the transaction as executed for the purpose of manipulation, three issues were postponed for more detailed study.

In 2020, the Agency carried out an audit for compliance of Central Securities Depository JSC to legal requirements, compliance of internal documents of Central Securities Depository JSC with legal requirements, and assessment of the effectiveness of the risk management system and internal control system of Central Securities Depository JSC.

Based on the results, the Agency applied 2 supervisory recommendations for the late report submission on the assessment of the risk management and internal control system, as well as improper implementation of the Action Plan to eliminate
violations and (or) deficiencies identified as a result of the audit of the activities in Central Securities Depository JSC in 2019 year.

As part of the monitoring of the activities of Kazakhstan Stock Exchange JSC, a supervisory response was applied for an insufficient level of internal control over the provision of information to the authorized body.

As part of the remote supervision of the activities of the Unified Accumulative Pension Fund JSC, in 2020, an audit was carried out for compliance with the requirements of the legislation of the Republic of Kazakhstan, as well as control over the completeness and timeliness of information provision, control over the compliance of internal documents with the requirements of legislation on pension provision, monitoring the composition of the executive body, the management body and executives for their compliance with the legislation of the Republic of Kazakhstan.

2 orders on the imposition of administrative fine enforcements were made in 2020, based on the results of off-site supervision of the Unified Accumulative Pension Fund JSC, Kazakhstan Stock Exchange JSC, Central Securities Depository JSC activities.

As a result of the monitoring of securities issuers, 43 administrative protocols were drawn up, the total amount of administrative enforcements imposed on the companies amounted to 5.5 million Tenge. Violations are associated with non-compliance to disclosure terms, disclosure by issuers of incomplete and (or) inaccurate information about their activities, failure to comply with limited measures of influence, non-compliance with the procedure and (or) conditions established by the Law of the Republic of Kazakhstan “On Joint Stock Companies”, when making a major transaction and (or) an interested party transaction.

In relation to issuers, 177 limited measures were applied, mainly for infringement of information disclosure terms regarding their activities.

Following the results of consideration of investors' complaints on the actions of issuers in connection with the violation of the legislation requirements of the Republic of Kazakhstan on the disclosure of information about their activities, 3 issuers were brought to administrative responsibility.

### 4.3 Termination of financial institutions activities

**Banking sector**

As of January 01, 2021, 6 second-tier banks are in the process of compulsory liquidation (Valut-Tranzit Bank JSC, Kazinvestbank JSC, Delta Bank JSC, Qazaq Banki JSC, Bank Astana JSC, Eximbank Kazakhstan JSC) (Table 4.3.1).
Table 4.3.1

Key indicators in banks under forced winding-up as of January 01, 2021

<table>
<thead>
<tr>
<th>Facilities under winding-up</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Priority for satisfying creditors' claims</th>
<th>% of satisfaction of creditors' claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valut-Tranzit Bank JSC</td>
<td>13,174.5</td>
<td>49,326.2</td>
<td>third priority</td>
<td>56.9%</td>
</tr>
<tr>
<td>Kazinvestbank JSC</td>
<td>8,538.4</td>
<td>126,945.2</td>
<td>eighth priority</td>
<td>4.8%</td>
</tr>
<tr>
<td>Delta Bank JSC</td>
<td>285,345.3</td>
<td>215,446.5</td>
<td>sixth priority</td>
<td>14.9%</td>
</tr>
<tr>
<td>Qazaq Banki JSC</td>
<td>201,612.1</td>
<td>81,389.9</td>
<td>second priority</td>
<td>11.4%</td>
</tr>
<tr>
<td>Bank Astana JSC</td>
<td>72,565.3</td>
<td>79,765.9</td>
<td>second priority</td>
<td>30.8%</td>
</tr>
<tr>
<td>Eximbank Kazakhstan JSC</td>
<td>17,284.4</td>
<td>46,446.4</td>
<td>sixth priority</td>
<td>12.8%</td>
</tr>
</tbody>
</table>

Source: liquidation commissions of banks under liquidation

In September 2020, a decision was made to revoke Tengri Bank JSC’ license to carry out banking and activities in the securities market, and operational measures were taken to form a temporary administration of Tengri Bank JSC, headed by employees of the Agency.

**Insurance sector**

In 2020, 3 insurance companies were in the process of liquidation (IC Kompetenz JSC, IC Salem JSC, IC Alliance Policy JSC).

On January 15, 2020, the court decision on the compulsory termination (liquidation) of the activities of IC Kompetenz JSC came into legal force.

On April 27, 2020, by the Board resolution of the Agency No. 52 dated April 27, 2020, a permit was issued for the voluntary liquidation of IC Alliance Policy JSC.

In relation to these insurance companies, liquidation commissions were appointed in order to take measures to complete the affairs of insurance companies, including ensuring settlements with their creditors and shareholders.

During 2020, activities were carried out to transfer the insurance portfolio of IC Kompetenz JSC to IC Nomad Life JSC, the interim balance sheet and the register of creditors' claims were approved, branches were closed, settlements were made with the sole shareholder, liabilities on accounts payable were fully paid.

In 2020, due to non-compliance with the requirements of prudential standards, decisions were made twice to suspend the license of the Grain Insurance Company JSC for the right to carry out insurance activities. In July 2020, in order to fulfill the requirements of Resolution of the Agency’s Board No. 16 dated March 13, 2020, Grain Insurance Company JSC transferred the insurance portfolio for compulsory and voluntary insurance classes (except for loan insurance) to IC Jusan Garant JSC and LIC State Annuity Company JSC.
5. Anti-Money Laundering/Combating the Financing of Terrorism and Unfair Practices

In 2020, the Agency, together with the Ministry of Finance and the National Bank, took measures to improve the efficiency of the national system for countering illegal financial flows as part of strengthening the stability of the financial system and its confidence. The activities of the financial regulator in the framework of anti-money laundering/combating of the financing of terrorism were focused on further improving the legal basis and methodological framework in accordance with international standards, as well as implementing a mechanism for effective interdepartmental interaction of interested governmental bodies.

Joint comprehensive measures were implemented to counter illegal activities in the financial market in order to ensure the protection of the rights of consumers of financial services and strengthen the trusting environment in the financial market.

Preparations continued for the 2-nd round of the Mutual Evaluation of the Eurasian Group on Anti-Money Laundering/Combating the Financing of Terrorism.

5.1 Improving regulation and introducing risk-based supervision

In 2020, in order to improve the Law on Anti-Money Laundering/Combating the Financing of Terrorism, the Agency adopted 6 regulatory legal acts providing for strengthening requirements for the systems of internal control and risk management of financial monitoring entities, including:

- only the operations of the client of financial monitoring entity are included in the number of transactions subject to financial monitoring;
- a requirement was introduced to counter the financing of the proliferation of mass destruction weapons;
- additional elements were established for transactions with money and (or) other property subject to financial monitoring (threshold transactions);
- exemptions for non-application of due diligence measures for retail purchases of jewelry made of precious metals and precious stones (up to 500 thousand Tenge), as well as for payment of insurance premiums under an insurance contract (up to 100 thousand Tenge);
- criteria were established for the inclusion of an organization or an individual in the list of organizations and persons associated with the financing of the proliferation of mass destruction weapons.

In 2020, the Agency developed and adopted the Methodology for assessing the degree of banks' exposure to money laundering and the financing of terrorism risks, which provides for a continuous process of review and assessment of both quantitative and qualitative indicators of threats and vulnerabilities for the presence of bank risks associated with money laundering and the financing of terrorism.

Based on the results of the risk analysis in 2020, 10 banks were identified with increased risks associated with money laundering and the financing of terrorism. These banks are included in the Agency’s audit plan for 2021.
5.2 Interdepartmental interaction and coordination for purposes of anti-money laundering/combating of the financing of terrorism

In 2020, the Agency signed the Agreement on Cooperation and Interaction in the field of Anti-Money Laundering/Combating the Financing of Terrorism, Counterfeiting and Foreign Exchange Control with the Ministry of Finance and the National Bank. This allowed the Agency to exchange information with government agencies on the results of inspections of financial monitoring entities, data on suspicious and threshold transactions sent by financial monitoring entities, as well as identified suspicious transactions and schemes.

During the Agreement implementation in 2020, the Agency conducted 17 inspections of supervised entities, the results of which were submitted to the Financial Monitoring Committee under the Ministry of Finance.

While making arrangements for the 2nd round of the Mutual Evaluation of the Eurasian Group on Anti-Money Laundering/Combating the Financing of Terrorism, a sectoral assessment of the risks of money laundering and the financing of terrorism in the insurance sector and the securities market was carried out in accordance with the FATF methodology, 2 training seminars were held for the employees of the Agency and financial monitoring entities, participated by international experts; responses to questionnaires on technical compliance with FATF Recommendations and performance assessment were prepared.

5.3 Measures for anti-money laundering/combating the financing of terrorism and unfair practices

In 2020, following the results of supervision over the activities of banks in terms of anti-money laundering/combating the financing of terrorism, the Agency applied the following supervisory response measures and imposed administrative enforcements: 10 advisory supervisory responses; 5 supervisory responses in terms of written notice; 739 administrative enforcement in the form of imposition of administrative fines in the amount of 126.6 million Tenge.

As part of identifying suspicious transactions in relation to insurance companies, a selective remote inspection of the submitted regulatory statements and analysis of information and data received from insurance (reinsurance) companies and insurance brokers was executed.

Based on the results of the work done, 37 reports on administrative offenses were drawn up. The amount of the recovery made up 21.9 million Tenge.

Based on the results of the audit of the internal control rules for AML/CFT purposes, the requirements of the relevant legislation were adopted 2 measures to improve the financial condition and minimize risks (written order) in relation to 2 insurance companies.

In order to identify suspicious transactions, the internal procedures of professional securities market participants and infrastructure organizations were inspected at a remote level in the framework of anti-money laundering/combating the financing of terrorism.
As a result of the audit, 4 professional securities market participants were brought to administrative responsibility in terms of fines in the total amount of 2.0 million Tenge, in respect of 6 organizations, supervisory response measures were applied for non-compliance with the requirements of the Law on Anti-Money Laundering/Combating the Financing of Terrorism.

In order to counteract illegal operations in the financial market and prevent the activities of financial pyramids, the Agency carried out constant monitoring of the information field, as well as took measures to raise public financial awareness.

In 2020, the Agency’s internal orders adopted Action Plans for systematic monitoring of advertising procedures of financial institutions for fraudulent activities, as well as illegal movements in the financial market.

Within the framework of the Action Plans, 88 companies were identified as having signs of financial pyramids, according to which:

- information on 28 companies was sent to the Ministry of Internal Affairs, on 60 - to the General Prosecutor’s Office and the Department of Economic Investigations of the Financial Monitoring Committee;
- measures were taken to block the Internet resources of 18 entities through the resources of the Ministry of Information and Social Development.

In 2020, an Interdepartmental Working Group (IWG) was set up, which included representatives of the Agency, the National Bank, the General Prosecutor’s Office, the Ministry of Internal Affairs, the Financial Monitoring Agency, and the Ministry of Information and Social Development.

IWG has developed over 800 key financial pyramid advertising phrases and word combinations (links, material content, etc.) for monitoring mass media, social networks and instant messengers, television, newspapers and radio in order to identify and record materials containing signs of illegal activity. The findings were sent to the Ministry of Information and Social Development for subsequent implementation of artificial intelligence algorithms to identify financial pyramids.

If signs of financial pyramids are identified in the information space, measures are taken to block the Internet resources of such organizations.

The Action Plan for the interaction of government agencies to counter financial pyramids was approved.

The Action Plan will allow you to quickly identify signs of financial pyramids and send information to law enforcement agencies to suspend access to Internet resources of financial pyramids, establish schemes, methods and mechanisms used by financial pyramids, involve government agencies to publish information, including through local executive bodies, on the revealed signs of illegal activity in order to inform people and inspect the activities of such suspicious organizations.

The Agency, together with interested government agencies, adopted a Media Plan in order to carry out large-scale educational and preventive measures to raise public financial awareness on countering financial pyramids.

The Media Plan provides for the following activities on a regular basis during 2020-2021:
1) publication by the members of the IWG of materials on the work performed in Kazakhstan to identify and counter financial pyramids;

2) popularization by the Agency, the Ministry of Internal Affairs, and the Financial Monitoring Agency, of measures to investigate financial pyramids in Kazakhstan and in the world (successful cases);

3) involvement by the Agency and the Ministry of Information and Social Development of the public (bloggers, associations, NGOs) to popularize the topic of combating financial pyramids and financial fraud;

4) publications by the Agency and the Ministry of Information and Social Development in mass media (on topics related to financial pyramids);

5) creation of video clips by members of the IWG and local executive bodies (social advertising);

6) creation and placement of banners by members of the IWG;

7) conducting online briefings by members of the IWG on the subject of raising public financial and legal awareness;

8) SMS notification of the population by the Ministry of Information and Social Development, the Ministry of Internal Affairs, the Agency, about the illegal activities of financial pyramids and possible financial losses when investing in them;

9) creation of a call center or chat in one of the messengers by the Ministry of Information and Social Development and the Ministry of Internal Affairs.

The development of financial technologies and innovations in the financial market is one of the key areas of the financial market development. In 2020, together with the National Bank, a Concept for the Development of Financial Technologies and Innovations for 2020-2025 was developed, and a set of measures was implemented to strengthen the cyber resilience of the financial market.

6.1 Development of financial technologies and innovations in the financial market

In 2020, the National Bank, together with the Agency, developed a Concept for the Development of Financial Technologies and Innovations for 2020-2025, providing for the creation of necessary conditions and the introduction of new digital technologies in the financial market.

The Concept defines the tasks for the implementation of the following strategic initiatives:

1) establishment of a digital regulator and building effective interaction with financial market participants based on data-centered supervision (SupTech), multichannel interaction with consumers of financial services, and the use of innovative technologies by market participants to comply with regulatory requirements (RegTech).

2) establishment of a digital infrastructure for interaction between financial market participants through the use of payment infrastructure, the introduction of open platform technologies (Open API and Open Banking) and financial marketplaces. Initiatives under this key priority are aimed at creating digital infrastructure components, some of which already exist in the Republic of Kazakhstan or are partially implemented. These include, for example, remote identification (Digital ID), cloud EDS, an electronic signature (eSign), basic payment infrastructure, instant payment infrastructure. These elements are the foundation for building a modern and efficient digital infrastructure.

3) creation of a favorable regulatory environment for the development of innovations, stimulation of collaboration between financial market participants, which will allow revising the regulatory legal framework to create flexible and adaptive conditions for the use of new financial technologies.

To implement the strategic initiatives and activities provided for by the Concept for the Development of Financial Technologies and Innovations for 2020-2025, the Agency started in 2020 the development of data-centric supervision and regulation, the development of a centralized database of insurance contracts (CDBIC), the implementation of mechanisms for processing applications from consumers of financial services, the formation of a unified approach to ensuring cybersecurity in the financial sector.

The Agency’s Digitalization Office was created to make consolidated decisions on the implementation of strategic initiatives in the field of financial technologies and innovations.
6.2 Ensuring information security and increasing cyber resilience

In order to improve the information security management system of the Agency and the financial market entities, the Agency in 2020 carried out a number of organizational and technical measures aimed at improving information security. Monitoring of information security incidents, scanning of IT infrastructure and protection of the Agency’s network was provided, including utilization of such instruments as CISCO ESA, MaxPatrol, Palo Alto. Security control of e-mail traffic to the Internet was organized using the hardware and software complex CISCO ESA. At the same time, the possibility was arranged for remote execution of the duties of employees that do remote operating in place, taking into account information security requirements.

An audit of a number of configurations of elements of the IT infrastructure and secure means of the Agency was carried out, recommendations for minimizing information security risks were developed and implemented.

15 internal non-regulatory legal acts, 6 legal acts and 2 internal regulations were developed and approved, on the basis of which the Agency’s information security processes are currently being implemented.

In order to improve the regulation of information security, a joint resolution of the Agency and the National Bank in July 2020 approved the Cybersecurity Strategy of the Financial Sector of the Republic of Kazakhstan for 2020-2022.

In order to improve the efficiency of interaction in responding to information security incidents in the financial market, the Industry Information Security Center was established in the financial market.

Within the framework of arranging international cooperation in the field of information security, agreements on cooperation were signed with the Central Bank of Armenia and the National Bank of Kyrgyzstan.

The Agency has registered as a full member of the Forum of Incident Response and Security Teams (FIRST).

In 2020, the Agency defined the enhanced requirements for ensuring information security in the financial market, developed a Methodology for assessing information security risks, including the procedure for ranking financial institutions according to their exposure to information security risks and the Rules for assessing the level of protection against information security threats. Recommendations for the financial market entities were developed and sent to ensure information security when using remote operating in place.

During 2020, as part of the formation of a centralized information interaction system to protect information systems, as well as information and communication infrastructure of the financial sector in order to prevent cyber-attacks:

- 6 messages were prepared and sent to second-tier banks;
- information on 18 fraudulent Internet resources was transmitted to the relevant authorized body in order to restrict access, including 13 Internet resources with signs of a financial pyramid (13 in 2019);
- 348 warnings were sent to second-tier banks about information security threats (117 in 2019);
- 251 cards of information incidents from second-tier banks were processed (47 in 2019);
- 57 annual reports of banks on the state of information security management systems, 82 quarterly reports on information security incidents were processed.
7. Protecting the Rights of Financial Consumers and Increasing Financial Inclusion

In 2020, the Agency continued its activities in the main areas of protecting the rights of consumers of financial services. Further implementation of the Housing Mortgage Loan Refinancing Program, settlement of problem loans provided by financial institutions, countering illegal activities in the financial market, as well as increasing public financial inclusion and raising financial awareness of the population remained the priority tasks. In 2020, the main emphasis was on supporting vulnerable groups of the population affected by the introduction of quarantine measures, as well as the development of inclusion in the regions. To provide high-quality information to consumers of financial services, the Agency uses all available communication channels.

7.1 Implementation of the Housing Mortgage Loans Refinancing Program

The Housing Mortgage Loans Refinancing Program was developed in accordance with the instructions of the First President of the Republic of Kazakhstan – Elbasy N. Nazarbayev. The Program has been implemented since 2015 and is aimed at assisting in retaining the only dwelling that borrowers bought after they had received mortgage loans from banks and mortgage companies during the period from 2004 to 2009, as well as loans in the foreign currency provided before January 1, 2016.

In 2020, the Agency continued to implement the Housing Mortgage Loans Refinancing Program. In order to reduce the borrowers’ debt burden, the Housing Mortgage Loans Refinancing Program provides for the refinancing of the principal amount of loan deducting the capitalized amounts at an interest rate of no more than 3% per annum, conversion of foreign currency mortgage loans into Tenge at the National Bank’s exchange rate as of August 18, 2015.

The National Bank provided 286 billion Tenge for the implementation of the Housing Mortgage Loans Refinancing Program.

According to Law No. 359-VI dated July 3, 2020, banks are granted the right to independently apply improving conditions for mortgage borrowers and unilaterally convert foreign currency mortgage loans under the terms of the Refinancing Program.

In connection with these changes, in 2020, the conversion of 27.2 thousand foreign currency mortgage loans in the amount of 222.6 billion Tenge was completed, including 13.4 thousand loans issued from 2004 to 2009, in the amount of 90.5 billion Tenge. As a result, 100% of foreign currency mortgage loans of the population that meet the conditions of the Housing Mortgage Loans Refinancing Program were converted into Tenge at the exchange rate of the National Bank as of August 18, 2015 (188.35 Tenge per US dollar), and future foreign exchange risk was excluded for borrowers.

In September 2020, the National Bank and the Agency approved amendments to additionally cover about 5 thousand borrowers with the Housing Mortgage Loans Refinancing Program. In particular, the amendments provide for the possibility of refinancing on concessional terms loans of citizens with certain severe forms of
socially significant diseases, redemption to citizens of dwellings that had been transferred to the balance of Astana Bank JSC and BTA Bank JSC due to the fulfillment of liabilities on mortgage loans.

As of January 1, 2021, banks refinanced 27.7 thousand loans issued during the period from 2004 to 2009, in the amount of 168.2 billion Tenge.

Banks have forgiven the debts of borrowers for interest, enforcements (forfeits, fines) and fees in the amount of 262 billion Tenge.

Since December 2019, banks, within the framework of the Housing Mortgage Loans Refinancing Program, have been performing activities to provide mortgage borrowers from the category of socially vulnerable groups of population with additional assistance in the form of reducing loan arrears. During the reporting period, additional assistance was provided to 1.1 thousand borrowers in the amount of 9.8 billion Tenge. It is envisaged to support 8 thousand borrowers in this way.

For ensuring transparency during the implementation of the Housing Mortgage Loans Refinancing Program, for establishing feedback with borrowers, each regional center has a Commission for the consideration of borrowers’ complaints about refusals to refinance a mortgage loan. Those Commissions consider borrowers’ complaints about banks’ refusals to refinance loans under the Housing Mortgage Loans Refinancing Program. There are 17 Commissions in total. The Commissions include representatives from the Agency, other government bodies, as well as representatives of public associations representing the interests of mortgage borrowers.

The Commissions considered 5,238 borrowers’ complaints, of which 2,684 (51%) refusals to complaints to refinance a loan/debt was deemed legitimate, and for 2,554 (49%) complaints made decisions/recommendations on refinancing loans/reducing the borrower’s debt burden.

**7.2 Financial services consumer protection**

In 2020, in order to protect the rights of consumers of financial services, the regulator’s efforts were focused on providing support to citizens and business entities affected by the spread of coronavirus infection and experiencing difficulties in repaying their loans. The Agency responsively implemented measures to support and protect households and businesses, especially in terms of loan servicing and preventing an increase in debt burden, promptly considered all consumer appeals and took the necessary supervisory measures, which made it possible to minimize negative consequences for consumers, to ensure the availability of financial services in a difficult period.

In 2020, the Agency reviewed 14,896 applications on the protection of consumers of financial services and services of microfinance organizations, as well as debtors of collection agencies.

During this period, there was an increase in the number of incoming applications from households and business entities associated with the deterioration of their financial position due to the imposition of the state of emergency and strict restrictive quarantine measures. The analysis of the applications showed that the
majority of borrowers suffered decreased income and financial difficulties in terms of fulfilling their liabilities on loans and microcredits.

In 2020, the largest part of requests from consumers of financial services fell on the banking sector (69% of the total number of requests), on issues of organizations engaged in microfinance activities — 7%, insurance market entities — 2%, other entities — 22%.

Most of the applications in the banking sector were related to the following issues: restructuring, refinancing loans, including those under the terms of the state Housing Mortgage Loans (Mortgage Loans) Refinancing Program and debt forgiveness; checking the terms of the bank loan agreement for compliance with the requirements of the legislation of the Republic of Kazakhstan; second-tier banks' recovery on non-acceptance basis of money held in other banks’ accounts; violation of the procedure for concluding, executing and terminating a bank loan agreement; receiving a loan deferral provided during the pandemic and removing arrests from accounts that received social payments aimed at supporting citizens in connection with quarantine restrictions.

The main issues in the insurance sector revealed the failure to make insurance payments and verify the terms of insurance contracts for compliance with the requirements of the legislation of the Republic of Kazakhstan.

In the sector of microfinance organizations, the subjects of appeals included the issues of inspecting the activities of a microfinance organization, reducing the interest rate for microcredits, clarifying the regulatory legal acts governing the activities of organizations carrying out microfinance activities, and granting deferrals for loans.

With regard to the activities of collection agencies, illegal actions of collection agencies’ employees were considered.

During the period of restrictive measures related to the coronavirus pandemic, the Agency took measures to expand communication channels with the financial services consumers. In order to carry out consumer education on the provision of deferred payments during the state of emergency and the provision of prompt advice to citizens, a hotline was launched in March 2020, through which problematic issues of the population were resolved, including those on the temporary removal of blockages from accounts that received social payments. Since the launch of the hotline, the Agency’s employees have provided consultations to more than 23 thousand people.

In 2020, based on citizens’ appeals, more than 14 thousand desk audits of financial institutions were carried out. As a result of confirmed violations, 632 various supervisory measures in the form of recommendations and instructions were applied to financial institutions, including the imposition of administrative fines in the total amount of 127.3 million Tenge. Recommendations were sent to banks to take corrective measures aimed at eliminating the causes and conditions that contributed to the violations, namely:

1) conducting measures for employees’ capacity building in the Head Office, branches and departments of banks by studying the statutory provisions of the legislation of the Republic of Kazakhstan, including internal regulatory documents;
2) considering the issue of cancellation of the bank’s claim against the applicant, in terms of repayment of the resulting amount on overdraft facility;

3) taking measures to mitigate the risks of similar technical failures in the process of fulfilling payment requests on the bank’s side, and others.

As a result of the measures taken by financial institutions, the identified violations were eliminated by means of appropriate measures against violators, such as monitoring of contracts, upgrading the software, and employees’ capacity building.

In the reporting period, the Agency assisted in restructuring about 6 thousand loans that had been issued by banks to individuals. The measures taken have allowed people to service loans in accordance with the current solvency and retain the mortgagers’ dwellings.

In order to build effective communication with people, more than 200 meetings were arranged, at which 2,469 citizens were provided with consultations and legal assistance on the provision of financial services, as well as proposals for problem loans of mortgage borrowers were developed. In addition, the Agency’s employees took part in more than 200 court sessions as specialists to provide clarifications on issues of consumers of financial services.

The Agency systematically monitored financial products in order to:

- raise awareness of financial services consumers about the products, fees, and tariffs offered by financial institutions, for certain services in order to exercise the right of consumers to have access to information on the cost of services and the right to choose a financial institution that provides financial services;
- control over the financial services provided on the market;
- prevent the appearance on the market of unauthorized financial products and organizations;
- increase the transparency of the financial services market.

During 2020, financial institutions submitted 298 notifications of approval of financial products, including: 224 notifications from second-tier banks, 74 notifications from insurance companies (reinsurance companies). During the same period, 2,125 product approvals were received from microfinance organizations.

In 2020, the Agency tightened procedural requirements for financial institutions to disclose information on the cost of a service before it is provided to a client and to increase the overall transparency of the conditions and process for the provision of financial services.

In order to optimize the Agency’s internal business processes in 2020, the business process was automated for maintaining a single register of notifications on the approval of financial products of the AIS “Register of Financial Institutions”. The implementation of this functionality allows for centralized control over the financial services provided on the market.

In 2020, the Agency proceeded to realize activities within the framework of managing a potential conflict of interest between the functions of the regulator to exercise supervision and protect the rights of consumers of financial services in the following areas:

1. Implementation of behavioral supervision, which involves the
implementation of preventive measures aimed at a point-based analysis of products and services, the conditions for their provision and identification of potential risks in relation to the interests of consumers of financial services.

Identification and prevention of systemic violations by financial institutions at the stage of concluding an agreement with a consumer will become the basis for improving the legislation.

The next direction in this activity is the use of the practice for providing complete and correct information to the consumer about the essence and characteristics of the products offered by financial institutions, which will allow at an early stage to minimize the risks of misperception by the consumer of the conditions for the provision of financial products. As a result, this will reduce the number of problem situations and calls to the address of the financial regulator.

The introduction of preventive behavioral supervision will allow for parity between the functions of protection and supervision.

2. Priority development of mechanisms for market settlement of disputes between the consumer and the financial institution.

It is planned to introduce a uniform procedure for all the financial market entities and a mechanism for resolving problem debts, which implies the establishment of clear terms for consideration and rules for analyzing the financial position of the borrower. In particular, during the restructuring, creditors will be obliged to offer conditions in terms of the reducing interest rate, payment deferral, change in its priority, increasing loan term, reducing the debt burden (principal amount of debt, interest and forfeit) or independent sale of real estate that is the subject of mortgage, as well as taking into account such factors as the borrower’s social status, decreased income, the ownership of only one mortgaged dwelling, and the conscientious fulfillment of loan liabilities.

As a result, it is planned to reduce the terms of consideration of borrowers' applications to banks and MFOs and settlement of problem debts by a factor of two — from 180 to 90 days.

3. The structure of the Agency provides for the separation of functions of consumer protection and supervision of financial institutions in the activities of the Agency.

This balance between the two directions is ensured by dividing the management of protection and supervision by different Deputy Chairperson of the Agency.

The divisions maintain the clearest possible separation of functions and independence, while ensuring the necessary coordination of decisions regarding financial institutions that may affect their financial stability and prudential regulations.

The implementation of these initiatives helps to ensure a balance between financial stability and consumer rights protection.

An important area of the Agency’s activities is monthly monitoring of the advertising activities of financial and other institutions interacting with the public. Particular attention is paid to such aspects as identifying fraudulent and other illegal
actions committed by financial institutions in the implementation of advertising activities, preventing the dissemination of information that misleads consumers of financial services, and fraudulent actions of financial and other organizations in the framework of advertising activities.

Based on the findings of the monitoring carried out in 2020, violations were identified and the following measures were taken:

- in relation to second-tier banks, 6 advisory supervisory responses were taken and 5 administrative fine enforcements were imposed;

- 150 sanctions in the form of written instructions and 76 administrative fine enforcements were applied to organizations engaged in microfinance activities;

- 2 administrative fine enforcements were imposed in relation to organizations engaged in brokerage and (or) dealer activities in the securities market and / or investment portfolio management activities.

The main types of violations identified during the reporting period were as follows:

- in the banking sector: lack of information on interest rates and the size of interest rate in reliable, annual, effective, comparable terms in advertising publications of financial products; failure to indicate by second-tier banks the bank’s license number and the name of the authority that issued the license in advertisements of banking services;

- in the microfinance sector: exceeding the maximum size of the annual effective interest rate and exceeding the established maximum value of interest under a microcredit agreement, as well as the inconsistency of standard microcredit agreements with the requirements of the legislation of the Republic of Kazakhstan;

- on the securities market: advertising of activities that do not correspond to reality on the day of its publication.

Based on the results of this work, the Agency implemented a detailed analysis of the revealed violations and developed a number of amendments, including the obligation of a microfinance organization to indicate the annual effective rate of interest when distributing and (or) placing advertisements containing information on the amount of interest for microcredit, as well as when distributing and (or) the placement of advertising about microcredits indicate the license number of the microfinance organization and the name of the authority that issued the license, with the exception of radio advertising. These amendments are included in the draft Law of the Republic of Kazakhstan “On Amendments and Additions to some Legislative Acts of the Republic of Kazakhstan on the Regulation of Banking, Microfinance and Collection Activities in the Republic of Kazakhstan.”

The Agency also, within the scope of preventive behavioral supervision activities, sent explanatory letters to second-tier banks and the Association of Financiers of Kazakhstan about:

- the need for banks to comply with the norms of legislation when disseminating information on the amount of interest for loans and deposits provided for by the above legislative acts;

- preventing banks from placing advertisements for the sale of pledged
property belonging to the borrower on the basis of the right of private property, as advertisements that do not correspond to reality on the day of its publication.

### 7.3 Raising financial awareness and financial inclusion

In 2020, the Agency carried out systematic activities aimed at improving the skills of using financial products and services, raising awareness about the risks associated with their use, as well as developing budgeting and personal finance management skills.

To raise the level of financial literacy, the Agency developed a Concept for improving financial literacy in 2020-2024 and adopted it by Resolution of the Government of the Republic of Kazakhstan 2020 No. 338, dated May 30.

The purpose of the Concept is to form rational financial behavior among citizens when making decisions with regard to personal finances, to increase the efficiency of protecting their rights, as well as interests of investors and consumers of financial services, to improve the level and quality of life of citizens using high-quality financial products and services.

The activities of the Concept are aimed at solving the following tasks: increasing coverage and raising awareness of consumers about financial products and services, as well as their own rights when using them; improving financial education of various target groups of the population at all levels of the educational system; prevention of unfair practices in relation to consumers of financial products and services; development of mechanisms for interaction between consumers and financial institutions and the Agency; ensuring effective and equal access to financial services for all segments of the population and increasing financial inclusion; constant monitoring of people’s needs and assessment of financial awareness level.

As part of financial literacy monitoring in 2020, a sociological study of financial literacy level was conducted. The research was carried out according to the OECD methodology using a three-factor model: the ability to use financial services and instruments, the ability to manage their own funds, the level of awareness. The study covered more than 10,000 respondents in all regions of Kazakhstan from all target groups: youth (over 15 years old), economically active population, respondents of middle and pre-retirement age, pensioners.

According to the results of the study, the financial awareness level of the population of Kazakhstan in 2020 was 39.07% (the indicator in 2018 was 36.3%).

As part of increasing financial accessibility and financial inclusion, a working group was established together with the Association of Financiers of Kazakhstan and financial institutions and an Action Plan was developed to improve financial accessibility and quality of financial services for disabled persons. Within the framework of this Plan, a questionnaire survey of disabled persons and identification of the most demanded financial products by them, as well as obstacles to their use, are provided. For this, together with public associations, a corresponding questionnaire has been developed.

In addition, Methodological Recommendations have been developed to ensure the conditions for the availability of financial services for financial institutions, on the
basis of which Financial Inclusion Standards will be developed. The plan also provides for the adaptation of advocacy materials and the priority development of remote mechanisms for the provision of financial services using biometric and remote identification and authentication methods. In order to improve the skills and qualifications of employees of financial organizations, especially front offices, system training tasks have been identified.

Legislation is being analyzed for changes in order to eliminate legal barriers and increase financial accessibility for disabled persons.

Inspections of financial institutions are carried out jointly with public associations for the purpose of organizing services for disabled persons. The analysis of 7 branches of financial institutions was realized, the main inconsistencies were revealed. Based on the analysis findings, financial institutions received recommendations on how to eliminate restrictive factors and increase accessibility to their branches.

A “Financial Inclusion Map” was developed, containing information on more than 200 branches of second-tier banks that meet the requirements of physical accessibility and qualifications of personnel when working with disabled persons. The responsibility of training front office personnel for proper interaction with disabled persons was introduced into the competence of financial institutions with the involvement of representatives of public associations representing the interests of disabled persons. Rules for accessibility of information resources, websites, mobile applications of financial institutions have been developed.

Successful financial literacy practices highlight the importance of a high-quality consumer information system about financial products, feedback and advice on related risks. As part of the implementation of one of the key areas of the Concept “Increasing Coverage and Raising Awareness of Consumers about Financial Products and Services, as well as their own Rights when using them”, the Agency carries out comprehensive information and educational activities for various target groups.

To increase coverage and involvement of consumers from various target audiences in the process of increasing their own financial literacy, within the framework of the youth project Enactus Kazakhstan, 2 lectures were held for students from 20 higher educational institutions of Kazakhstan on the topics “Financial Hygiene and Financial Planning”, as well as “Financial Inclusion as a Driver of Economic Growth”, with total coverage of at least 1000 people.

The course “Family Finance” was held, in which over 100 Kazakhstan’s families took part. Specialized lectures-trainings on financial literacy were held for employees of the Ministry of Internal Affairs of the Republic of Kazakhstan in the cities of Uralsk and Karaganda, as well as specialized training for media representatives in the format of a webinar on financial literacy “Briefly about Finance: Increasing our Financial Literacy Together”, participated by experts from the National Bank, KASE, Kazakhstan Deposit Insurance Fund (KDIF), Unified Accumulative Pension Fund (UAPF), and attended by representatives of 25 republican and regional media, in the amount of 150 people.

For middle-aged and older children, the Kazakhstan’s popular science
magazine “OYLA” organized the publication of a cycle (30 pages) of explanatory articles on the basics of financial literacy.

In 2020, the Agency held 15 training events with total coverage of more than 8000 people.

Within the scope of raising public awareness efforts and consumer education about the activities of the Agency, 461 materials in the state and Russian languages were published on the official website of the Agency www.finreg.kz, on the Internet portal www.fingramota.kz. As of January 1, 2021, the number of views of the finreg.kz website amounted to over 1.27 million views, fingramota.kz — over 36.4 million views.

Based on the materials of the Agency, as well as comments provided by the management and specialists, 644 materials were published in the republican mass media in various newspaper publications and 75 videos in a number of TV channels, in regional mass media — 251 items, 39 videos.

Special projects are being implemented with the leading Kazakhstan’s mass media. The portal InBusiness.kz has prepared and posted 54 publications on financial services consumers’ rights protection and financial awareness. In the column of the business edition of the newspaper “Capital” (the information is duplicated on the website of the edition), 56 materials on financial literacy were published. 10 materials were published on the nur.kz portal.

Taking into account the maximum use and development of digital communication channels, explanatory and preventive measures were carried out in social networks (Facebook, Instagram, Telegram, Twitter, VKontakte, Odnoklassniki, YouTube), amongst which 592 posts/videos were posted in the state and Russian languages with total coverage of over 2.5 million views.

To provide operational clarifications on financial products and services in a remote format, the Fingramota Online mobile application was launched, within the framework of which operational consultations were provided to more than 1,600 users.

The Telegram channel https://t.me/finprava has been launched together with the Prosecutor General’s Office, on which more than 150 materials were published.

The Agency’s specialists organized regular live broadcasts on social networks as an effective instrument for delivering information and receiving feedback from people. During 2020, 9 live broadcasts were held on the topics: financial fraud (3 broadcasts), financial security, the securities market, guaranteeing deposits, the pension system and the financial services consumers’ rights protection system, including the involvement of financial market experts.

Together with the Ministry of Information and Public Development, materials prepared by the Agency are being posted in the republican and regional mass media on financial awareness and, first of all, on countering financial pyramids and financial fraud. In 2020, within the framework of this cooperation, more than 55 materials were published. Also, 4 educational short videos were posted in public places in the regions of the country.
8. International Interaction and Cooperation

One of the priorities of the Agency is establishing and expanding cooperation with international organizations and foreign regulators of financial markets in order to improve the efficiency of regulation and supervision, as well as to ensure the competitiveness of the financial sector. During 2020, the Agency carried out activities on joining the international associations of financial market regulators that set global standards in the financial sector.

Within the framework of integration-based cooperation, a key area of activity is the implementation of agreements on the formation of a common financial market within the EAEU in accordance with the Treaty on the Eurasian Economic Union, dated May 29, 2014. The formation of a common financial market in the EAEU will create conditions for the free movement of services and capital within the EAEU, ensure the growth and efficiency of financial markets, effective protection of investors and consumers of financial services, and expand the range and availability of financial services. In 2020, the Agency continued to implement the provisions of the Concept for the Formation of the EAEU Common Financial Market and the Agreement on the Harmonization of the EAEU Member States Legislation.

8.1 Interaction with international associations of financial market regulators

In 2020, the Agency continued establishing and expanding cooperation with international financial institutions.

The Agency, being the legal successor of the National Bank within the framework of the delegated powers to regulate and develop the financial market, has become a full member of the following international associations that set global standards for the regulation and development of the financial market:

- The Basel Advisory Group of the Basel Committee on Banking Supervision;
- International Organization of Securities Commissions;
- International Association of Insurance Supervisors;
- Islamic Financial Services Board;
- International Organization of Pension Supervisors;
- Alliance for Financial Inclusion;
- International Network on Financial Education.

The Agency took an active part in events within the framework of the Annual Meetings of the Board of Governors of the International Monetary Fund (IMF) and the World Bank Group (WBG) October 8 to 21, 2020, as well as within the scope of the IMF virtual Mission to Kazakhstan November 2 to 13, 2020 in accordance with Article IV of the IMF Charter.

During the IMF Mission, international experts noted significant progress in countering the crisis caused by the coronavirus pandemic by means of strengthening financial supervision in cooperation with the National Bank.

As part of the development and deepening of cooperation with the IMF, an agreement was reached in 2020 to provide technical assistance, including on issues of risk-based banking supervision, regulation of professional securities market
participants’ activities; supervision of the insurance market entities’ activities; strengthening cybersecurity in financial institutions and risk management.

In the reporting period, two stages of IMF technical assistance were carried out in the direction of “Implementation of Risk-Based Supervision” according to The Supervisory Review and Evaluation Process (SREP) methodology, as well as in the development of a methodology for assessing the banks’ Internal Capital Adequacy Assessment Process (ICAAP) and capital increment (Component 2 — Supervisory Capital Requirements).

Within the framework of cooperation with the European Bank for Reconstruction and Development, in the reporting period, the implementation of technical assistance was launched on the development of the market for distressed assets.

8.2 Integration-based cooperation activities

In 2020, one of the principal directions within the framework of integration processes in the Eurasian Economic Union (EAEU) was the implementation of the provisions of the Concept for the formation of a common financial market of the EAEU.

The implementation of the Roadmap measures for the formation of the EAEU common exchange space (adopted on November 3, 2020) will contribute to the expansion of interaction between exchange trading participants, an increase in the cross-border activity of issuers of the EAEU states, and will also create a foundation for the free movement of capital, increase investment and savings opportunities for the population and creating mechanisms for conducting cross-border transactions.

In accordance with the provisions of the Agreement on the Harmonization of the Legislation of the EAEU Member States in the Financial Market, the Plan for the Harmonization of the Legislation of the EAEU Member States in the Financial Sphere (adopted on November 23, 2020) was approved, indicating the harmonization stages and deadlines. The key criteria for the formation of a common financial market in the EAEU are the introduction of harmonized requirements for regulation and supervision in the financial markets of the Member States, mutual recognition of banking licenses, insurance sectors and the securities market, as well as effective cooperation between regulators of the Member States.

The harmonization of requirements for financial market regulation will be conducted based on international principles of the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, the International Organization of Securities Commissions, the Organization for Economic Cooperation and Development and taking into account the best international practices. At the same time, each of the EAEU Member States will independently decide on the list of legislative acts subject to rapprochement, taking into account the fact that the remaining differences in national legislation will not impede the functioning of the EAEU common financial market.

In 2020, the Agency continued active interaction with the financial market regulators of the EAEU Member States and the Eurasian Economic Commission to
develop and agree on the following draft agreements aimed at forming a common EAEU financial market:

1. Agreement on the admission of brokers and dealers of one EAEU Member State to participate in regulated trades on stock exchanges (trade operators) of the other Member States, which creates a legal basis for providing mutual admission to brokers and dealers of one Member State, including cross-border admission, to participate in regulated trading on stock exchanges in the other Member States;

2. Agreement on the procedure for information exchange included in credit histories within the EAEU, which creates a legal basis and regulates the principles, as well as the procedure for regulating legal relations arising in the process of cross-border information exchange included in credit histories between financial regulators of the EAEU countries;

3. Agreement on mutual admission to the placement and circulation of securities in regulated trading in the EAEU Member States, which creates conditions for ensuring the mutual admission of securities to the placement (parallel placement) and (or) circulation on the EAEU Member States exchange platforms;

4. Agreement on a normalized license, which creates conditions for ensuring mutual recognition of licenses through the mechanism of a normalized license for the establishment of a legal entity in the banking and insurance sector within the EAEU;

5. Agreement on the Supranational Authority for the Regulation of the EAEU Financial Market, which defines the tasks and powers, organizational structure, operating procedures and financing of the Supranational Authority.

The Agency has continuously taken part in the discussion of the most urgent issues of Eurasian integration in the sphere of financial markets at the Advisory Committee on Financial Markets under the Eurasian Economic Commission, as well as within the framework of the Working Group meetings on the harmonization of the legislation of the EAEU Member States in the financial sector and other expert groups.