

From achieved objectives
to new horizons

Annual report
2018

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years KASE

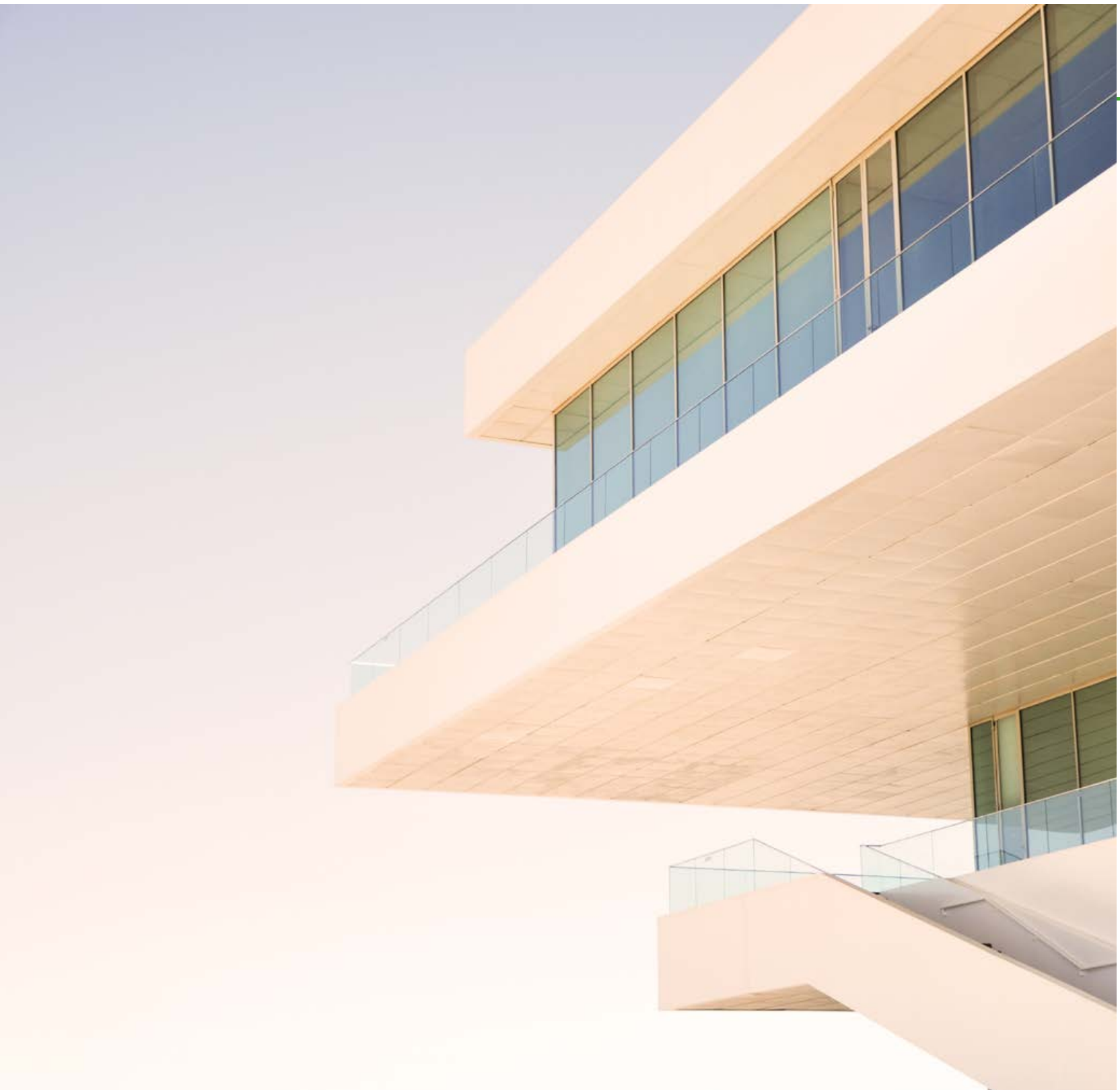


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MESSAGE FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear shareholders and partners!

The year 2018 was dynamic and interesting, it was a year of implementing the goals and tasks set forth, building the basis for new opportunities.

The macroeconomic situation was still favorable and all participants benefited from decreasing costs of financing. All that led to record performance indicators on the stock market. The amount of trading on the securities market increased by 40% to KZT 4.9 trln, with the volume of trading on the equity market and corporate bond market doubling. KASE Index rose by 7% to 2,304.94 points in 2018.

In 2018 KASE official list of securities was extended by 71 instruments of 46 issuers, including 22 instruments of 20 new issuers which were no listed companies before. The number of stocks quoted in KASE lists, as well as the number of their issuers, rose to historical maximums in 2018 – 130 and 113, respectively. 2018 saw the landmark IPO of the National company "Kazatomprom", with the trading in its stocks starting in December 2018. Trading in shares of the first ETF based on KASE Index also started in December. Freedom Finance acted as the initiator of the ETF's admission to KASE market.

The number of retail investors' accounts on the stock market reached 116,824 as of January 1, 2019, increasing by 7,579 accounts YoY. The share of retail investors on the equity market exceeded 50%, which provided additional liquidity to the stock market.

In 2018 the Exchange successfully completed the implementation of the three-year development strategy aimed at the development of the exchange market, making the Exchange and its services focus more on the customer and improving the efficiency and competitiveness of the exchange business.

As part of its strategy KASE conducted measures aimed at attracting first of all private businesses to operating on the exchange, created an alternative market, revised tariffs. The Exchange initiated the creating of KASE Startup platform to enable access to funding sources and ensure transparency in the field of start-up funding. Trying to encompass a broad range of business entities, KASE launched a platform called KASE Private Market.

Consequently moving towards its targets, the Exchange provided investors with the possibility of choosing financial instruments that would meet their investment preferences. Thus, trading in Eurobonds and depositary receipts settled in US dollars was launched. Apart from said instruments, GS market's instruments were switched to the settlement scheme T+2. Currently, the range of financial instruments on KASE is represented by five currency pairs, shares and bonds, GS, currency risk hedging instruments. Overall, more than 800 instruments are currently traded on KASE.

The most important project was the launch by the Exchange of services of the Central Counteragent on the currency market in October 2018. This is a new stage in development of the exchange market in Kazakhstan that brings the Exchange closer to international standards of operation of the stock market infrastructure and creates opportunities for attracting foreign participants of the capital market, by leveling market risks of trading participants. KASE will continue implementing this project in 2019-2020 and will launch services of the Central Counteragent on the stock market and repo transactions market.

As part of the implementation of the Exchange's strategy and for purposes of attracting a strategic partner, the Exchange has conducted negotiations and signed an agreement on cooperation with Moscow Exchange. Cooperation with MOEX has significant potential for development of the exchange services and is aimed at modernization of the Exchange's clearing and trading systems, increasing the reliability of the infrastructure, provision to trading participants and investors from Kazakhstan and Russia of mutual access to both countries' markets. Switching to MOEX's trading system will allow KASE to offer new types of financial instruments and settlement schemes to market participants.

The most pleasing moment of last year was the celebration by the Exchange of its 25th anniversary. In a quarter of a century KASE from a currency platform turned into a unique universal exchange providing its participants with a complete infrastructure for trading in various instruments of the currency, stock, derivatives and money markets.

In honour of this important event, the Exchange conducted a series of events: a cycle of open lessons KASE Talks was launched which will be continued in 2019, a book called "Building the future" was released, market participants were interviewed for the online project "KASE: history in persons", the first Kazakhstan exchange forum took place and KASE museum was opened. Via these events the broad public, partners and professional participants of the financial market were able to share their memories and information about conditions in which the country's financial market emerged and about main factors influencing its development.

Thanks to the successful implementation of the strategy and launch of new services the Exchange's operating income in 2018 amounted to KZT 3,105 mln, which is up 23.1% on the previous year. Revenues from services and fees made up KZT 2,361.0 mln, increasing by 21.7%, interest income rose by 21.2%.

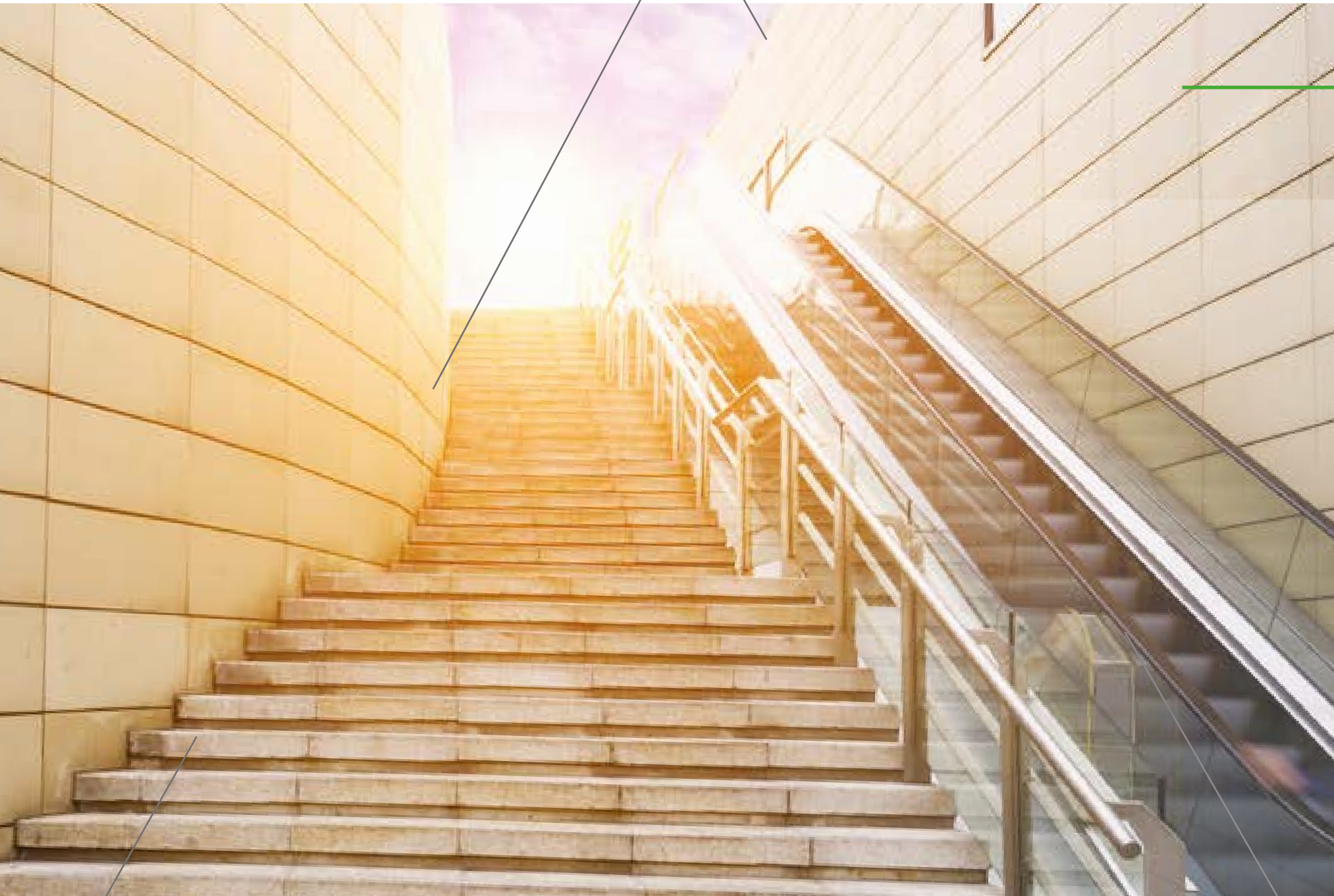
We are going to continue active work on developing the stock market, we will face a substantial modernization of information technologies and provision of a new range of services and instruments for our clients.

We thank our shareholders, professional participants, clients and partners for constructive cooperation, support and vote of confidence.

Alina Aldambergen
Chairperson of the Management Board

ABOUT THE EXCHANGE

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MAIN DATA

Kazakhstan Stock Exchange JSC (KASE, or the Exchange) represents a multi-functional trading platform.

KASE's services include the listing of securities and admission of other financial instruments to circulation, operation of the trading in financial instruments using various trade methods compliant with the type of financial instruments, provision of pre- and post-trading procedures, performance of bookrunner functions at offering of securities, execution of clearing and settlement on particular exchange markets, market risks management as well as selling of market data and delivery of technological solutions.

The Exchange operates based on licenses issued by the National Bank of the Republic of Kazakhstan:

1. License No. 4.2.3/1 for operation on the securities market dated July 19, 2012 that entitles its holder to carrying out:
 - activities involving the operation of trading in securities and other financial instruments;
 - clearing of transactions in financial instruments on the securities market.
2. License No. 4.3.8 for carrying out banking transactions in the national and foreign currencies issued on September 5, 2018.

KASE carries out functions of the central counteragent on the foreign currency market and derivatives market.

As of January 1, 2019 there were securities of 160 issuers in the Exchange's list, among them are major companies from the quasi-public sector of the Republic of Kazakhstan, banks, private companies.

Members of the Exchange and participants of exchange trading are 25 of 28 licensed second-tier banks, all licensed brokerage companies of the Republic of Kazakhstan, two foreign brokerage companies and two international financial institutions.

KASE offers to investors and professional participants of the securities market a broad range of information products providing exchange information in real time, archived and reference data.

MEMBERS OF THE EXCHANGE

As of January 1, 2019 members of the Exchange were represented by 52 companies that held the status of a member in one or several categories, in particular: 29 companies held the status of members of the currency category, 45 – of the stock market category and 22 – derivatives category.

During 2018 five organizations were stripped of their membership in KASE. The reasons for those removals were the voluntary reorganization of the financial institutions by way of merger – Kazkommertsbank with Halyk Savings Bank of Kazakhstan, ASYL-INVEST with Freedom Finance, as well as the withdrawal of licenses and subsequent liquidation of Eximbank Kazakhstan, QazaqBanki, Bank of Astana.

IC Freedom Finance, LLC (Russian Federation) was granted the stock market category of membership in KASE.

TIMELINE OF EVENTS

January

On January 9 the Exchange hosted an event called "The Issuer Day" during which Kcell's executives met with institutional investors and professional participants of the securities market.

On January 24 representatives of the Exchange took part in a round table arranged by International Finance Corporation World Bank Group with support from UN Sustainable Stock Exchanges Initiative (SSE Initiative) and London Stock Exchange Group that was held in London. The event was dedicated to issues of information disclosure, ensuring transparency and dissemination of ESG practices for companies on emerging markets.



February

On February 8 representatives of the Exchange gave speeches during a business forum themed "Exchanges of the CIS: instruments, services and technologies" that took place in Dushanbe (the Republic of Tajikistan).

An award ceremony was held on February 14 to honor members of the Exchange, listed companies and media representatives that stood out in 2018. Winners in various nominations were as follows: Freedom Finance, BCC Invest - subsidiary organization of Bank CenterCredit, Halyk Savings Bank of Kazakhstan, Kazkommerts Securities (subsidiary organization of Kazkommertsbank), Subsidiary organization of Halyk Savings Bank of Kazakhstan "Halyk Finance", ATFBank, KazMunaiGas Exploration Production, KAZ Minerals PLC. Among the media representatives there were periodicals and information resources, such as Kursiv newspaper, forbes.kz website, "LS TV" agency.

On February 15 representatives of the Exchange took part in the anniversary inter-university research and practice conference of young scientists and business leaders: "Science and business: mechanisms and priorities of innovative development" at the University of International Business.

On 21 February a seminar called "How to trade on the securities market" was conducted for lecturers of finance and economics departments of universities.

On 27-28 February representatives of the Exchange took part in the XIII World exchange congress in Muscat (Sultanate Oman), where participants discussed future prospects of the exchange business, new technologies on exchange markets, changes in accounting systems of depositories and possibilities of diversification of exchange services.

On 27 February representatives of the Exchange took part in the annual conference "Bonds, loans and derivatives of Russia and the CIS" (Moscow), during which the participants discussed prospects of the debt capital market of Russia and the CIS.

March

On March 1–2 the 77th meeting of FEAS Working committee and the annual General Assembly of FEAS took place. Participants of the events discussed a series of internal regulation documents, future prospects of FEAS and lines of cooperation between FEAS members. Representatives of the Exchange presented KASE's initiatives and projects.

On March 2 KASE with support from the National Chamber of Entrepreneurs "Atameken" conducted a round table themed "Opportunities of raising funding on Kazakhstan Stock Exchange" with the business community of East Kazakhstan region.

On March 5 a seminar called "Introducing Islamic financing in the Republic of Kazakhstan" was held in Almaty in association with the "Damu" fund.

An opening ceremony for securities trading called "Ring the Bell for Gender Equality" was held On March 7. This event is associated with the International Women's Day March 8 and conducted annually for purposes of promoting UN ideas of sustainable development that include aspiring for gender equality.

On March 15 there was a round table themed "Information disclosure in accordance with ESG criteria" as part of the UN initiative "Sustainable stock exchanges" attended by speakers from International Finance Corporation World Bank Group, EY and the Exchange.

On March 16 KASE held a training seminar for students of finance and economics universities themed "How to trade on the securities market". Representatives of the Exchange and brokerage firms held speeches.

A seminar called "Essentials of the stock market" was held on March 29 at the Corporate university "Samruk-Kazyna" in Astana. Representatives of the Exchange and brokerage firms held speeches.

On March 29 the Exchange launched a cycle of open lectures called KASE Talks, associated with KASE's 25th anniversary and devoted to issues of development of Kazakhstan's financial market.

On March 29 a round table was held for members of the Exchange, custodian banks, the Central Depository. The participants discussed issues related to interaction of brokerage companies with custodian banks, the Central Depository when carrying out transactions in securities.

On March 30 KASE held a training seminar for treasury employees of National managing holding "Baiterek" (hereinafter – NMH "Baiterek") and its subsidiaries themed "Stock market instruments for efficient management of the company's capital".

April

On April 4 at the Corporate university "Samruk-Kazyna" in Astana a representative of the Exchange delivered speeches as part of the general certification of corporate secretaries on the following subjects: "Listing on the Exchange: main requirements" and "Status of the listed company: information disclosure and ensuring the transparency of the company's operations".

On April 9 the Exchange opened the KASE Startup platform, designed for establishing communication between investors, start-ups and other companies interested in funding.

From April 9 trading in new financial instruments was opened: currency swap transactions involving currency pairs CNY/KZT and RUB/KZT and Russian ruble with settlements T+2 in tenge (RUBKZT_SPT).

On April 9 representatives of the Exchange in association with the Republican chamber of entrepreneurship (RCE) of Atyrau region held a round table in Atyrau for the local business community. Information on instruments of funding through the stock market was presented during the meeting.

On April 11 at the international fair called "Global Oil & Gas Atyrau 2018" in Atyrau, representatives of the Exchange gave speeches at a panel session and made a presentation themed "Kazakhstan Stock Exchange – a fundraising platform".

On April 17 the Exchange hosted an event called "The Issuer Day", during which executives of KEGOC met with institutional investors and shareholders of the company. KEGOC executives discussed with the event participants their current projects, operational and financial results.

On April 19 in Astana, during the ninth geological-mining forum MINEX, representatives of the Exchange gave speeches at a panel session devoted to issues of risk assessment and prospects of attracting investments in new subsurface use facilities, implementation of modern ESG standards in the mining industry, introduction of "smart" technologies to ensure a good quality growth of the industry.

On April 19–20 representatives of the Exchange delivered speeches on the subject "Kazakh corporate bonds market: steps into the future" at the VII "Cbonds Emerging Markets Bond Conference".

On April 20 the Exchange conducted another event called "The Issuer Day" for Development Bank of Kazakhstan whose executives met with investors and professional participants of the securities market as part of issue on the Exchange of the Bank's Eurobonds denominated in the national currency.

From April 22 amendments to the Rules of execution of brokerage and dealing activities on the securities market enabling brokerage firms to participate in the trading on the currency market came into effect.

On April 24 representatives of the Exchange took part in the international fair "Mining Week Kazakhstan" in Karagandy giving a speech in the section devoted to issues of fundraising and investment opportunities for entrepreneurs on the stock market.

On April 26 a seminar called "Essentials of the stock market" was conducted on a platform of the "Damu" Fund in Almaty. Representatives of the Exchange and brokerage firms delivered speeches.

May

On May 17 the XI Astana economic forum called "Global Challenges Summit" took place, during which representatives of the Exchange participated in panel discussions devoted to improving the stability of the business sector and reaching a sustainable economic growth.



On May 24 a seminar themed "Fundamentals of interaction with investors and other interested parties (IR)" was held in Almaty. Speakers were from the information analytical agency Refinitiv, International Finance Corporation, World Bank Group, international IR-agency "Global PR & IR Advisory EM", local company "PG Communications" LLP and the Exchange.

On May 25 in association with the "PG Communications" LLP and international IR-agency "Global PR & IR Advisory EM" a round table themed "Actual issues: the role and place of PR and IR in the company management system" was held in Almaty.

On May 25 the Exchange conducted a round table with insurance companies on issues of investing on the local stock market. Participants of the event discussed issues of increasing the investing activity of insurance companies, existing barriers for active operations of insurance companies and defining definitive measures for activating insurance companies' participation in the stock market.

On May 28–30 an acquaintance meeting with professional participants of the securities market of the Republic of Uzbekistan was held in Tashkent (Uzbekistan). The Exchange's delegation met with representatives of the Republican stock exchange "Toshkent", the Central Depository of Uzbekistan and professional participants of Uzbekistan's securities market. Participants discussed upcoming changes in laws regulating the securities market, listing procedures and potential cooperation possibilities.

On May 31 in Astana representatives of the Exchange took part in the XV Bond congress of the CIS and Baltic states, delivering speeches in the panel session themed "Regulation and infrastructure of financial markets of the Republic of Kazakhstan".

June

On June 1 a round table on the stock market and corporate governance was conducted on the Exchange's premises for representatives of Kazakhstan's medical institutions.

On June 6 representatives of the Exchange gave speeches during the general certification of corporate secretaries at the Corporate university "Samruk-Kazyna" in Astana on the following subjects: "Listing on the Exchange: main requirements" and "Status of the listed company: information disclosure and ensuring the transparency of the company's operations".

From June 15 KASE operates KASE Private Market, designed for provision of SME with alternative funding sources without the need to obtain the status of a public company.

On June 19 representatives of the Exchange took part in "Astana Mining & Metallurgy – AMM 2018" forum, giving speeches on the following subjects: "Fundraising opportunities for the mining industry on the Exchange's capital markets" and "The Exchange practice in promoting sustainable development".

On June 21 a presentation of "KASE Startup" was held in AstanaHub – an international technological park of IT-startups in Astana.

On June 28 a training seminar for private investors themed "How to trade on the securities market" was held on the Exchange's premises. Speakers were from the Exchange and brokerage companies.

On June 28 a round table themed "KASE instruments for intra-group funding" was conducted jointly with NMH "Baiterek" in Astana.

On June 20–21 the "World Mining Congress" was held in Astana. Representatives of the Exchange took part in two sessions: "Global business – raising capital for funding mining enterprises" and "Sustainable development – impact of the sustainable development on the financial stability and taking account of risks".

On June 28 a conference called "Investment Opportunities in Kazakhstan" was held in London (Great Britain). At the conference participants discussed the development of Kazakhstan's monetary policy, existing trends on Kazakhstan's exchange markets, the current situation on Kazakhstan's government securities market, as well as investment opportunities for foreign companies on the stock market.

July

On July 11 and 14 in Almaty representatives of the Exchange took part in the training program called "Professionalize Kazakhstan" ("K-pro3"), delivering lectures on subjects "Diversity" and "Capitalization – indicator of the business efficiency".

On July 11 the Exchange hosted a round table for brokerage companies devoted to issues of development of the stock market, implementation of the coupon rate subsidizing mechanism for bonds, settlement of Eurobonds in US dollars. The Exchange informed participants about implemented projects and strategic directions of the Exchange's development.

On July 23 the Exchange and Legal persons union "Kazakhstan's association of oil and gas and energy sector companies "KAZENERGY" concluded a memorandum on mutual cooperation, aimed at interaction of the Exchange and Association as part of generation of proposals on attracting local and foreign companies as issuers and investors, including companies–members of the Association, to Kazakhstan's stock market.

September

Starting from September 10 the Exchange uses the weighted average KZT/USD market rate with settlements on the next business day (T+1) – USDKZT_TOM – as the exchange rate fixing instrument. The purpose of the innovation is creation of a more representative indicator on the foreign currency market in conditions of the free floating tenge exchange rate.

On September 12 the Exchange and information-analytical agency "Bloomberg" conducted a joint meeting of the round table "Bloomberg Day on KASE" in order to introduce the audience to modern trends in the field of interaction with investors and other interested parties, as well as to instruments for improving the investment attractiveness of the company.

An international conference called "The capital market of the Republic of Uzbekistan" arranged by the international agency "Cbonds Congress" was held on September 13 in Tashkent (Republic of Uzbekistan). A representative of the Exchange gave a speech on the subject "Investment opportunities of the region and prospects of inter-country cooperation".

On September 14 KASE and the Republican stock exchange "Toshkent" concluded a memorandum on mutual cooperation that is aimed at deepening the cooperation of both exchanges as part of increasing the efficiency and competitiveness of national stock markets.

From September 17 to October 17, an educational project "Exchange Simulator" was conducted for students of economics and other universities wishing to broaden their professional knowledge within their academic course, as well as to let them acquire practical skills on the stock market.

On September 17 KASE launched the trading in listed Eurobonds settled in US dollars according to scheme T+2.

On September 18 KASE representatives took part in the annual international conference of S&P Global "The economy and the banking sector of Kazakhstan" in Almaty, giving a speech on "Current trends of Kazakhstan's exchange market".

On September 18, in the run-up to its 25th anniversary, KASE launched an online project named "KASE: History in persons", featuring memories of persons who played an important role in the development of the Kazakh financial market and KASE. A total of 39 publications were released under the project.

On September 20 a seminar called "Essentials of the corporate governance" was conducted in Almaty. Representatives of International Finance Corporation, World Bank Group, "Governance & Management Consulting" LLP and the Exchange gave speeches.

On September 25 the "Issuer Day" was held on the Exchange for KEGOC, where the company reported its H1 2018 results, and shared its strategic development plans.

On September 26 a representative of the Exchange gave speeches at the Corporate university "Samruk-Kazyna" in Astana as part of the general certification of corporate secretaries on the following subjects: "Listing on the Exchange: main requirements" and "Status of the listed company: information disclosure and ensuring the transparency of the company's operations".



On September 28 a training seminar for retail investors themed "How to trade on the securities market" was held on the Exchange's premises. Speakers were from the Exchange and brokerage companies. The training program featured an interactive game called "Financial degustation".

October

From October 1 KASE started acting as the Central counteragent on the foreign currency market.

On October 2 guest lectures were organized for students of the "Alma-U" university as part of the event called "The Exchange Day at Alma-U".

On October 2–4 representatives of the Exchange took part in the 58th General Assembly and Annual meeting of the World Federation of Exchanges (WFE) in Athens (Greece). Participants of the events discussed issues of development of the exchange business and new challenges influencing the market infrastructure, as well as issues of sustainable development.

On October 10 the Exchange and MOEX signed a strategic cooperation agreement which provides for acquisition by Moscow Exchange of up to 20% of outstanding KASE shares and implementation of MOEX trading and clearing systems on KASE markets.

On October 12 at the second regional investment forum "KostanayInvest 2018" in Kostanay representatives of the Exchange gave speeches during the panel session on the topic of "Kazakhstan Stock Exchange – fundraising platform".

On October 25 a business breakfast "KASE day in Aktau" was arranged in Aktau, attended by executives of major regional companies, SME representatives and partners of the Exchange as part of promotion of the Exchange's products and services for potential issuers.

On October 25 a round table themed "Preparation of the public report on deposits of mineral resources or oil and gas" was held with participation of speakers from the Association KAZRC, SRK Consulting, the Exchange and representatives of subsoil user companies.

On October 28 representatives of the Exchange took part in the annual FEAS meeting in Abu-Dhabi (UAE) that hosted an annual meeting of the General Assembly, Work committee and Auditing committee.

For the first time as part of the annual meeting of FEAS members, a conference "ConFEAS 2018" on the subject of "The augmented reality of trading and settlement ecosystems" was held on October 29–30. Participants discussed issues of implementing MiFid II, issues of supporting regulators in the developing of capital markets, cross-border relations on securities trading and the future of financial technologies (Fintech).

November

A competition was conducted among retail investors on the equity market from November 1 to December 14. More than 200 retail investors took part in the competition. During the competition participants concluded 2,588 transactions in the amount of more than KZT 256 mln, with the best yield making 13.7% APR.

On November 1 in Almaty representatives of the Exchange took part in the training program "Instruments of the capital market", organized by EBRD for SME consultants, giving a lecture themed "Kazakhstan Stock Exchange – a platform for attracting investments".

Kazakhstan Exchange Forum "Roles of stock exchanges in the economy's sustainable development" was conducted on November 16 in Almaty as part of the VIII Congress of financiers, organized by the Exchange and Kazakhstan's National Bank in association with ULE "Association of Kazakhstan's Financiers".

On 23 November the Exchange hosted "The Issuer Day" during which executives of KazAgroFinance met with institutional investors and professional participants of the securities market on occasion of the proposed additional offering of commercial bonds. During the meeting KazAgroFinance's executives reported financial results and current projects of the company, as well as parameters of the upcoming additional offering of commercial bonds.

On November 27 a seminar called "Essentials of the stock market" was conducted on the premises of the "Damu" fund in Almaty. The speakers were from the Exchange and brokerage companies.

On November 29 in Almaty representatives of the Exchange participated in a round table on gender equality issues themed "New look at boards with female directors" arranged by "Governance & Management Consulting" LLP and International Finance Corporation World Bank Group. The Exchange gave a speech called "Role of stock exchanges in promoting the gender equality".

December

From December 4 GS market's instruments were switched to the T+2 settlement scheme.

On December 6 a seminar called "Foundations of Investor Relations" was held on the premises of the National Chamber of Entrepreneurs of the Republic of Kazakhstan "Atameken". Speakers were represented by "Ernst & Young Advisory" LLP, S&P Global Ratings, "KEGOC" JSC and "KazTransOil" JSC, and the Exchange.

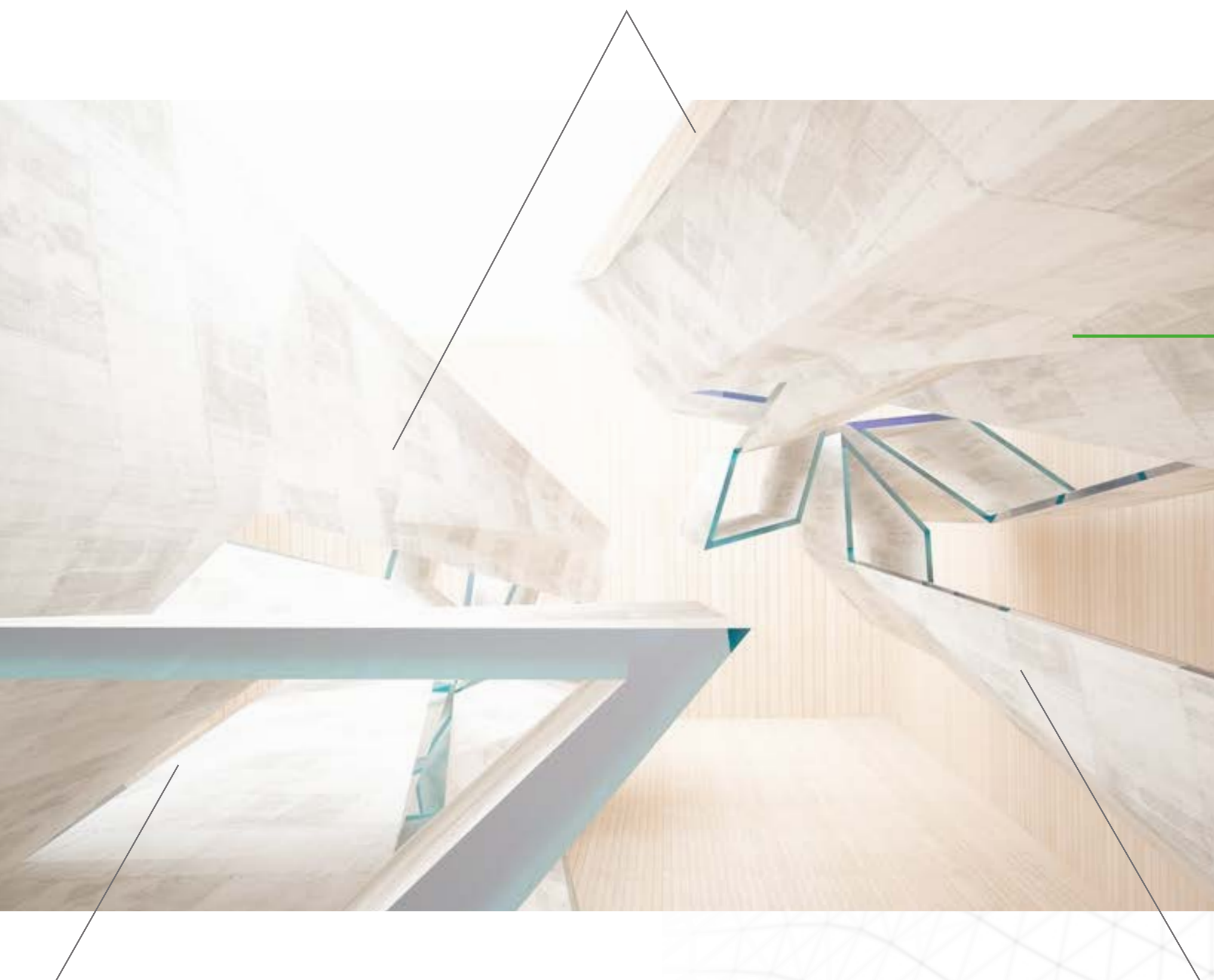
A business breakfast themed "KASE Day in Astana" on the occasion of the Exchange's 25th anniversary was held in Astana on December 7.

On December 7 representatives of the Exchange took part in the regional investment forum "Aktobe-Invest 2018" in Aktobe, delivering a lecture called "KASE – a fundraising platform".

From December 14 KASE operates trading in shares of the segregated sub-fund FinEx FFIN Kazakhstan Equity ETF, issued by the alternative investment fund FinEx Physically Backed Funds Plc (Ireland). Earlier, in October trading in shares of the exchange investment fund on KASE Index was launched on Moscow Exchange.

On December 21 the Exchange conducted a round table on issues of development of the national stock market for brokerage companies. During the event the Exchange reported on implemented projects and strategic lines of its further development and proposed projects.

A training seminar themed "How to trade on the securities market" was held for retail investors on December 21. Speakers were from the Exchange and brokerage companies. The training program featured an interactive game called "Financial degustation".



PROGRESS REPORT ON THE EXCHANGE'S STRATEGY

- 16 Mission, purposes and main lines of the KASE development strategy 2016-2018
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MISSION, PURPOSES AND MAIN LINES OF THE KASE DEVELOPMENT STRATEGY 2016-2018

Main tasks defined in the Exchange's development strategy for 2016–2018, are aimed at developing Kazakhstan's stock market and improvement of the exchange infrastructure. Results of efforts are presented below.

Mission

Assistance in sustainable economic development of Kazakhstan by way of providing technological infrastructure for fundraising to local companies from the public and private sectors and provision of a reliable, stable and transparent investment environment for local and foreign investors.

Purposes

Technical modernization which in association with marketing activity, open information policy and increased attention to interests of investors and issuers of securities will lead to a significant growth of the volume and liquidity of the exchange market, as well as to an increase in the business funding through stock market instruments.

Main lines of the Strategy 2016-2018

1. Development of the exchange market.
 - Attracting new issuers to the stock market
 - Expanding the investor base
 - Development of the currency market
 - Development of clearing activities
2. Making the Exchange and its services focus more on clients.
 - Work with market participants and members of the Exchange
 - Development of the corporate website
 - Improving the Exchange's image and increasing awareness of its operations
 - Improving the quality of services
3. Increasing the efficiency and competitiveness of the exchange business.
 - Promoting and selling information
 - Developing IT-systems
 - Modernization of the operational risk management system

STRATEGIC LINE 1. DEVELOPMENT OF THE EXCHANGE MARKET

Attracting new issuers to the stock market

Along with creating favorable conditions for Kazakhstan's companies seeking funding on the regulated market, the Exchange conducted a series of activities and events aimed at increasing awareness and financial literacy of entrepreneurs with regard to the stock market, corporate governance and investor relations. All events were conducted by the Exchange in a close cooperation with professional participants of the securities market, international financial and non-financial institutions, NCE "Atameken", national development institutions, "Damu" fund, KazakhExport, AFK, regional local executive bodies and other organizations.

Organization and conducting of individual consulting sessions with entrepreneurs and on-site events in Kazakhstan's regions

The Exchange regularly collects, summarizes and analyses data regarding local companies. At the initial stage it defined the target group based on open information about companies and preliminary analysis of their compliance with the listing rules and possible need for funding. The potential issuer base includes details of 1,072 companies.

In 2018 there were more than 70 meetings with executives and owners of Kazakhstan's companies whereby information on current trends on the stock market, possibilities of fundraising and investing temporarily free liquidity via stock market instruments was disclosed. There were six "round table" events for entrepreneurs in Kazakhstan's regions with regard to the use of stock market instruments.

In 2018 the Exchange's official list was extended by securities of 20 new issuers, i.e. companies whose securities had never traded on the Exchange, with 13 of them being shares issuers, 6 – bond issuers and one – an issuer of investment fund securities, including two issuers from Kazakhstan's regions.

Overall, during the implementation of the Strategy, employees of the Exchange conducted more than 200 individual consulting meetings for attracting businesses to the local stock market. As a result of all events, more than 100 companies showed their interest in fundraising on the stock market. As a result, 55 new issuers were attracted within three years, KASE trading lists were supplemented by 58 new instruments.

Increasing awareness of entrepreneurs and broad public of the stock market and its opportunities.

In 2016 the Exchange increased its activities in the field of training programs for increasing the financial literacy and awareness of the stock market issues. Training programs of the Exchange were conducted in form of seminars or round tables for entrepreneurs on fundamentals of the stock market, corporate governance and essentials of investor relations. Speakers at the events were represented by employees of structural units of the Exchange, representatives of members of the Exchange and international financial and non-financial institutions, consulting companies in the field of corporate governance and investor relations, representatives of international information-analytical and rating agencies.

In order to improve communications between market participants, listed companies, investors and other interested parties, the Exchange hosts an event called "The Issuer Day". During the year under review four such events were conducted, whereby institutional investors and shareholders met with executives of Kcell, KEGOC, Development Bank of Kazakhstan and KazAgroFinance. Participants of the events discussed current projects, results of the companies' operational and financial activities.

KASE in association with "PG Communications" LLP and "Global PR & IR Advisory EM" company conducted a training event in the "round table" format themed "Current issues: the role and place of PR and IR in the company management system". A training event in the "round table" format - "Bloomberg Day on KASE" – was conducted jointly with "Bloomberg Finance L.P."

Another format of communication with entrepreneurs is conducting business lunches which are a direct dialogue with business representatives. In 2018 such events with participation of executives of major regional businesses, SME representatives and partners of the Exchange were conducted in cities of Aktau and Astana.

In 2016-2018 KASE arranged five business lunches in various regional centers of Kazakhstan and 21 "round table" events at premises of regional akimdiks and NCE "Atameken", organized the "Issuer Day" for 10 listed companies, conducted eight training seminars in cities of Almaty and Astana on fundamentals of the stock market for entrepreneurs with support from the Damu Fund and NCE "Atameken".

A total of 24 training programs on stock market issues, investor relations and corporate governance were conducted for listing candidates and listed companies.

Transformation of listing

In 2017 the Exchange completed a project on transformation of the securities official list and reforming of requirements for listed securities and their admittance initiators. From June 1, 2017 the Exchange's official list features three markets – "Main" (for major businesses), "Alternative" (for small and medium companies) and "Mixed" (for GS, securities, units and shares of investment funds, derivatives and Islamic securities). Listing requirements for securities and issuers of the "Alternative" market were significantly eased, information disclosure requirements are set only within limits specified in Kazakhstan's laws, and amounts of listing fees were substantially decreased.

As a result of the transformation the Exchange obtained a more transparent, comprehensible and convenient structure of the official list for all categories of investors, issuers and other interested parties, eased the access to the stock market for rather small companies, obtained the possibility to implement a more efficient strategy of attracting new issuers and investors.

As of January 1, 2019 47 stocks of 44 issuers and 21 bonds of 17 issuers were admitted to the trading on the alternative market.

Extending the investor base

Conducting trainings for retail investors

For purposes of extending its investor base and increasing the public's financial literacy, the Exchange conducted educational events for broad public. Four seminars called "How to trade on the securities market" were conducted in 2018 for retail investors.

During the year under review the Exchange took an active part in the country's regional investment forums, themed conferences and trade fairs in sections dedicated to issues of fundraising and investment opportunities for entrepreneurs on the stock market. Within the year representatives of the Exchange participated in seven such events.

As part of KASE's initiative on increasing the financial literacy with regard to the stock market, in 2017 the Exchange started to cooperate with Kazakhstan's higher education institutions. The Exchange has developed and signed memorandums on cooperation with 13 universities with the purpose of arranging educational lectures for students and lecturers.

Since the beginning of 2018 KASE had been establishing cooperation with the "Samuryk-Kazyna" corporate university. Three seminars of the stock market fundamentals were conducted in Astana as part of the corporate secretaries' certification program. As part of cooperation with universities KASE took an active part in conferences and forums they organized.

During 2018 employees of the Exchange delivered guest lectures in ten universities of Almaty. The Exchange has always supported the organization of trainings, on-the-job-trainings and undergraduate trainings for students. In 2018 it took an active part in a project of Al-Farabi Kazakh National University called "National platform of Kazakhstan's open education". More than 30 lectures were delivered for students and lecturers in 2016-2018.

To establish practical experience and increase the financial literacy of the student community and retail investors, the Exchange annually holds two competitions: "Exchange simulator" and "Retail investors' competition".

The "Exchange simulator" competition consists of a series of training trading sessions and is conducted among students of colleges and universities. One of encouragement awards is the possibility for best performing participants to undergo training in a brokerage company.

In 2018 this project saw participation of 1,290 students from more than 35 education institutions. Thanks to the support of financial institutions, 23 students were handed awards. In the course of the competition the amount of transactions exceeded KZT 2.3 bn with 13,426 deals concluded.

During the entire time of the competition, more than 4,500 students from Kazakhstan's 80 universities, from abroad (Turkey, South-East Asia, Great Britain) took part in the competition.

From 2016 the Exchange resumed its project called "Retail investors competition". Individuals being clients of members of the Exchange's stock market are admitted to participation in the competition. During the competition its participants take part in the real trading in shares from KASE Index universe. In 2018 the competition was conducted from November 1 to December 14. The best yield made up 13.7% APR, the second place went to a participant who demonstrated a yield of 8.6%, the third place – 8.2% APR. A total of more than 200 retail investors participated in the competition. In the course of the competition participants concluded 2,588 deals worth more than KZT 256 mln. In 2016-2018 more than 3,000 retail investors participated in the Competition.

Development and implementation of new instruments

Stock market

As part of implementation of its development strategy the Exchange has implemented a new exchange product called "Commercial bonds". This type of bonds can be issued only by listed companies for a term of no more than 12 months. Registration and listing of those bonds are carried out according to the simplified procedure and at reduced listing fees which allows companies to raise short-term funds on the stock market quickly and at low cost. Seven issuers used this instrument in 2018. The amount of initial offerings reached KZT 29.8 bn, their yield at offering varied from 9.5% to 11.3% APR. Bonds are traded on the secondary market, too, with the trading volume amounting to KZT 3.6 bn in 2018.

For purposes of including stock market instruments in state programs for entrepreneurship support, the Exchange has initiated a project on implementation of the mechanism of subsidizing the coupon rate on bonds issued by local companies. In association with Damu, RK's Ministry of Economy, NCE "Atameken" KASE worked on promoting amendments to the Entrepreneurial code in terms of inclusion of the subsidizing of the coupon rate on bonds issued by local companies as a form of the state support. As a result of said efforts, suggested amendments were included in the RK's Entrepreneurial code on May 24, 2018. On August 25, 2018 respective amendments to the Business road map-2020 and Rules of subsidizing the coupon rate on bonds issued by local companies, were approved.

Under the Memorandum on mutual cooperation signed between Export insurance company "KazakhExport" JSC and the Exchange for purposes of carrying out the support of Kazakhstan's exporters of commodities, a mechanism was developed for attracting by exporters of debt financing on the stock market by means of issuing and offering of bonds guaranteed by KazakhExport against the issuer default risk.

Launch of ETF

Shares of the first exchange-traded fund with KASE Index as underlying asset registered under the Irish Law, were included in the Exchange's trading lists in 2018. ETF represents a balanced portfolio of the most liquid instruments and can be seen as an instrument of diversification of investments that allows leveling of risks of particular components and resembles the dynamics of KASE Index on the whole. In October 2018 the trading in KASE Index-based ETF started on Moscow Exchange, and on December 14 – on KASE's market.

On KASE this instrument is classified as securities of investment funds and is traded in tenge. Freedom Finance, the market-maker, ensures the liquidity of the instrument on KASE. By the end of 2018 the amount of trading in KASE Index-based ETF shares exceeded KZT 180 mln on MOEX, and reached KZT 52.5 mln on KASE market.

Promoting ESG for purposes of information disclosure and ensuring transparency

As part of the UN initiative called "Sustainable Stock Exchanges Initiative", the Exchange in 2016 put into effect the methodology of disclosing information according to Environmental, Social and Governance criteria (hereinafter – ESG) for members of KASE and listed companies. When preparing the methodology, recommendations of the SSE Initiative and PRI principles were studied, as well as the exchange practice of implementing these principles was researched. KASE is one of 32 exchanges worldwide that disseminate the ESG methodology and one of 18 that promote ESG criteria through trainings¹.

Since 2017 KASE with support of IFC Kazakhstan had worked on updating the ESG methodology that would take into account the most recent trends in the field of information disclosure according to ESG criteria, as well as would include expert recommendations pronounced during discussions of the ESG methodology, including recommendations on establishing particular sector specifications for main industries of Kazakhstan's economy. KASE and IFC Kazakhstan have jointly developed and put into effect as of March 15, 2018 an updated ESG methodology that included a modern international ESG reporting practice:

- Global reporting initiative (GRI);
- International Integrated Reporting Council (IIRC);
- Sustainability Accounting Standards Board (SASB);
- Many initiatives among stock exchanges as part of the "Sustainable Stock Exchanges Initiative", including Malaysia, Brazil, Singapore and Hong Kong.

Currently, the updated ESG methodology takes account of the broader list of ecological and social issues, corporate governance issues, it features the list of key performance indicators with regard to those issues and a guideline on sector specifications.

On March 15, 2018 KASE and IFC Kazakhstan conducted a round table with participation of representatives of AFK, listed companies, members of the Exchange, local experts in the field of preparation of annual reports, auditing firms and representatives of other organizations. The Exchange's updated methodology was presented at that event, and experts delivered presentations on issues of the introduction and importance of ESG criteria. Based on the discussion results, the Methodology presented by the Exchange and IFC Kazakhstan received positive comments.

Taking into account that listed companies and members of KASE need to gather experience and skills in preparing an ESG report, the Exchange took a decision to present such report as a recommendation. KASE plans to promote the new ESG methodology by way of conducting special seminars and meetings on discussing ESG reporting requirements.

Launch of KASE Startup

On April 9, 2018 KASE launched KASE Startup. The platform is dedicated to establishing communications between start-ups and investors. Participants of the platform will be provided the possibility to conclude at the Exchange deals involving purchase and sale of stakes in start-ups through professional participants of the stock market. The participants will be able to use all advantages of KASE's infrastructure. Only companies incorporated as an LLP may be admitted to the platform as participants. A start-up should comply with one of the following criteria:

- availability of a certificate of registration of one of the Exchange's partners (business incubator, investment fund, consulting and crowd-funding company) that signed a memorandum with KASE regarding development of the platform;
- availability of an investment fund as an investor which not earlier than a year before the application submission was included in partners of the start-up;
- availability of sales with regard to the business line to be financed.

On October 3, 2018 the Exchange conducted the first open presentation of the platform whereby representatives of KASE, business incubators, start-ups and investment funds addressed interested parties. Based on results of the event, a memorandum was signed with participants of that market.

The Exchange has developed internal documents regulating the operation of the platform:

- Rules of admission to KASE Startup;
- Regulations on the procedure of concluding deals and execution of settlements on KASE Startup;
- Regulations on fees on KASE Startup.

1. data as of January 1, 2017

For operation of the platform a special website <https://startup.kase.kz/> was developed, which is the main resource for the communication between the administration of the platform, investors, start-ups and business incubators.

As of January 1, 2019, 2,543 users were registered on the website of the platform. 9 start-ups began disclosing information, 6 start-ups were admitted to the platform. Six business incubators and four consulting companies were partners of the platform.

KASE Private Market

As part of the task of detecting and implementing instruments potentially attractive for investors, KASE has developed a project on providing investors with a possibility to participate in prospective projects through trading in LLP stakes and diversification of their investment portfolios – creation of KASE Private Market. It was launched in June 2018. Direct investment funds have the chance to attract investments at the stage of fundraising, as well as at the stage of quitting the projects, and local small and medium-sized businesses obtained access to equity financing.

Improving the standing of the stock market in international classification ratings

Implementation of the Strategy was associated with measures aimed at improving the liquidity and upgrading the stock market's infrastructure. Thus, as part of efforts to develop clearing activities, a switch to the T+2 settlement scheme was carried out for new instruments. For purposes of improving the risk management system, the single limit mechanism was introduced which allows participants to more efficiently manage available liquidity. The main goal of implementation of those projects is providing clients of the Exchange with high quality services complying with international standards of the stock exchange business. As a result of efforts, in September 2017 agency FTSE assigned the "Frontier Markets" status to Kazakhstan's stock market. Efforts aimed at improvement of ratings of Kazakhstan's stock market from S&P, MSCI, FTSE are provided for in the Action plan on implementation of the Plan of joint actions of the government of the Republic of Kazakhstan and the National Bank of the Republic of Kazakhstan for 2018 – 2021.

Currency market development

While developing the currency market, the Exchange implemented measures along the following lines.

Providing brokers with the right to participate in exchange trading on the currency market

In 2016 the Exchange initiated a project stipulating provision of brokerage firms with direct access to the exchange currency market. Under this project in 2017 the Exchange jointly with the National Bank of the Republic of Kazakhstan, AFK, as well as with representatives of second-tier banks and brokerage companies, developed various schemes of providing brokerage firms with access to trading on the currency market.

Respective amendments related to provision to brokerage firms of the right to participate in exchange trading on the currency market, were made to the Rules of carrying out brokerage and (or) dealing activities on the securities market, approved following a resolution No. 9 of the Management Board of the National Bank of the Republic of Kazakhstan dated February 3, 2014. Amendments came into effect from April 22, 2018. To get access to trading in foreign currency on KASE brokerage firms need: to receive a license from the National Bank of the Republic of Kazakhstan for carrying out banking transactions in the national and foreign currencies; to undergo the procedure of obtaining the "currency" category of KASE membership. In accordance with the Regulations on membership fees and exchange commissions, the entrance membership fee in the "currency" category for a brokerage firm will make up 1,500 MCI, monthly membership fees in the "currency" category – 25 MCI. Besides, there is a commission of KASE on transactions in foreign currencies at a rate of 0.0005% of the amount of each deal concluded by the brokerage firm.

Launch of new instruments

Based on results of regular meetings with market participants and detected demand for longer settlement terms, new instruments were launched on the foreign currency market and currency swap transactions:

- from February 20 – in the Russian ruble with T+1 settlements in tenge (RUBKZT_TOM) and Chinese yuan with T+1 settlements in tenge (CNYKZT_TOM);
- from April 9 – in currency swap transactions with regard to the currency pair Chinese yuan / Kazakh tenge (CNYKZT_0_001 and CNYKZT_0_002), in currency swap transactions with regard to the currency pair Russian ruble / Kazakh tenge (RUBKZT_0_001 and RUBKZT_0_002) and Russian ruble with T+2 settlements in tenge (RUBKZT_SPT).

Trading in currency swap transactions CNY/KZT are conducted during the morning trading session, in the remaining instruments – during the day session from 11:30 to 15:30.

Switching to trading in the issue currency

In 2018 a series of instruments on KASE market denominated in foreign currency became available for trading and settlements in US dollars along with settlements in tenge.

From September 17, 2018 KASE launched trading in Eurobonds with settlements in US dollars. The purpose of this project is providing access to trading and settlements of debt securities denominated in foreign currency without the need in additional currency conversion procedures.

Currently, listed debt securities denominated in foreign currencies are traded on KASE according to scheme T+0 with settlements in Kazakhstan tenge and the necessity of full depositing of the assets in advance before the submission of an application and conclusion of a deal. Trading in Eurobonds with settlements in US dollars is carried out in a separate version of the trading system using the T+2 settlement scheme and clearing based on the trading day results. This scheme allows closing deals with partial security. Trading participants deliver the asset for settlement of the deal by 17:00 o'clock on the settlement day (on the second day after the deal conclusion).

Trading in Eurobonds with settlements in Kazakh tenge according to T+0 scheme is continued on KASE in the usual mode. Thus, from September 17, 2018 two modes of concluding deals in listed Eurobonds denominated in US dollars are available on KASE: according to scheme T+2 with the use of clearing and settlements in US dollars, as well as according to scheme T+0 with settlements in Kazakh tenge in the "deal after deal" mode. Currently, the list of financial instruments of the stock market cleared by the Exchange, features 20 listed international bonds. From the launch date to December 31 39 deals with settlement in US dollars were concluded to a total amount of USD 4.3 mln, or KZT 1.3 bn.

From December 26, 2018 trading in USD-denominated GDRs opened on KASE, with Kazatomprom's ordinary shares being the underlying asset.

Development of clearing activities

Improvement of the risk management system

From June 1, 2018 the Exchange launched a new mechanism allowing an efficient management of risks on the stock market – the concentration limit which allows limiting the risk of failure to meet obligations on repo transactions arising when particular trading participant's deals in particular shares amass.

To determine the maximum amount of securities that can be sold or used as underlying assets of a repo transaction without losses, at a price being within standard volatility limits of a security, the following is calculated for each one of shares available for trading based on the T+2 scheme:

1. the concentration limit – as a figure equal to the total of average daily amounts of trading on a particular financial instrument on markets T+0, T+2, foreign markets according to data of the information agency Bloomberg, as well as average daily amounts of trading on opening of nego repos, autorepos, repos with netting, with that particular security as underlying asset;
2. concentration limits – as volatility of a security with an increased risk horizon (15 days) level of trust of 99.97%.

Values of concentration limits and concentration rates on securities are calculated monthly and come into effect on the 15th day of each calendar month, information on values of concentration rates on securities is released on the Exchange's website two days before their coming into effect. Daily, at the beginning of the day the Exchange defines the open position of trading participants for each share.

As part of the project the Exchange made amendments to its information systems, as well as improved internal documents, in particular, Rules of execution of repo transactions and Specification of auto repo market.

Switching instruments to T+2 settlement scheme

In 2018 the Exchange continued the development of clearing activities on Kazakhstan's exchange market, particularly, by way of extending the list of financial instruments which are subject to the trading and settlement scheme T+2.

In the year under review the T+2 settlement scheme was expanded to the secondary GS exchange market, however it is worth noting that on deals in GS with the T+2 settlement scheme no checking of the security sufficiency is carried out, nor netting, nor clearing. Settlements are carried out on the second business day after the deal was concluded in the "deal after deal" mode, and in case of insufficiency of assets of any participant for execution of obligations under a deal, such deal can be executed on account of the National Bank, provided it agrees to execute such deal.

For the primary GS market the possibility of conducting trading according to the T+2 scheme was also introduced; this scheme, equally as the T+0 scheme can be used when conducting auctions upon the choice of the GS issuer or the operator of the special trading session.

The project on the launch of the T+2 trading and settlement scheme on KASE started in 2015. Since that moment the Exchange according to a schedule switched groups of instruments to the new settlement scheme, after shares from KASE Index universe it was shares of the first liquidity class, then Eurobonds denominated in foreign currencies, and in 2018 – all GS.

Central counteragent (CC) on the currency market

On October 1, 2018 KASE began carrying out functions of the CC on the exchange's foreign currency market. The purpose of implementing CC functions in this market segment is to provide its participants with the Exchange's guarantee of fulfillment of their claims on deals concluded in case of a failure of any trading participant. Introduction of the CC on KASE's foreign currency market must increase its reliability and liquidity which on the whole promotes that exchange market.

The work on the project began in 2016, the following has been done so far:

- amendments were made to laws, statutory acts and internal documents of the Exchange;
- an automated risk management system was developed based on KASE's existing trade and clearing system; it ensures control of the sufficiency of marginal security of clearing participants;
- a WEB-module was developed for clearing participants, that in real time displays each participant's current net position, the value of his margin security, as well as margin requirements;
- the Methodology of defining clearing funds' amounts was developed;
- the Policy of investing the security of clearing participants and clearing funds was developed;
- the new tariff policy was developed.

KASE, taking into account potential risks related to the increasing number of participants, maintains stability on the currency market on account of improving the risk management system which includes the following elements:

- requirements for the financial position of clearing participants;
- setting categories of clearing participants defining the method of ensuring obligations on execution of deals;
- the system of defining risk-parameters of financial instruments;
- control of the security's sufficiency for clearing participants;
- re-valuation of the security and net positions of clearing participants;
- clearing reserve and guarantee funds;
- daily control of the sufficiency of guarantee contributions of clearing participants.

The CC's development outlooks for the years to come are related to the implementation of the Agreement on strategic cooperation between KASE and MOEX dated October 10, 2018, aimed at the introduction of the trade-clearing complex of Moscow Exchange, including the gradual implementation of the single security management system and risk management system for the stock market and money market.

After switching to the trade-clearing system of Moscow Exchange KASE plans to provide CC services on the stock market.

STRATEGIC LINE 2. MAKING THE EXCHANGE AND ITS SERVICES FOCUS MORE ON THE CUSTOMER

Interaction with market participants and clients of the Exchange

As part of this task the Exchange has worked on improvement of the is2in system in terms of using the personal cabinet with relevant features of the company, creation of the function of simultaneous sending of the necessary document to selected companies or groups of companies, creation of the function of automated generation of notification of companies of the need to provide documents, use of standardized comments to documents for sending.

For purposes of simplification of the procedure of posting information on the websites of the Financial reports depository (FRD) and stock exchange, also by way of using "one window" when posting information on the issuer's activities, an agreement was made with the Information and Accounting Centre JSC on integration of the FRD's and the Exchange's information systems and cost of such integration. Works along this line continue, with technical issues of the implementation of the integration of information systems in the focus.

Development of the corporate website

During the implementation of the Strategy 2016–2018 the corporate website was modernized. The new version of the official website www.kase.kz was launched on January 3, 2018. In 2018 work was done along two lines – testing of the website's performance and adding new sections. As part of new exchange projects the following tasks were implemented on the website in 2018:

- updating pages on the foreign currency market after a change in the exchange rate fixing procedure;
- creation of new pages of instruments due to the launch of Eurobonds trading in the issue

currency;

- adding content to the website pages due to appearance of new information, in particular, changes during connection to the trading system, update of information in section "Frequently asked questions";
- creation of section "Disclosure of information by companies";
- regular publication of information-analytical materials in sections "Speeches and presentations" and "Market reviews".

Improving the image of the Exchange and increasing awareness of its operations

The Exchange regularly organizes a series of information and explanatory events for journalists aimed at strengthening of partnership relations of the Exchange with media for purposes of shedding light on information about Kazakhstan's securities market.

In 2018 KASE held eight monthly media briefings and four press conferences devoted to quarterly results of the Exchange's operations.

To increase the brand recognition and retain the positive image of the exchange platform, programs like "KASE daily", "KASE weekly", "Stock market. Status Pro" were launched on Atameken Business Channel. Also, a short video presentation on the Exchange in Russian and English, and an image commercial of the Exchange in Kazakh and Russian were released. During 2018 ABCTV hosted 24 broadcasts called "Stock market: Status PRO", 193 issues of "On the course" and 40 "KASE weeklies".

In 2018 the exchange conducted a series of events associated with KASE's 25th anniversary.

On November 16, 2018 Kazakhstan Exchange Forum was held in Almaty as part of the VIII Congress of financiers organized by the National Bank of the Republic of Kazakhstan jointly with the Association of Financiers of Kazakhstan.

Kazakhstan Exchange Forum became the central discussion platform of the stock market and Central-Asian region shedding light on issues of economy funding through stock market instruments, development of the exchange infrastructure and promotion of exchange instruments; issues related to the integration process of the financial market, also within the EAEU and issues of the changing landscape of the market and financial services under implementation of digital technologies.

The event saw participation of more than 500 persons – heads of Kazakhstan's financial organizations, foreign stock exchanges, investment banks, government authorities, Kazakhstan's national and private companies, representatives of Kazakhstan's and international professional financial associations, international experts.

In the run-up to its 25th anniversary KASE released a book devoted to the history of the Exchange and Kazakhstan's financial market. The book was released in three languages: Kazakh – as "Болашақ құрылу тарихы", Russian – "Как создавалось будущее" and English – "Building the Future".

The book describes the history of Kazakhstan's financial market and the Exchange beginning from 1993 – the year of KASE's establishment. When writing the book, authors used KASE's archives, open sources and memoirs of persons who were pioneers on Kazakhstan's financial market.

The book is designed for a broad range of readers: from professionals of the financial market, and lecturers of economics universities – to students and all those who are interested in Kazakhstan's financial history.

At the same time, the Exchange launched an online project called "History in persons" – prepared and released on its website a series of materials (essays and interviews), consisting of personal memoirs of persons who played a substantial role in the development of the country's financial market. Some of them were used in the work on the book called "Building the future".

KASE's anniversary was also marked with the opening of the Exchange's museum that features more than 100 exhibit items representing historic value for Kazakhstan's stock market.

Another information platform of the Exchange is the project called KASE Talks that started in March 2018 in the format of public lectures with participation of leading professionals of the financial market who made a significant contribution to the building and development of Kazakhstan's financial market. The purpose of KASE Talks is to increase people's awareness of the conditions in which the financial market of the Republic of Kazakhstan evolves and main factors

influencing its development.

A total of six KASE Talks lectures were organized last year with the participation on Azamat Joldasbekov, Damir Karassaev, Eldar Abdrazakov, Sholpan Ainabaeva, Anvar Saidenov and Yelena Bakhmutova. Lectures gained popularity and gathered listeners of various categories in one auditorium: students, young specialists from banks and brokerage firms, journalists.

For purposes of implementation of the information policy aimed at creating interesting news content of the Exchange, KASE's official pages were created on social platforms for various targets auditoriums – from youth environment to expert community.

Improving the quality of services

The quality of exchange services is assessed based on the Methodology of assessing the satisfaction of the Exchange's clients with operations of the Exchange. The Methodology stipulates annual surveying with the purpose of assessing the quality of services KASE provides to its clients and main aspects of business processes used – grating the membership of the Exchange, training of traders, operation of the trading, clearing, settlements, information disclosure, information technologies and payment of exchange and clearing fees.

As part of the survey 43 members of the Exchange, 84 issuers and 7 structural units (self-assessment) were interviewed in 2018. The overall assessment of the satisfaction of clients of the Exchange made up 89.50%.

For servicing external users of information systems the Exchange launched a ServiceDesk in 2017. The service's functional provides for three levels of support: from inquiry and information service to technical maintenance. Exchange services are being steadily improved.

STRATEGIC LINE 3. IMPROVING THE EFFICIENCY AND COMPETITIVENESS OF THE EXCHANGE BUSINESS

Strategic partnership

On October 10, 2018 KASE and MOEX signed an Agreement on strategic cooperation. The agreement provides for purchase of MOEX's trade and clearing systems and acquisition of a stake in KASE by MOEX.

To attain targets set in the Agreement and increase revenues KASE and MOEX develop cooperation aimed at:

- provision of MOEX's trade and clearing systems for purposes of increasing the efficiency of KASE's markets, clearing, risk management and creation of new exchange instruments;
- launch of the CC on KASE's stock market and money market, expanding the list of instruments and services being used;
- development of KASE markets, increasing the volume of exchange trading and extending the number of trading participants,

- provision of trading participants and investors with mutual access to exchange markets of KASE and MOEX, attracting international investors to exchange markets of KASE and MOEX;
- using MOEX's experience with regard to KASE's receiving the status of a public company and conducting of KASE shares IPO.

On January 29, 2019 the Exchange and MOEX concluded a deal on selling 32,360 shares of KASE as part of the implementation of the Agreement on strategic cooperation signed by the parties earlier. Based on results of the deal, MOEX's stake in the Exchange made up 3.32% of outstanding shares.

Promoting market data

In 2018 Raiffeisenbank and analytical company Statpro Canada Inc. concluded agreements on receiving information services of KASE. As a result, 13 vendors disseminate market data.

The number of subscribers to viewing trading in real time via the Exchange's website makes up 161.

In August 2017 the Exchange's Board of Directors for purposes of optimizing operating and administrative costs took a decision to liquidate the Information agency of financial markets "Irbis" LLP (hereinafter in this section – the Agency) and hand over information dissemination functions from the Agency to the Exchange. The switching of the Agency's subscribers and the IRIS Finance software to KASE's operation was completed in 2018. As a result, 21 companies subscribed to KASE's information services. On December 24, 2018 the Exchange officially announced the liquidation of the Agency.

In the year under review KASE launched an information product called "Corporate events", including information on events like meetings of shareholders, dividend payout, redemption, repurchase, offering, splitting, default, changes in the structure of shareholders etc.

KASE continuously improves its technical infrastructure for purposes of increasing the quality of the service of market data provision, as well as works on creating new information products and services. In the course of implementation of the Strategy six disseminators of market data were attracted: Citigroup Global Markets Ltd, S&P Global Inc. (former SNL), Statpro Canada Inc., Freedom Finance JSC, Atameken Business Channel LLP, Raiffeisenbank JSC. Three of them were attracted by KASE's partner – Vienna stock exchange (WBAG).

In 2016 for purposes of promoting information products in mainland China, cooperation was established with China Investment Information Services Limited (CIIS).

KASE continuously improves its technical infrastructure for purposes of increasing the quality of the service of market data provision, as well as works on creating new information products and services. Thus, five new information products were launched from 2016 to 2018:

- Non-display / Derivative information
- Reference information
- Provision of information to members of the Exchange
- KASE news
- Corporate events

In 2017 KASE launched an information service in Telegram – bot @KASEInfoBot. The channel contains information on the currency and stock markets, information on indicator values, as well as on dividends. As of January 1, 2019 the number of its users made up 2,900.

Development of IT-systems

Works on migration of information systems into modern efficient third-party data processing centres (DPC) with high level of failure safety were completed. All information systems of the Exchange capable of operating on virtual servers, were moved to the virtualized environment.

In 2018 new modules for ensuring the operation of the Central Counteragent (CC) were launched in the NEXT trading system. Additionally, improvements were made in this system to provide brokers with access to currency trading.

For purposes of improving the main systems: trading system, clearing system, FIX-gateways the following items were launched in 2016-2018:

- BOS and CS – 9 versions and 5 sub-versions, 1 release and 4 pre-releases;
- ACT – 12 versions and 6 sub-versions;
- FIX TR – 7 versions;
- NEXT – 5 versions.

For purposes of increasing the failure safety of the trading systems, technical releases of the ACT and NEXT trading systems were launched in 2017.

Ensuring the information and technical safety

For purposes of ensuring the information and technical safety, the respective service desk of the Exchange in 2017-2018 carried out a series of legal, administrative, organizational and technical measures aimed at minimization of information safety risks and increasing the level of the Exchange's information safety.

Key controls and managerial processes on information safety were improved according to international safety standards, including ISO 27001, and to requirements of normative acts of the NBRK.

To reduce the risk of leakage of confidential information, additional mechanisms of logging, restriction and control of access to critical information were introduced.

For purposes of increasing the level of safety of the Exchange's information and communication infrastructure against possible cyber-attacks a series of checks were conducted to define the safety of the Exchange's computing network and information systems against cyber-attacks that may lead to a failure of the information systems and services they provide.

Based on results of the checks, in association with the IT department works were done to improve the architecture of the Exchange's computing network, equipment and software devoted to the protection of the Exchange's perimeter which allowed a substantial improvement of the level of safety of the Exchange's network and reduction risks of possible cyber-attacks.

Processes of physical safety of the Exchange were significantly improved, in particular, new rules of the entry regime, rules of ensuring the visual and objective control of the status of protected areas and rooms were developed and approved.

The combination of all measures allowed a significant improvement of the level of the Exchange's information safety and reduction of possible risks.



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GLOBAL CONTEXT

Fundamental factors of the situation on stock markets is the general economic situation. Under the pressure of global financial crises of previous years, central banks of major economies were cutting key rates in order to accelerate their economic growth. The positive impact of previous years' actions is confirmed by statistics. The growth rate of the global economy reached 2.4% in 2016, 3.137%¹ – in 2017.

According to forecasts of the International Monetary fund, the global growth rates in 2018 and 2019 will remain sustainable at 3.7%². Low interest rates were favorably influencing the situation on the stock market, however upon the recovery of the global economy, the risk was increasing that the quantitative easing programs will be cut and the quantitative hardening will be preferred. The difference of opinions of the market participants with regard to the speed of the switch of the monetary authorities to the austere monetary policy has increased the volatility on stock markets.

Since the beginning of the year global stock markets have shown a differently directed dynamics. January was characterized by a general optimism on stock markets against the background of decreasing tax rates and growing interest rates in the US, as well as optimistic growth forecasts for the global economy by leading analytical agencies. Market multipliers of the majority of stock market indexes have reached their historical maximums. Thus, the

value of the "price/net income" (P/E) multiplier of the broad market index S&P500 made up 20x.

However, a period of increased volatility began in the middle of the first quarter of 2018, brought about predominantly by worries of investors with regard to the acceleration of the process of tightening of the monetary policy in developed countries. First of all this is related to the US and Europe due to the increasing inflation and the slowing global trade affected by trade wars.

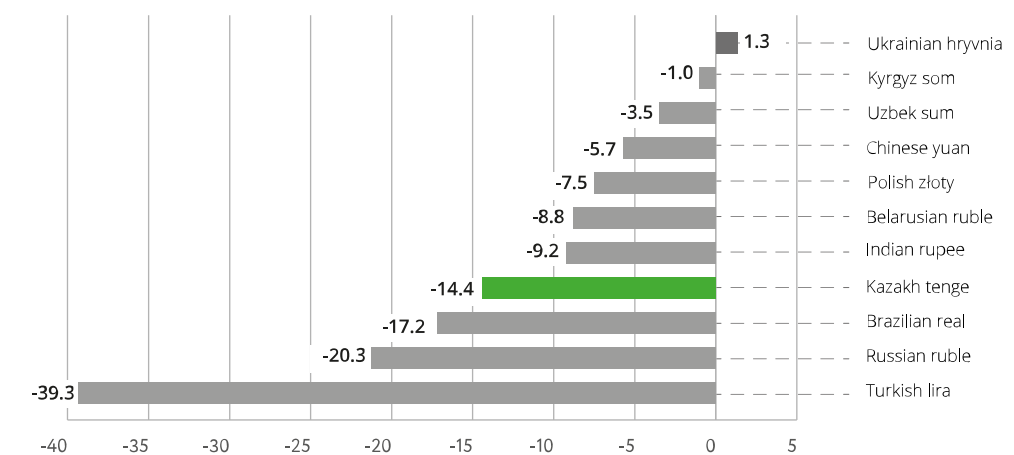
In the third quarter the markets were exposed to more anxiety provoked by sell-outs on emerging markets after foreign capitals fled due to structural problems of economies and significant strengthening of the US dollar. Against the general background of sell-outs only US stock markets operated in the black being supported by favorable macroeconomic conditions.

Markets were mainly driven by stock of companies from the technology sector, healthcare and non-FMCG. By the end of 2018 virtually all main stock markets indexes lost against the beginning of the year, however, if losses of European and Asian markets were measured with two-digit figures, US broad market indexes fit in the range of 5–6%.

Despite the currency fluctuations and introduction of the new package of anti-Russia sanctions the annual yield of Moscow Exchange Index reached 12% in 2018. Main factors that propped IMOEX index were high dividends of major Russian companies and increasing prices of the "black gold". Over the year MSCI Russia went down by 7.1% against minus 17.9% of MSCI Emerging Markets. It is worth noting that in January 2018 this indicator reached a record high for the past

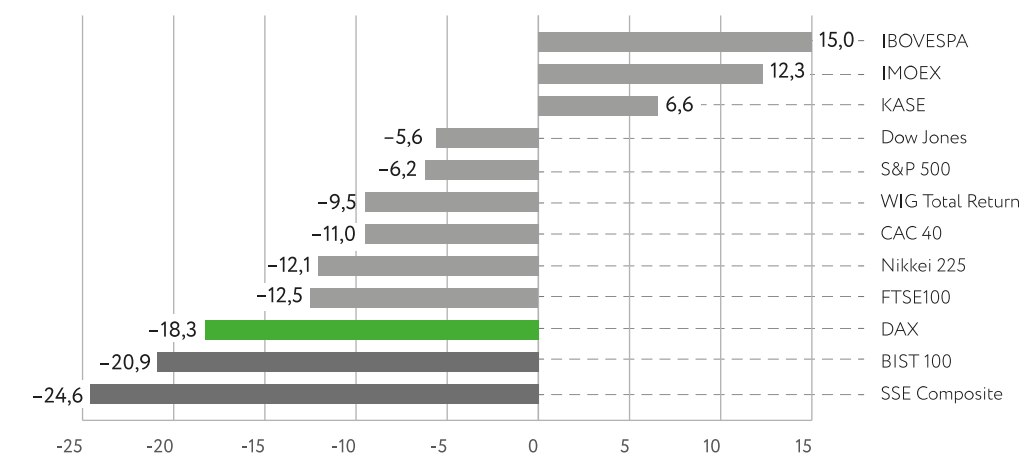
10 years (above 1255 points), however soon afterwards the index started to slump, declining by 25% to 965 points within less than 12 months. Nonetheless, the Russian market felt better than many other emerging markets. The majority of stock markets in emerging and developed countries "shrank" in 2018 after investors' capitals fled from shares to less risky assets.

Strengthening/ weakening of some emerging market currencies against US dollar in 2018



Source: Bloomberg

Major global stock indexes and KASE Index in 2018



Source: Bloomberg

1. IMF Data Mapper, Real GDP Growth, Annual percent change.
2. World Economic Outlook Update, January 2019.



KASE MARKETS

2018 was for Kazakhstan's financial market ambiguous, too: the market was affected by the slowdown of the global economy, trade wars and sanctions; foreign investors were less interested in tenge-denominated assets.

A distinguishing feature of 2018 was the presence of a turning point that divided the year in two periods with different moods. In the first quarter of 2018 the conditions of Kazakhstan's exchange market kept the mood of 2017, when thanks to the favorable situation on the securities market as a result of a stabilization of the tenge exchange rate and a decrease in interest rates of banking products we saw an increased demand for tenge-denominated exchange instruments both from Kazakhstan's residents and foreign investors.

Until the beginning of the second decade of April Kazakhstan's stock index was moving upwards continuing its ascension after conquering the 58% mark in 2016 and the 59% mark in 2017. Based on Q1 2018 results KASE Index was up 12.7%, for comparison during the same period in 2017 this indicator grew by 14.4%, in 2016 – by 13.1%. At the same time, the equity market was not overheated. If in May of the previous years, after the end of the traditional dividend payout period KASE Index revived, and corporate stories of the issuers were confidently pushing it upwards, in the year under review KASE Index was weakening together with the national currency.

Besides, a significant impact on KASE Index came from Kaz Minerals stocks that fell by the more than a third from KZT 3,800 to KZT 2,530 following the release of a negative forecast of several foreign investment banks with regard to the copper price in 2018 (copper prices fell indeed by 20% in 2018 because of a trade conflict between the US and China and pressure on the global demand¹) and an increased debt burden on the company after the purchase of Bayim copper mine in Russia. Based on 2018 results, KASE Index rose by 6.6% to 2,304.94 points.

The total amount of transactions in all sectors of the exchange market reached an equivalent of USD 372.1 bn, or KZT 127.8 trln. Despite the 15.6% decrease in the total trading volume in KZT terms and 20.4% decrease in USD terms, we have seen several important positive trends pointing at the gradual growth of the securities market's capacity.

The confident growth of the trading volume was to see on the securities market. Based on the year's results its value increased by 41.2% YoY, to KZT 4.9 trln. The total amount of trading on both the primary and secondary equity markets and corporate bond market showed more than a two-fold growth.

On the secondary equity market the amount of trading grew from KZT 261.8 bn to KZT 539.3 bn. With taking into account special trading sessions on the secondary market, the amount of trading increased from KZT 147.7 bn to KZT 431.5 bn over the year. The amount of trading in stock from the index universe rose from KZT 48.7 bn to KZT 168.4 bn. On the equity market the number of trading participants, the number of issuers and listed securities increased.

On the corporate bond market there was a significant growth in the primary offerings sector, whose volume rose 2 times to KZT 1,858.2 bn compared with KZT 864.5 bn in 2017.

In the sequence of important events regarding the securities market development, it is worth noting that Kazakhstan's GS were admitted to the international clearing system Clearstream, which is likely to influence the GS market's liquidity on account of more foreign investors coming over.

The foreign currency market's capacity didn't significantly change in the year under review. The amount of trading on the foreign currency market reached KZT 13.4 trln in 2018, which is up 9%, or KZT 1.1 trln, on the previous year. The growth trend was related to the slightly increased volatility of the currency market during periods of the pressure on the exchange rates of the ruble and tenge.

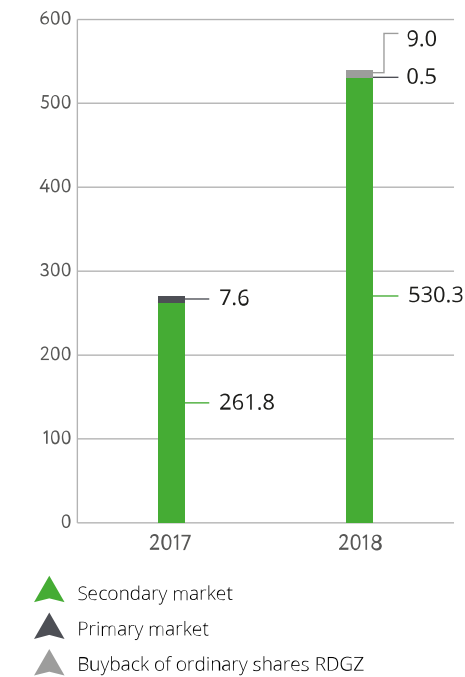
The money market demonstrated a relative decrease. The total amount of trading on the money market fell by 19.3%, or KZT 26.2 trln, to KZT 109.5 trln. The money liquidity shrank because of the decreased share of institutional participants on the currency swap market. In 2018 the inflation continued its gradual decrease to 5.3% APR in December (-1.8% APR YoY). Against this background the National Bank kept loosening its monetary policy, decreasing the base rate by 100 b.p. to 9.25% APR over the year. Based on results of the meeting on June 4, 2018 it was reduced to 9.00% APR. As before, the dynamics of the yield landmark defined the direction in which short-term borrowing rates on KASE moved. Accordingly, by the end of the year all indicators of the money market demonstrated a decrease. There were no tenge or dollar cash shortages, with the demand for money market instruments showing no big changes with regard to the repo market, and reducing on the part of the currency swap market.

1. Source: Bloomberg.

Securities Market

Shares

Trading volume on equity market, KZT in bn



In 2018, share trading volume has reached KZT 539.8 bn and has doubled compared to 2017.

The average daily trading volume amounted to KZT 2,194.5 mln, average number of transactions was 573, average volume of one transaction was KZT 3.8 mln.

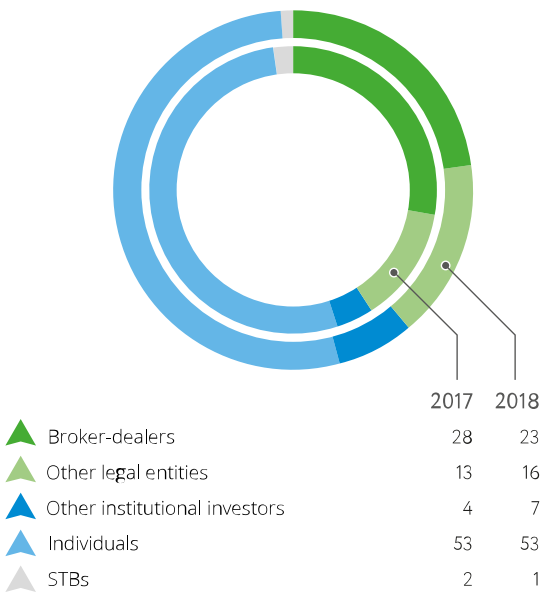
Trading volume on the primary market dropped by 93.1%. There was one offering of 10.5 thous. pieces of BAST's ordinary shares worth KZT 526.4 mln in the reporting period.

The volume of trading on the secondary equity market has doubled compared to 2017 from KZT 261.8 bn in 2017 to KZT 539.3 bn. This was largely due to a significant number of major transactions of irregular nature in the secondary market caused by the change of shareholders of several companies and KazMunayGas Exploration Production's shares buyback.

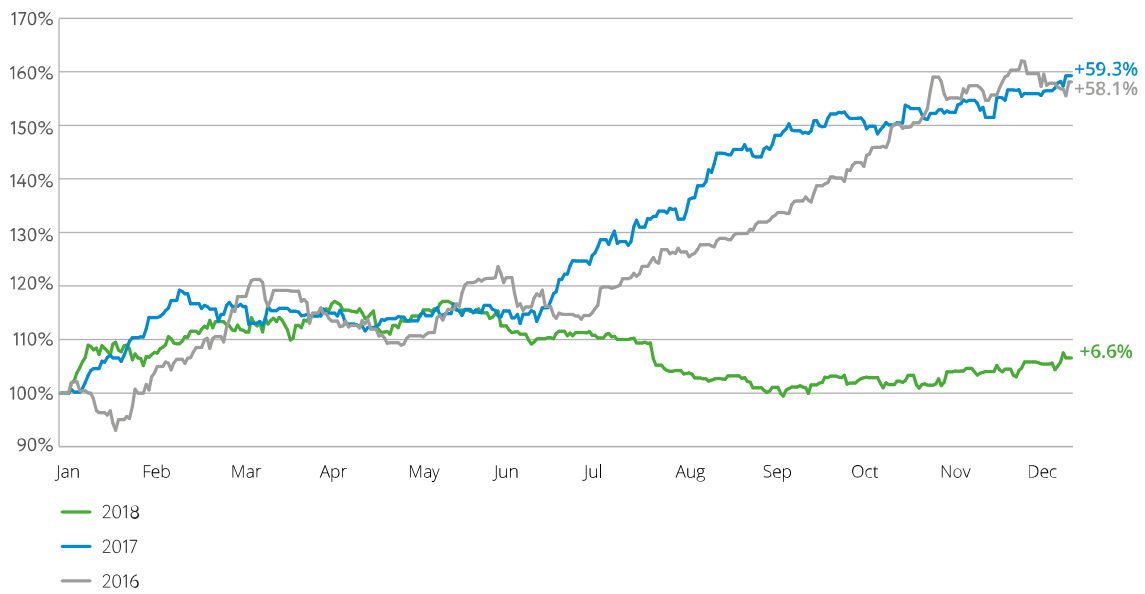
The buyback of ordinary shares of KazMunayGas Exploration Production was conducted on KASE in two stages. A total of 336,584 shares were bought back at the price of US\$84 for US\$28.3 mln (equivalent to KZT 9.0 bn) during buyback. The company also bought back 62.0 million of its GDRs at US \$14 for the amount of US \$868.0 mln (KZT 277.3 bn).

There were no significant changes in the structure of investors in the secondary equity market: individuals are dominating, their share comes to 53.3%. The number of opened accounts of individuals has increased with consistent great interest from retail investors. As at January 1, 2019, there were 116,824 accounts opened for individuals in the Central Depository, which is by 7,6 thous. accounts more than at the beginning of 2018. The increment was 3.9 thous. accounts in 2017. The share of the second-tier banks (STBs) was 1.1%, broker-dealers accounted for 22.6%, other institutional investors accounted for 7.3%, the share of other legal entities was 15.7%. The share of non-residents is estimated at 10.4%.

Shares of main types of investors at equity market, %



KASE Index movement in 2016-2018, %



KASE Index rose by 6.6% to 2,304.94 points in 2018. During the reporting period, ordinary shares of KazMunayGas Exploration Production and Bank of Astana were excluded from the basket of the KASE Index universe, and ordinary shares of Bank CenterCredit were included in the calculation.

Ordinary shares of Kazakhtelecom that increased by 63.4% or KZT 12,994 to KZT 33,499 per share rose most of all among shares in the KASE Index universe. A significant increase in prices of the company's shares was observed during the first half of 2018 amid news about rising revenues of the joint venture Tele2-Altel, planned payout of dividends and expectations for purchase of 75% stake in Kcell, which was completed by December 21. According to the deal, Kazakhtelecom has acquired 24% shares of Kcell from Telia Company and 51% shares from Fintur Holdings BV.

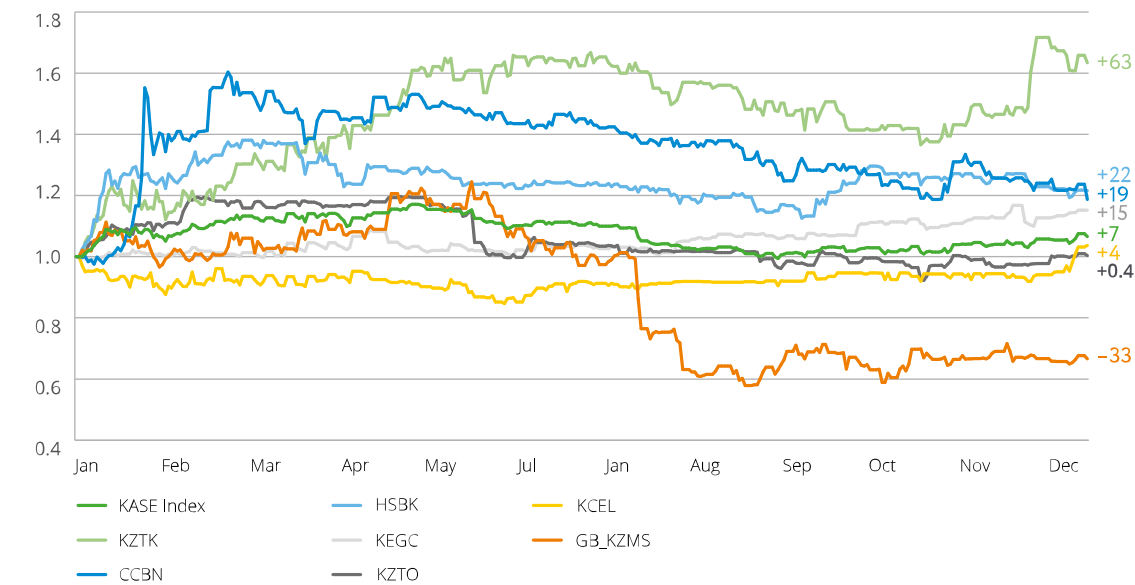
The shares of the Halyk Savings Bank of Kazakhstan rank the second by increment of value. The price of shares rose by 21.6% or KZT 17.82 to KZT 100.41 per share according to the year-end results. The price of shares has been increasing amid the bank's record profits and optimistic expectations of the growth of business after the merger of the two largest banks: Halyk Savings Bank of Kazakhstan and Kazkommertsbank. The bank paid a dividend of

KZT 6.31 per share for 2017 for the first time since 2015 on June 1, 2018.

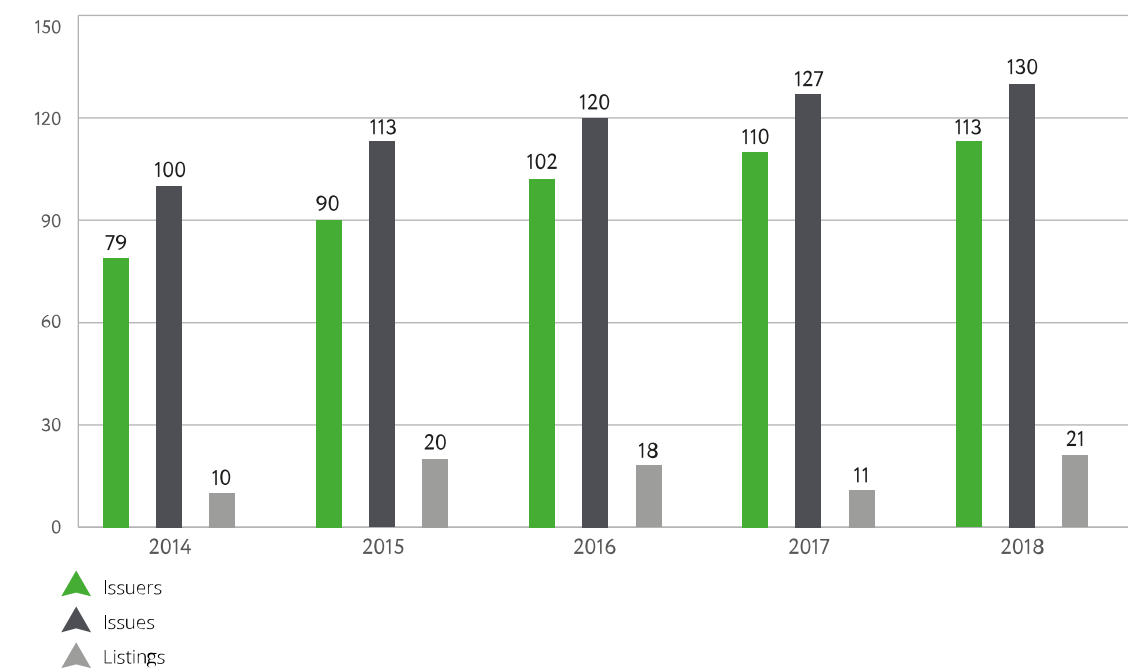
Stocks of Bank CenterCredit, which grew 18.7% or KZT 36.97 to KZT 234.21 per share ranked the third. The rally on shares began on January 24, 2018. The growth in quotations was accompanied by increased volume of transactions, was not supported by fundamental factors but was preceded by news about the change of shareholders of the bank.

According to the year-end results, only stocks of KAZ Minerals PLC, which dropped by 33.4% or KZT 1,270 to KZT 2,530 per share, have showed a decline. This was mainly due to fact that investors have negatively assessed the acquisition of the Baimskaya copper-gold deposit in Chukotka and due to the slump in copper prices in summer 2018 by almost 20%.

KASE Index components



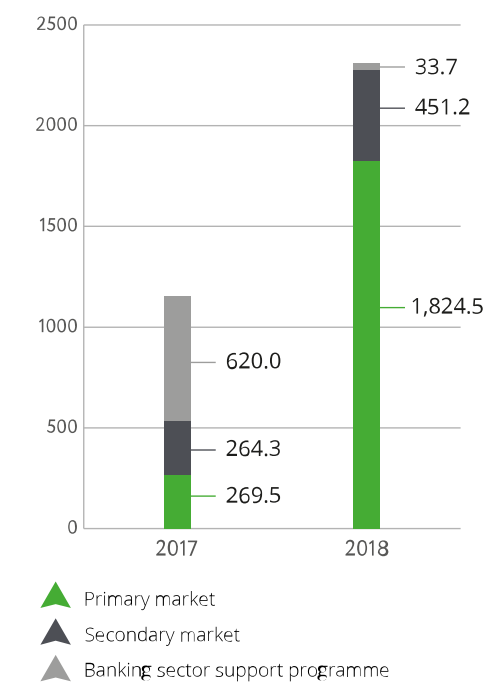
Change in the number of listed shares over the past 5 years



Equity market capitalization declined by 10% and amounted to KZT 15.5 trillion over the year, which is the lowest since July 2017. Such significant decline in capitalization is related to the delisting of ordinary shares of Kazkommertsbank and KazMunaiGas Exploration and Production.

Both the number of share names in KASE lists and the number of their issuers grew in 2018 to historical highs: 130 and 113, respectively, including three shares of three companies in the unlisted market. Over the past period, 21 titles of shares of 18 companies have been included in the KASE Official List including 14 issues of 13 new issuers, whose securities have never been included in the Exchange's lists and shares of two companies in the unlisted market. The number of shares rose by 10 share titles, the number of issuers rose by 7 compared to the last year.

Corporate bonds

Trading volume on the corporate bond market,
KZT bn

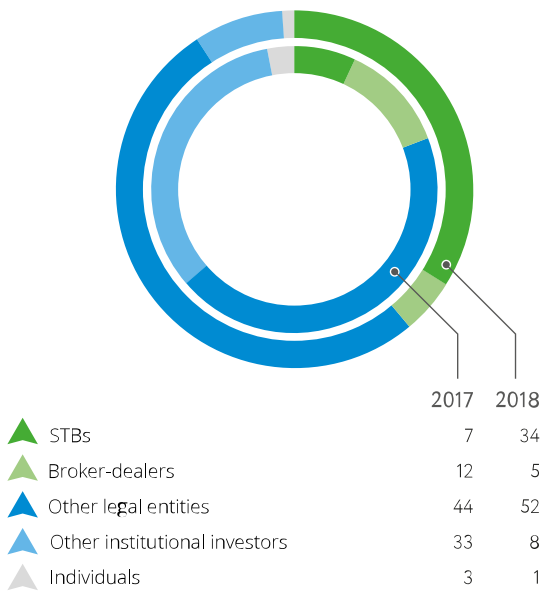
Total trading volume in the corporate bond market reached KZT 2,309.4 bn, which is historically the highest, having doubled compared to 2017. The volume of transactions grew both in the primary and the secondary markets.

The average daily volume amounted to KZT 9,387.9 mln (KZT 1,834.2 on the secondary market); average number of transactions was 9, average volume of one transaction was KZT 1,048.3 mln (KZT 218.4 mln on the secondary market).

A total of 24 issuers raised KZT 1,858.2 bn, and market rates ranged from 8.5 to 13.5% in the reporting year. The largest share - 30.7% and 24.2% of the total volume of placements - belongs to the bonds of KazAgro National Management Holding worth KZT 570 bn and the Fund of Problem Loans worth KZT 450 bn, respectively. The inclusion of these bonds in the calculation of capitalization resulted in the 21-per-cent increase of this indicator to KZT 10.8 trillion.

Trading volume on the secondary corporate bond market rose by 56% to KZT 451.2 bn. Main categories of investors were as follows: legal entities accounted for 51.6% of the largest share of the total gross turnover; the second-tier banks that mostly purchase bonds to hold them to maturity accounted for 34.1%. There were major transactions on the secondary market as in 2017, but the concentration of volume by instruments in the reporting year was lower.

Shares of main investor types at the secondary corporate bond market, %



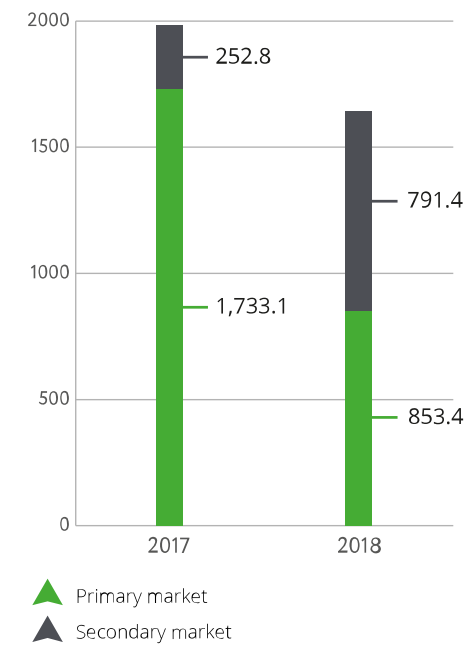
Taking into account the dynamics of KASE_BMC indicator, which is calculated at net prices, the establishment of the corporate bond market can be divided into two stages. KASE_BMC indicator steadily grew from the beginning of the reporting year until September. The positive dynamics was supported by the relative stability of the tenge exchange rate and gradual decline in the inflation, which allowed the National Bank to also gradually reduce the base rate from 10.25% at the beginning of the year to 9.0% in June. Deterioration in the external economic conditions, which began in April, has increased volatility of the tenge and inflation risks. In this regard, the financial regulator of Kazakhstan decided to increase the base rate by 25 bps to 9.25% APR on October 15. The base rate remained at this level until the end of the reporting year. The weakening of the tenge and the increase in the base rate was expressed by a sharp drop in KASE_BMC indicator in September. Despite one-per-cent reduction of the base rate over the reporting year, KASE_BMY corporate bond yield index rose by 79 bps to 11.14% APR. The rise in corporate bond yield index was driven by a sharp rise in the exchange rate of the USD/KZT currency pair to its historic high, which led to a sell-off of tenge assets and to a plunge in prices of corporate securities. Trading volume of government securities amounted to KZT 1,644.8 bn and dropped by 17.2% compared to 2017.

The launch of trades in Eurobonds with T+2 settlements in US dollars on September 17 became an important event of the year 2018 in the corporate bond sector. Multilateral netting is done and single collateral pool, which includes Eurobonds of 21 names, is used for transactions in Eurobonds.

A total of 247 bond names of 62 issuers were included in KASE trade lists as at the end of the reporting year. In 2018, 41 issues of bonds of 26 issuers including seven issues of six new issuers underwent listing procedure.

Government Securities (GS)

Trading volume on the government securities market, KZT bn



The average daily volume amounted to KZT 6,686.3 mln (KZT 3,217.0 on the secondary market); average number of transactions was 6, average volume of one transaction was KZT 1,166.5 mln (KZT 634.1 mln on the secondary market).

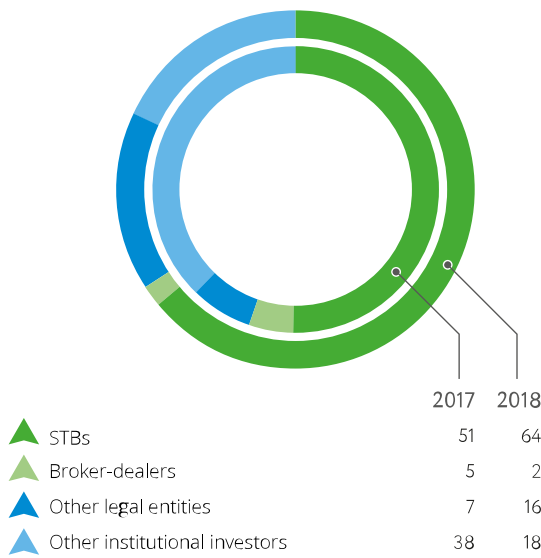
Trading volume of government securities on the primary market fell by 50.8% compared to 2017, activity at the secondary market has increased threefold. In 2018, volume of placements amounted to KZT 853.4 bn, including KZT 98.1 bn raised by the administrations of 14 regions, cities of Almaty and Astana at 0.35% APR as part of the government's housing financing programme. The administration of the city of Shymkent raised KZT 10 bn at 9% APR. The Ministry of Finance raised KZT 745.4 bn at 8.4-8.7% APR.

Main categories of investors on the primary market were as follows: the share of STDs accounted for 1.0%, broker-dealers accounted for 1.0%, other institutional investors – 85.9%, other legal entities – 13.0%.

The volume of trading in the secondary market rose from KZT 252.8 bn in 2017 to KZT 791.4 bn. The share of trading in notes of the National Bank on the secondary market amounted to 85.5% of the total turnover of trades compared to 79.9% in 2017. This was primarily due to the increase of these short-term debt instruments in the circulation. Thus, the average amount of outstanding notes was KZT 2.9 trillion in 2017. In 2018, it increased by 31% and reached KZT 3.8 trillion.

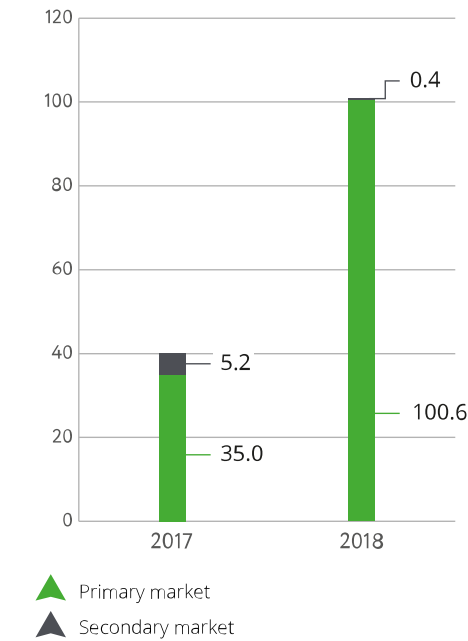
Main categories of investors on the secondary market were as follows: the share of STDs accounted for 63.9%, broker-dealers – 2.0%, other institutional investors – 17.9%, other legal entities – 15.9%, individuals – 0.3%. The share of non-residents amounted to 1.5%.

Shares of main types of investors in the secondary government securities market, %

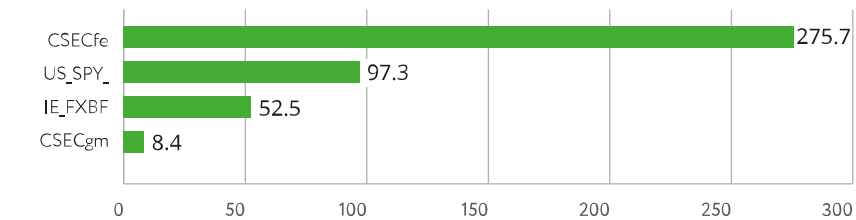


Securities of International Financial Institutions

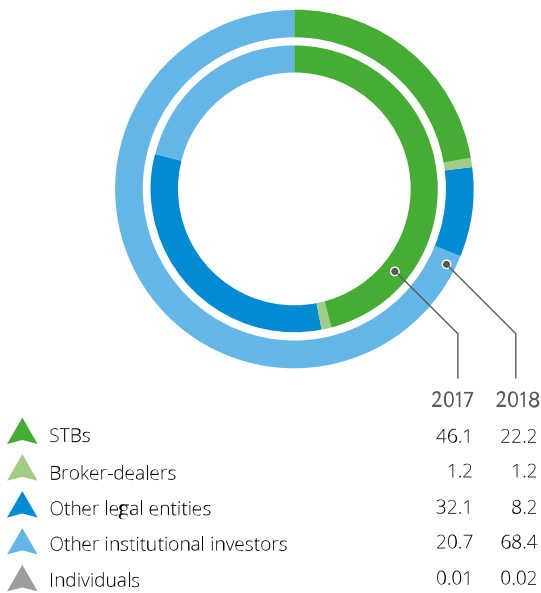
Trading volume on the IFI bond market, KZT bn



Volume of transations in the market of investment funds' securites broken down by instruments, KZT mln



Shares of main types of investors of the total gross turnover of trading in IFI bonds, %



The market of international financial institutions' securities received new impetus for development in the reporting year. Five issues of the Eurasian Development Bank and two issues of the International Finance Corporation were included in the Exchange's Official List.

There were 14 bond issues of three international financial institutions in trading lists as at the end of the reporting period: The Eurasian Development Bank, the European Bank for Reconstruction and Development and the International Finance Corporation.

The total trading volume amounted to KZT 101.0 bn.

Trading volume on the primary market reached KZT 100.6 bn. During the year, the Eurasian Development Bank raised KZT 90 bn placing three issues of three-year bonds at 9.1% for the amount of KZT 50 bn, one issue of five-year bonds at 9.5% for the amount of KZT 20 bn, and one issue of four-year bonds at 9.7% APR for the amount of KZT 20 bn. International Finance Corporation raised KZT 10.6 bn on KASE placing global amortized notes of unsecured debt at 8.3% APR with term to maturity of 4 and 7.5 years.

The volume of secondary market was KZT 421.1 mln.

Main types of investors on this sector were as follows: the share of STDs accounted for 22.2%, broker-dealers – 1.2%, other institutional investors – 68.4%, other legal entities – 8.2%. The share of individuals in this market segment amounted to less than 0.1%.

Securities of Investment Funds

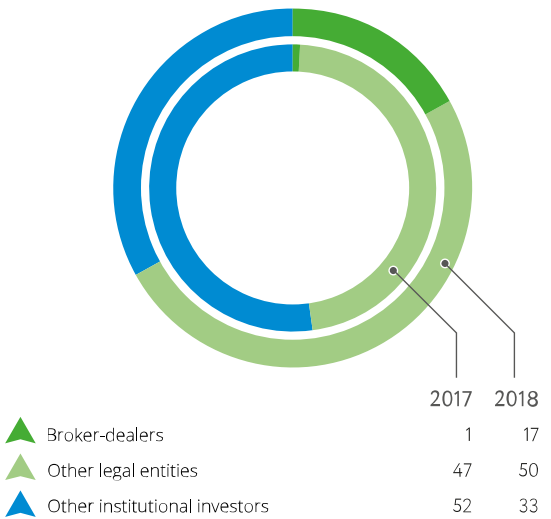
The introduction of a new instrument - KASE Index ETF - is an important event for the market in 2018. Trading in shares (IE_FXBF) of segregated sub-fund FinEx FFIN Kazakhstan Equity ETF opened on KASE with settlement scheme T+2 as of December 14. This instrument allows to ensure diversification of an investor's portfolio without unnecessary expenses as it contains all most liquid shares rolled into one. Earlier, starting October 16, trading in this instrument opened on the Moscow Exchange market.

As at the end of the reporting period, there were seven instruments managed by six companies in the sector "Securities of investment funds". Trading volume amounted to KZT 434 mln over the past period, which is lower than the result of 2017 by 58.7%.

The leaders in terms of volume were units CSECfe (KZT 275.7 mln; 71 transactions) managed by Centras Securities, units managed by State Street Global Advisors ranked the second; shares of the sub-fund FinEx FFIN KazakhstanEquity ETF ranked the third.

In 2018, the share of individuals in the gross turnover of trades insignificantly declined to 33.0% from 51.8% in 2017. The share of broker-dealer firms and other legal entities increased to 16.9% and 50.1% from 1.1% from 47.0%, respectively.

Shares of main types of investors in the total gross turnover of trading in securities of investment funds, %

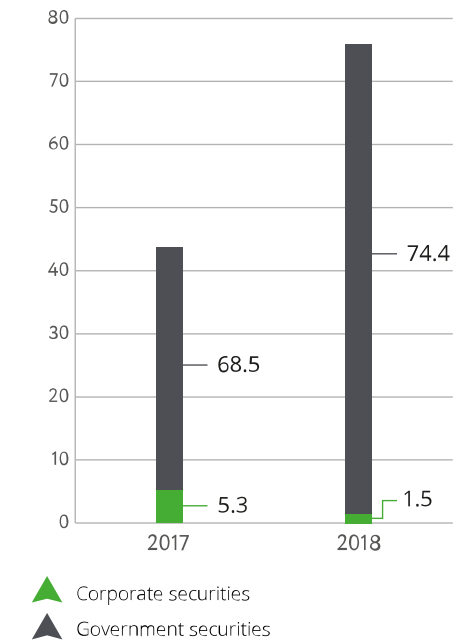


Money Market

Total trading volume of money market reached KZT 109.5 trillion having declined by 19.3% or by KZT 26.2 trillion compared to the same indicator of the last year. This indicator has declined due to falling currency swap trading volume.

Repo transactions

Trading volume in the repo market, KZT trillion



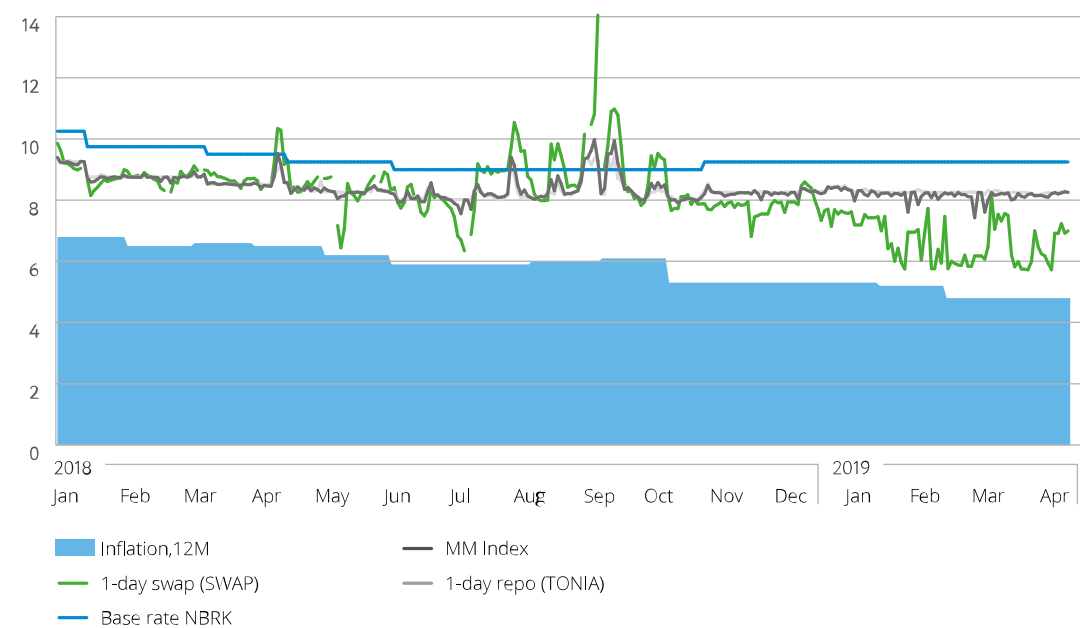
Trading in the repo market was held in a calm and smooth manner owing to the continuing excess of tenge liquidity in the banking sector. Trading volume in this segment reached KZT 75.9 trillion and was evenly spread by months just as it did last year: year-on-year rise in trading volume reached 2.8% or KZT 2.1 trillion with an average daily trading volume of KZT 308.4 bn (a 2.4% increase compared with last year's figure). With relatively stable trading volumes, market participants began raising funds by pledging securities as collateral for longer terms in 2018. Weighted average term of repo transactions increased by 21.7% to 2.16 days in the reporting year, compared to 1.78 days in 2017. Taking into account the extensions and early closing of positions, the actual weighted average term of repo transactions in 2018 was 2.52 days compared to 2.27 days in 2017.

98.0% of the total volume of repo opening transactions accounted for auto repo transactions with GS basket. One-day repo transaction remains the most popular instrument on the GS auto repo market. The share of such transactions in the total volume of trading on the GS autorepo market amounted to 86.1%.

A total of 47 members of the Exchange participated in repo market transactions in 2018. More than 84% of the total trading volume in this segment was represented by banks. The share of non-residents was insignificant and amounted to 0.2%.

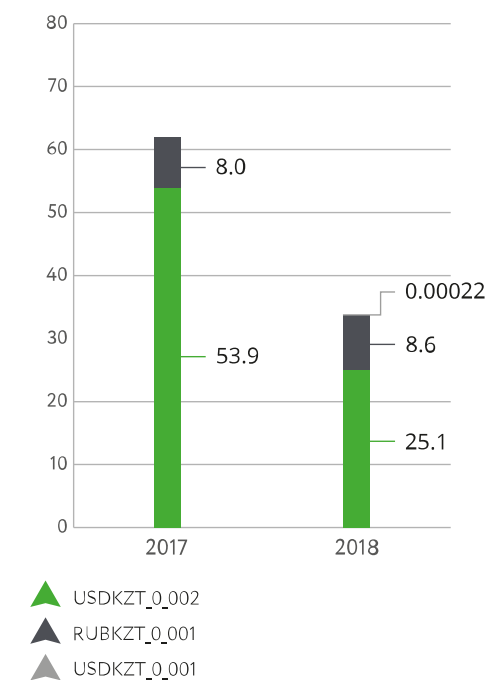
TONIA indicator, which is a weighted average interest rate on one-day repo transactions, dropped by 106 bps to 8.26% APR. Meanwhile, the value of TWINA indicator, which reflects weighted average interest rate on seven-day repo transactions, dropped by 158 bps to 8.27% APR.

Inflation and money market interest rates



Currency Swap Transactions

Trading volume on the currency swap market, KZT trillion



Trading in new instruments opened on KASE on April 9, 2018: foreign currency swap transactions with CNY/KZT currency pair (CNYKZT_0_001 and CNYKZT_0_002) and RUB/KZT (RUBKZT_0_001 and RUBKZT_0_002).

On 20 September, the Eurasian Development Bank was assigned market-maker's status on instrument RUBKZT_0_001 on KASE. Four transactions were concluded with instrument RUBKZT_0_001 for the total amount of KZT 219.5 mln in September and October.

In order to increase the efficiency of the monetary policy transmission mechanism and to develop the derivatives market, the National Bank decided in April 2018 to start one-day currency swap transactions on KASE markets both to provide and withdraw liquidity. Withdrawal of liquidity is done using one-day LIBOR rate; liquidity is provided at the base rate of the National Bank plus 2% APR. As a result, the yield of the one-day dollar swap SWAP-1D (USD) was in the narrower limits compared to 2017, and by the end of the year it dropped by 246 bps to 7.43% APR. SWAP-2D (USD) indicator also dropped by 365 bps to 7.38% APR.

Trading volume on the currency swap market dropped by 45,6% to KZT 33.7 trillion. Average daily volume of transactions amounted to KZT 136.9 bn, which is by 45.9% lower than similar indicator of the last year. Over 74,5% of the total trading volume (KZT 25.1 trillion) in the structure of instruments of the currency swap market accounted for two-day currency swaps (USDKZT_0_002).

Foreign Exchange Market

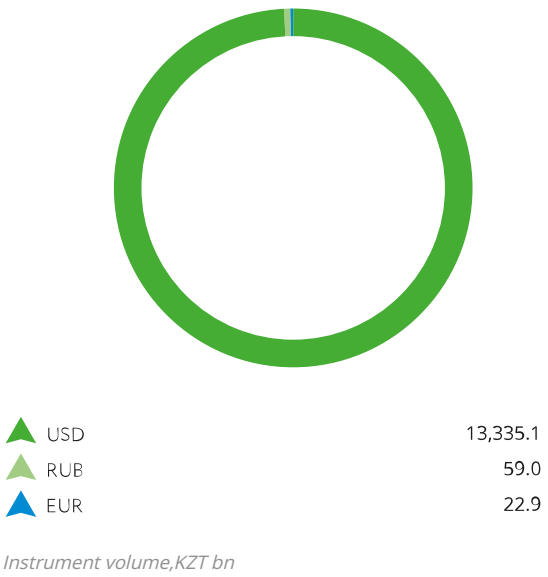
In 2018, total volume of trading in the Forex market amounted to KZT 13.4 trillion, which is by 9.1% or KZT 1.1 trillion higher than last year. 34 KASE members participated in Forex trading since the beginning of the year. The average daily trading volume amounted to KZT 54.7 mln (+8.7% against 2017), average number of transactions was 316 (-33 against 2017), average volume of one transaction was KZT 172.8 mln.

US dollar. In the first half of the reporting year, the national currency gradually strengthened against the dollar following the usual seasonal dynamics. This was facilitated by both the period of exporters' tax payments and strong growth of Brent crude oil prices.

The introduction of new anti-Russian sanctions by the U.S. early April became the first significant external shock. At the same time, USD/RUB exchange rate rose by 8.5% during the period from April 5 and 11. This weakening of the ruble against the dollar had influenced exchange rates of other currency pairs on KASE: USD / KZT exchange rates rose by 3.5% and RUB/KZT exchange rates dropped by 6.4%. The subsequent smooth weakening of the tenge took place amid exodus of capital from emerging markets due to the continued tightening of the U.S. Federal Reserve's monetary policy.

The expansion of anti-Russian sanctions in August led to market participants' reaction similar to the April reaction. Plunging oil prices moved to the bear market phase after reaching its more than four-year high in early October and became an additional factor of pressure on exchange rates.

Trading volume of FX market

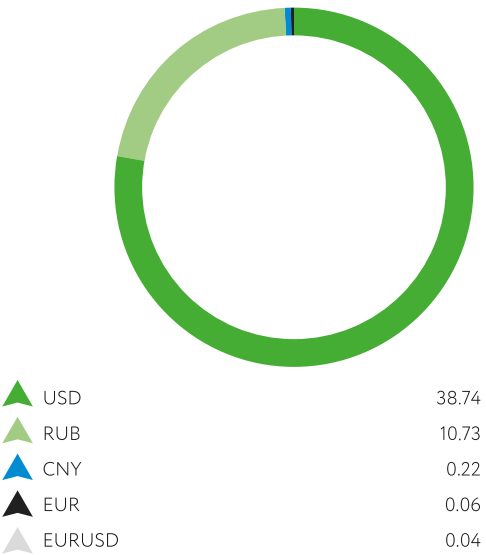


The National Bank decided to raise the base rate by 25 bps to 9.25% APR on October 15 for mitigate increased inflationary pressure from the foreign exchange market. There were no sharp fluctuations in exchange rates in the last quarter of 2018. However, in the run-up to the New Year holidays, exchange rates of foreign currencies soared again on KASE. Thus, the last trading day of 2018 ended with a new historical high of the USD/KZT currency pair: weighted average rate of one dollar on KASE at the end of the two sessions was KZT 384.20 (the previous record high was KZT 383.91 on January 21, 2016).

Russian ruble. The volume of trading in the ruble dropped by 71.4% to RUB10.7 bn. This decline was mainly due to the high base effect of 2017. An additional factor of the decline in participants' activity is the increased turbulence of the exchange rates of the tenge and the USD/RUB currency pair, which has gave more attention to the dollar. Thus, the number of transactions with the ruble was 1,546, which is by 764 and 1,198 transactions less than in 2017 and 2016, respectively. A total of 20 members of the Exchange participated in the trading with the ruble, while a year earlier the number was 21.

Chinese yuan. Market participants are showing increasing interest in trading with the yuan. The volume of transactions almost doubled to CNY218.0 mln. The number of transactions diminished by 341 to 545, but the average volume of transactions tripled to 400.0 thousand per transactions.

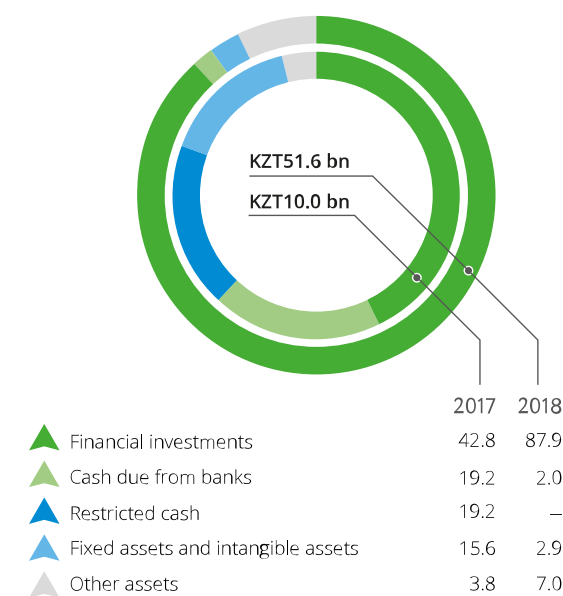
Volume of instrument, KZT bn



OPERATING AND FINANCIAL RESULTS

Assets

KASE Asset Structure, %



As of December 31, 2018, the Exchange's assets amounted to KZT 51,583.8 mln, an increase of 415.3% (KZT 41,574.3 mln) compared to the last year indicator.

Significant growth of assets is due to the fact that since October 1, 2018, the Exchange has been acting as a central counterparty on the foreign exchange market, being a party for each participant in all transactions concluded at the exchange-based trading and guarantees their execution on a net basis.

In the structure of assets, money and their equivalents increased from KZT 102.8 mln to KZT 26,720.5 mln mainly on account of guarantee contributions and security for exchange-based transactions of clearing members on the Exchange's accounts. The portfolio of securities rose from KZT 4,156.1 mln to KZT 18 593.2 mln owing to investments of these funds in short-term notes of the National Bank of Kazakhstan.

Equity and Liabilities

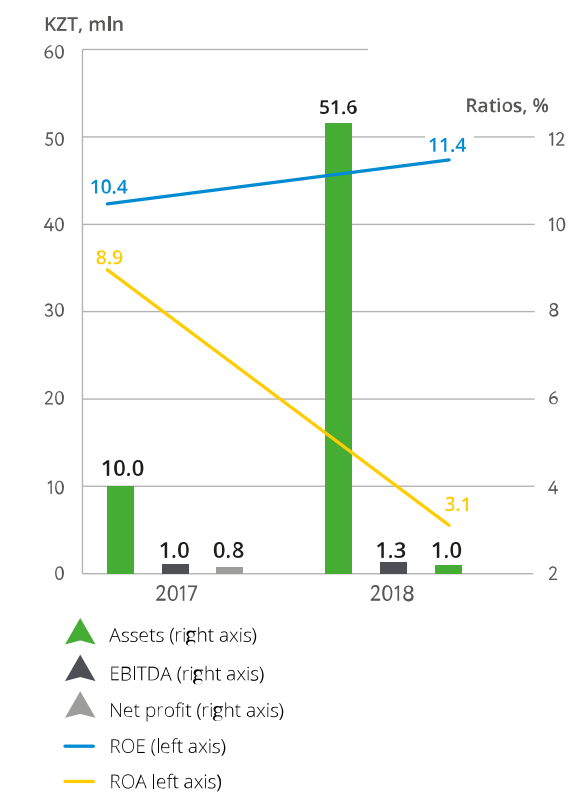
The Exchange's liabilities increased by KZT 40,674.3 mln to KZT 42,671.8 mln, of which 91.7% (KZT 39,141.4 mln) are liabilities to clearing members (on guarantee contributions and security).

The Exchange's shareholders' equity for the reporting year increased by 11.2% (KZT 900.0 mln) to KZT 8,912.mln on account of net income recorded in retained earnings item. The share of shareholders' equity in the structure of liabilities was 17.3%. The amount of the Exchange's charter capital has not changed, dividends were not paid.

In 2018, the Exchange bought back its own shares for the total amount of KZT 62.1 mln at the request of shareholders on the basis of its Board of Directors' decision. Other funds increased by KZT 1,510 mln and amounted to KZT 1,750 mln as a result of the increase in clearing reserve funds formed using retained earnings.

Revaluation reserve for fixed assets decreased due to amortization of the revaluation amount by KZT 1.2 mln and amounted to KZT 179.9 mln.

Key performance indicators



Revenues

The Exchange's revenues amounted to KZT 3,080.9 mln according to the 2018 results, which is by KZT 559.3 mln or 22.2% higher than the last year results. Income from services and commission fees amounted to KZT 2,360.8 mln having increased by KZT 421.3 mln or 21.7%. Interest income rose by KZT 117.4 mln or 21.2%.

The increase in interest income was due to an increase in the amount of money invested.

Income from commission fees (42,1%), listing fees (30,4%) and membership fees (14,4%) represent the largest shares of the Exchange's revenue structure.

The Exchange's commission fees amounted to KZT 993,7 mln having increased by KZT 305.9 mln or 44.5%. This growth is associated with the increased activity in the corporate bond market and growing trading volume in the repo market.

The Exchange's listing fees in 2018 increased by KZT 64.0 mln or 9.8% having reached KZT 718.2 mln. This growth is due to the increases in the value of MCI and the rise in the volume of securities issues.

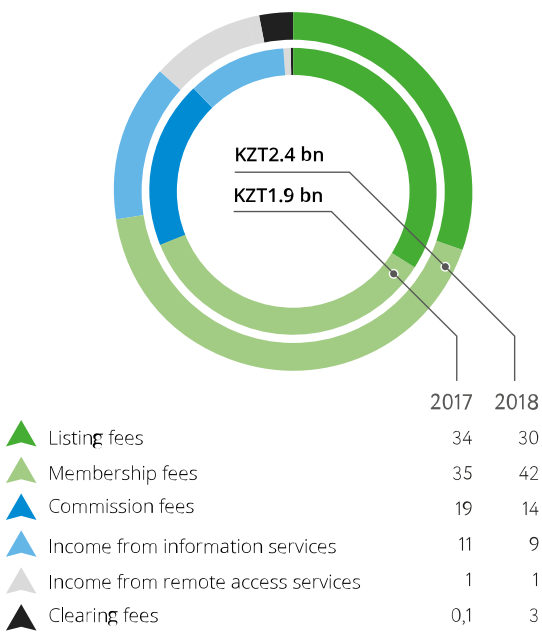
Income from membership fees decreased by KZT 19.5 mln or 5.4% compared to 2017 and amounted to KZT 340.5 mln, which is related to the decrease in the number of KASE members by the "currency" and "stock exchange" category. The total number of KASE members has reduced from 56 to 52 entities.

In addition, KASE has reduced the rates of the monthly membership fee in the foreign exchange market and at the same time introduced clearing fees in this market segment. Thus, the decrease in membership fees was offset by an increase in clearing fees.

The Exchange's clearing fees amounted to KZT 73.4 mln having increased by KZT 71.4 mln over the year due to the above stated reason.

Revenue from information services diminished by KZT 8.8 mln or 4.2% in 2018 and came to KZT 203.8 mln. This decrease is related to the reduced number of recipients of stock market data.

Revenue structure by main types of services



Expenses

The Exchange's expenses for the year amounted to KZT 1,938.68 mln and increased by KZT 322.71 mln or 19.9% compared to the previous year. This increase is mainly due to the increase in staff expenses and related taxes, the increase in business development costs.

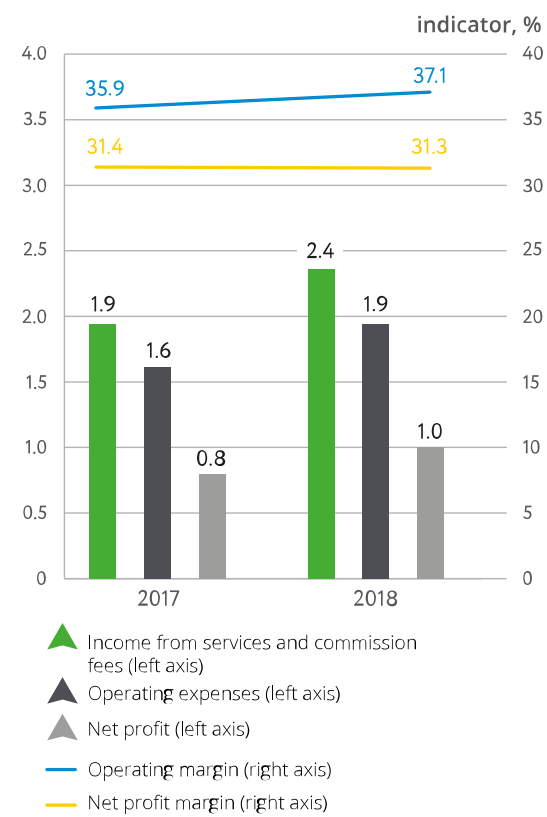
The greatest share of the Exchange cost structure is represented by staff expenses (63,2%) and depreciation and amortization (6,8%).

Exchange's Operating Results

The Exchange's net profit for 2018 amounted to KZT 965.31 mln, which is by 21.8% higher than the last year results. EBITDA increased by 24.8% and made KZT 1,298.35 mln. The Exchange's operating income increased by 22.2% while operating expenses increased by 19.9%, and, therefore, operating profit margin¹ increased to 37.1% in 2018 against 35.9% a year earlier. Net profit margin² was maintained at 31.3% against 31.4% last year.

The return on equity (ROE) increased from 10.4% to 11.4% according to the 2018 results. The return on assets (ROA) decreased from 8.9% to 3.1% as a result of significant increase in assets for the above reason.

KASE operating performance indicators



1. Income before tax / Operating income ratio

2. Net profit / Operating income ratio

INTERNATIONAL ACTIVITIES





The Exchange continues its activities in the international arena to learn international practices and to raise awareness of foreign issuers and investors about Kazakhstan's stock market.

The Exchange is a member of such international exchange associations as the World Federation of Exchanges (WFE), the Federation of Euro-Asian Stock Exchanges (FEAS) and the International Association of Exchanges of CIS (IAEx of CIS) and takes an active part in the work of these organizations.

The Exchange is a member of WFE's working groups on financial technologies, small an medium businesses, emerging markets and sustainable development. As part of the working groups, the Exchange has participated in research on attracting foreign investors to emerging markets and on attracting SMEs to stock markets.

The Exchange is a member of a number of working groups on regulatory issues, investor engagement and sustainable development within the framework of FEAS. The chairman of the Exchange's Management Board has chaired the FEAS's working committee from 2015 to 2018. The Exchange was actively involved in the development of the new development strategy of FEAS. Active participation in FEAS is accompanied by the study of international practices and helps to strengthen the Exchange's international relations with foreign exchanges and their members.

In November 2018, the Exchange held the Kazakhstan Exchange Forum "The Role of Stock Exchanges in Sustainable Development of the Economy" within the framework of VIII Congress of Financiers organized by the NBRK jointly with the AFK and the Exchange. Foreign exchanges, chairpersons of exchange associations and representatives of international financial organizations participated in this forum. As part of the event, an extraordinary meeting of members of IAEx of CIS was held, where participants shared information on the projects implemented and discussed common strategic plans.

The memorandum of cooperation was signed with the Toshkent National Stock Exchange (UZSE) aimed at in-depth cooperation between the two exchanges in 2018. Granting of access to the stock markets, exchange of experience, mutual admission to trading of securities on the Exchange and the UZSE are envisaged as part of the cooperation.

The Exchange signed the memorandum of cooperation with the Baku Stock Exchange (BSE) to improve the efficiency and competitiveness of the two parties through the exchange of experience and market data.

The Exchange participated in a roundtable meeting organized by the International Finance Corporation (IFC) on the issues of disclosure, transparency and dissemination of practices for evaluation of environmental, social responsibility and corporate governance criteria (ESG criteria) in respect of companies in emerging markets as part of the Exchange's accession to the UN Sustainable Stock Exchanges Initiative (SSE Initiative).

The Exchange held working trips, presentations, introductory and explanatory meetings with financial institutions, exchanges and regulators in U.S., Great Britain, China, UAE, Egypt, Greece, the Sultanate of Oman, Russia, Uzbekistan and Tajikistan.



CORPORATE REPORT

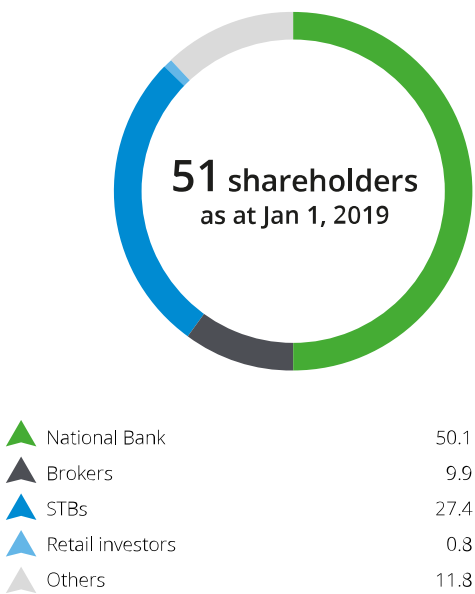
- 62 Corporate Governance
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CORPORATE GOVERNANCE

Information about shareholders

As at January 1, 2019, the total number of authorized shares of the Exchange amounted to 5 mln pieces; 942,013 of them are outstanding. The Exchange bought back 13,329 pieces of shares. The Exchange has 51 shareholders including banks, brokerage firms and retail investors (individuals). The National Bank owns 50.1% of the total number of outstanding shares.

KASE shareholders' structure, %



General Meeting of Shareholders

General Meeting of Shareholders is the supreme management body of the Exchange in accordance with the legislation of the Republic of Kazakhstan. List of issues pertaining to the competence of the General Meeting of Shareholders is defined by the Law of the Republic of Kazakhstan "On Joint Stock Companies" and the Charter of the Exchange.

On May 30, 2018, General Meeting of Shareholders formed new Board of Directors:

- three unelected members of the Board of Directors (two representatives of the National Bank of Kazakhstan as an authorized body and owner of "a golden share" and the chairman of the Management Board of the Exchange by virtue of his/her position);
- three independent directors of the Exchange;
- three members representing interests of the Exchange's shareholders.

KASE Board of Directors

The Board of Directors is the governing body of the Exchange that carries out general management of the Exchange except for the matters that are within the exclusive competence of the General Meeting of Shareholders of the Exchange according to the Law of the Republic of Kazakhstan "On Joint Stock Companies" and/or the Charter of the Exchange.

Meetings of the Board of Directors of KASE in 2018 were conducted on a regular basis in accordance with the Regulations on the Board of Directors. The Board of Directors held extraordinary meetings on an as-needed basis.

During the reporting period, the Board of Directors considered both issues of strategic and current operations of the Exchange within its competence. The issues on the agenda and decisions made on these issues are recorded in the relevant minutes of meetings of the Board of Directors of the Exchange and the decisions taken by absentee voting of its members.

During the reporting period, the Board of Directors of the Exchange held 24 meetings in presentia and 14 meetings by absentia, reviewed and approved 48 documents of the Exchange governing its internal operations including amendments to the existing internal documents of KASE in accordance with the legislation of the Republic of Kazakhstan on securities market and on joint stock companies.

The Board of Directors included the following persons during 2018:

Representatives of the authorized body under the Law of the Republic of Kazakhstan "On the Securities Market"

Zhanat Kurmanov
(Chairman of the Board of Directors) – Deputy Chairman of the National Bank of the Republic of Kazakhstan;

Adil Mukhamedzhanov
Director of Monetary Transactions Department of the National Bank of the Republic of Kazakhstan;

Head of executive body on the basis of the Charter of the Exchange

Alina Aldambergen

Chairman of the Management Board of KASE;

Elected members of the governing body under the Law of the Republic of Kazakhstan "On Joint Stock Companies"

Eldar Abdrazakov

Chairman of the Board of Directors of Centras Securities JSC;

Talgat Ayupov
Director of Treasury, Halyk Bank of Kazakhstan JSC;

Kadyrzhan Damitov
independent director of KASE.
member of the Board of Directors and an independent director of the Unified Accumulative Pension Fund

Victor Kyshpanakov
Deputy Chairman of BCC Invest JSC Board - Subsidiary of Bank CenterCredit JSC;

Igor Marich

independent director of KASE
Managing Director for the Money and Derivatives Markets of PJSC Moscow Interbank Currency Exchange MICEX-RTS

Mirlan Tashmetov
independent director of KASE.

The following committees of the Board of Directors and commissions of the Exchange operate at the Exchange under the Board of Directors to consider the most important issues and to make recommendations to the Board of Directors.

In accordance with the Law of the Republic of Kazakhstan "On Joint Stock Companies":

- Budgeting and Strategic Planning Committee of the Board of Directors;
- Internal Audit Committee of the Board of Directors;
- Committee for Personnel, Remuneration and Social Issues of the Board of Directors.

The following bodies operate at the Exchange in accordance with the Requirements for an organizational structure of a trades organizer and for the composition of a stock exchange's listing commission approved by the resolution of the Management Board of the National Bank of the Republic of Kazakhstan:

- Listing Commission;
- Committee for Financial Statements and Issuer Audit of the Board of Directors.

The Commission on Disputes and Conflicts Resolution operates in accordance with the Procedure for Settling Disputes and Conflicts Emerging During Execution of Transactions with Financial Instruments approved by a decision of the Board of Directors.

Management Board of the Exchange

The Management Board is a collegial executive body and it manages day-to-day activities of the Exchange, except for the matters that are within the exclusive competence of the General Meeting of Shareholders and/or Board of Directors of the Exchange according to the Law of the Republic of Kazakhstan "On Joint Stock Companies" and the Charter of the Exchange.

Powers of members of KASE Management Board were extended until 2020 by the decision of the Board of Directors of the Exchange dated July 20, 2017.

The procedure for setting up and for operation of committees and commissions of the Board of Directors of the Exchange, their numbers, competence, functions and composition are regulated by internal documents of the company approved by the Board of Directors.

The following meetings were held in 2018:

- 16 meetings of the Budgeting and Strategic Planning Committee of the Board of Directors;
- 12 meetings of the Committee for Personnel, Remuneration and Social Issues of the Board of Directors;
- 11 meetings of the Internal Audit Committee of the Board of Directors;
- 13 meetings of the Listing Commission as well as 21 instances of absentee voting of this commission;
- five meetings of the Committee for Financial Statements and Issuer Audit.

During 2018, the Board of Directors fully accomplished goals, objectives, functional duties established by the Corporate Governance Code, the Charter of the Exchange, Regulations on the Board of Directors, which resulted in the positive financial results of the Exchange in 2018.

The composition of the Management Board of the Exchange:

Alina Aldambergen, Chairman of the Board;

Idel Sabitov, Deputy Chairman of the Management Board;

Kairat Turmagambetov, Managing Director for Development;

Natalya Khoroshevskaya, Deputy Chairman of the Management Board;

Andrei Tsalyuk, Deputy Chairman of the Board.

Information on remuneration

Payment of remuneration and reimbursement of expenses to the members of the Board of Directors and of the Management Board of the Exchange are made in accordance with the terms and conditions of contracts concluded with them. The amounts of bonuses to the specified executives are determined by the General

Meeting of Shareholders in respect of the members of the Board of Directors and by the Board of Directors in respect of the members of the Management Board based upon financial and operating results of the Exchange in the respective financial year.

Remuneration to members of the Board of Directors

In accordance with the Law of the Republic of Kazakhstan "On Joint Stock Companies", the Charter of the Exchange and the Regulations on the Board of Directors:

- monthly remuneration of the members of the Board of Directors shall be determined by the decision of the General Meeting of Shareholders of the Exchange;
- the amount of annual bonus to any member of the Board of Directors shall not exceed 85% of the total monthly remuneration paid to this member of the Board of Directors for all months of the year for which the bonus is being paid out;
- annual bonus shall not be paid to members of the Board of Directors, who participated in less than 50% of the Board meetings, absentee voting of members of the Board of Directors, meetings of Board of Directors' committees, other standing committees and commissions of the Exchange, the members of which were these members of the Board of Directors, during the reporting financial year.

During 2018, members of the Board of Directors of the Exchange were paid KZT 47,879,434 (forty-seven million eight hundred and seventy-nine thousand four hundred and thirty-four tenge).

Bonuses are not set and are not paid to the following members of the Board of Directors of the Exchange that are representatives of the government bodies of the Republic of Kazakhstan or who are persons that cannot receive bonuses in accordance with the legislation of the Republic of Kazakhstan:

- representatives of the National Bank of the Republic of Kazakhstan that are members of the Board of Directors under paragraph 4 of Article 84 of the Law of the Republic of Kazakhstan "On Securities Market" and subparagraph 1) of paragraph 3 of Article 17 of the Charter of the Exchange;
- chairman of the Management Board of the Exchange, who is a member of the Board of Directors by virtue of his/her position on the basis of subparagraph 3 of paragraph 2) of Article 17 of the Exchange's Charter.

Bonuses to the members of the Management Board of the Exchange

In accordance with the Law of the Republic of Kazakhstan "On Joint Stock Companies", the Charter of the Exchange and the Regulations on the Management Board:

- monthly official salary of a member of the Management Board shall be determined by the decision of the Board of Directors;
- The Board of Directors makes decision on setting the amount of annual bonuses to Management Board members for the reporting year based on the review of the performance results of the Management Board and the Exchange over the reporting year;

- amounts of annual bonuses to members of the Management Board are determined by the decision of the Board of Directors upon evaluation of work of each member of the Management Board during the reporting year;
- The Board of Directors may decide on a lump sum payment to the Management Board member.

During 2018, members the Management Board of the Exchange were paid KZT 195,665,726.91 (one hundred ninety-five million six hundred and sixty-five thousand seven hundred and twenty-six tenge and 91 tyins).

RISK MANAGEMENT SYSTEM

Risk management at the Exchange is an integral part of the Exchange's corporate culture and it plays an important role in strategic decision-making.

Risk management is carried out at all levels in accordance with the recommendations of international standards ISO 31000, 27001, 22301 and the requirements of the national regulator.

Self-assessment of the compliance with international standard ISO 31000 in the area of risk management was conducted during reporting year. The self-assessment was conducted keeping in mind that the Exchange's status of the financial market infrastructure provider and that the Exchange is an organization that is engaged in financial activities. The risk management system is largely compliant with recommendations of the Standard ISO 31000 and is incorporated into the Exchange's existing internal risk management documents. Risk management system and risk mitigation procedures are improved on a regular basis.

Relevant structural subdivisions ensure continuous improvement of risk management system, independent risk assessment and monitoring. The Internal Audit Service assesses whether risk management and internal controls system is appropriate and effective and makes recommendations to improve the Exchange's operations.

The Exchange is guided by the following principles when it builds its risk management system:

- creating and protecting an activity aimed at achieving goals;
- risk management as an integral part of all areas of the Exchange's activities;
- risk management as part of the decision-making process;
- considering an uncertainty and the possibility of expressing it;
- using a systemic, structured and timely approach to risk management;
- using available information in risk management;

- compliance of risk management system with the Exchange's needs;
- taking into account human and cultural factors when building risk management system;
- transparency of risk management system and engagement of all stakeholders;
- changing the system when external and internal events change;
- continuous improvement of the Exchange's operations;
- careful review and monitoring by each subdivision of the Exchange for the purposes of risk identification.

For the purposes of its activities, the Exchange classifies risks as follows:

- operating;
- credit;
- market and system;
- legal;
- reputational;
- liquidity risk;
- other risks.

Integrating risk management functions into business processes allows to identify risks, to evaluate their impact, to respond effectively to them in order to minimize negative impacts and/or to reduce the probability of risks occurrence in future.

The following was done during the reporting period in order to maintain effective risk management process on an ongoing basis:

- Information was exchanged between structural subdivisions on issues related to the detection, identification, assessment and control of risks;
- Measures are taken to mitigate and avoid risks, including introduction of a uniform operating procedures and elements of risk management system; current risks assessment is carried out including their monitoring; risk management parameters were revised; the work on improving regulations on the Exchange's activities is conducted; monitoring and control of all activities planned to minimize risks is conducted;
- Stress and back-testing of risks to own portfolio, clearing funds' portfolio and clearing members' security portfolio;

- The Methodology for Calculating Provisions on Financial Instruments based on International Financial Reporting Standards has been developed and is being applied;
- A training on risk management system and internal risk management instruments was conducted for heads of structural subdivisions and briefings relating to timely identification and high-quality risk management were conducted with heads of subdivisions in order to enhance risk culture of the Exchange's employees, to establish risk-based approach to managerial and operational decision-making. To make sure that the employees of subdivisions that are risk owners and subdivisions that have identified risks properly understand the requirements for risk management system and to raise the level of responsibility of each employee, such employees of the Exchange are provided consultations when structural subdivisions provide information on risk events on an ongoing basis;
- The Investment Committee, a collegiate body established under the Management Board of the Exchange, makes decisions on investing assets in accordance with the adopted investment policy and taking into account assessment of risks inherent in financial instruments. The Exchange improves regulatory framework for investment activities by developing, among other things, the Methodology for Determining the Probability of Default of Financial Instruments. The Investment Committee held 49 meetings during the reporting period;
- The Exchange has the Market Risk Committee, a standing collegiate body under the Management Board of the Exchange, which is tasked to analyze, monitor, identify and manage risks associated with the situation in the financial markets, the activities of the Exchange, its counterparties: members of the Exchange, issuers and investors. The Market Risk Committee held 20 meetings during the reporting period;

- A risk identification procedure is conducted, namely, a survey was conducted to identify and assess risks in order to develop and further monitor risk registers, risk maps, key risk indicators by identifying risk factors and risk objects based on comprehensive analysis of all business processes.

In 2018, the Exchange began to act as a central counterparty in the foreign exchange market within the framework of the implementation of KASE Development Strategy for 2016-2018 in terms of expanding clearing activities.

The presence of a central counterparty in FX market provides security and guarantee to the participants of the exchange-based FX market that the requirements relating to concluded transactions would be met if any participant of trades fails to perform its obligations. It is achieved through the establishment of risk management system at the FX market. Internal regulatory documentation was updated as part of the project on the introduction of the central counterparty in accordance with the legislation of the Republic of Kazakhstan.

Given the changes in the Exchange's structure and its strategic development plans, the Exchange improves risk management system and takes risk-oriented approach to management decisions on an ongoing basis.

In the AML/CFT area, the Exchange ensures that its activities comply with the requirements of the legislation of the Republic of Kazakhstan by taking measures aimed at combating laundering of illegally gained income and financing of terrorism. Being a subject of financial monitoring, the Exchange informs the authorized body about the transactions made by its clients that are subject to financial monitoring in accordance with the requirements of the laws of the Republic of Kazakhstan on the AML/CFT. The Exchange has developed procedures for client due diligence and for identifying transactions subject to financial monitoring.

INTERNAL AUDIT

Internal Audit Service, which conducts its activities under the laws of the Republic of Kazakhstan, operates at the Exchange. The Service assesses the effectiveness of risk management system and internal controls in the area of corporate governance and the Exchange's operational activities relating to:

- the compliance of the Exchange's activities with the requirements of the laws of the Republic of Kazakhstan, the Charter, internal documents and resolutions of the Exchange's bodies;
- achievement of the Exchange's strategic objectives;
- efficiency and effectiveness of the Exchange's operations and its development plans;
- reliability and integrity of information on financial and economic activity of the Exchange;
- safeguarding of assets;
- quality operation of information systems, processes and procedures, the organizational chart of the Exchange, their compliance with applicable standards and best practices, the

- adequacy of the Exchange's resources to ensure its activities and achieve its goals;
- security of the Exchange's information assets.

The Internal Audit Service monitors changes in the control environment and risk levels on the Exchange's activities in order to timely make relevant changes in the approaches used as part of implementation of individual tests on an ongoing basis. Shortcomings detected and possibilities for improving risk management system and internal controls of the Exchange as well as recommendations on the improvement of these systems are reflected in the Internal Audit Service's reports and are communicated to the responsible units, the Management Board and the Board of Directors of the Exchange. Based on the Service's recommendations, the Exchange's Management Board approves action plans for execution by the Exchange's subdivisions and the Internal Audit Service regularly monitors the implementation of these actions plans.

CORPORATE RESPONSIBILITY AND STAFF

KASE forms corporate responsibility by implementing HR policies, including creating favourable and creative working environment for KASE staff members, through staff selection and recruitment system, employee performance assessment, by forming corporate culture, as well as by training and developing KASE staff members.

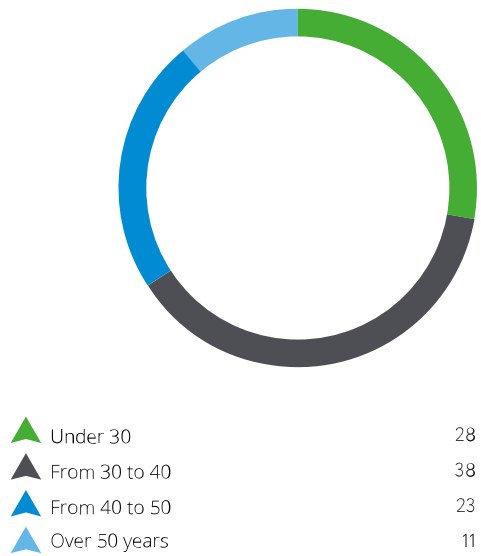
HR Statistics

As at January 1, 2019, the number of KASE staff was 153 persons with a headcount of 147 persons.

The below is the key information on the KASE staff structure at the end of the reporting period.

Staff's Age Structure

KASE employees by age groups



In 2018, most employees were aged from 30 to 40. The average age of employees is 36 years. Meanwhile, the share of newly hired young professionals aged under 30 was 45% in 2018.

KASE Staff Education

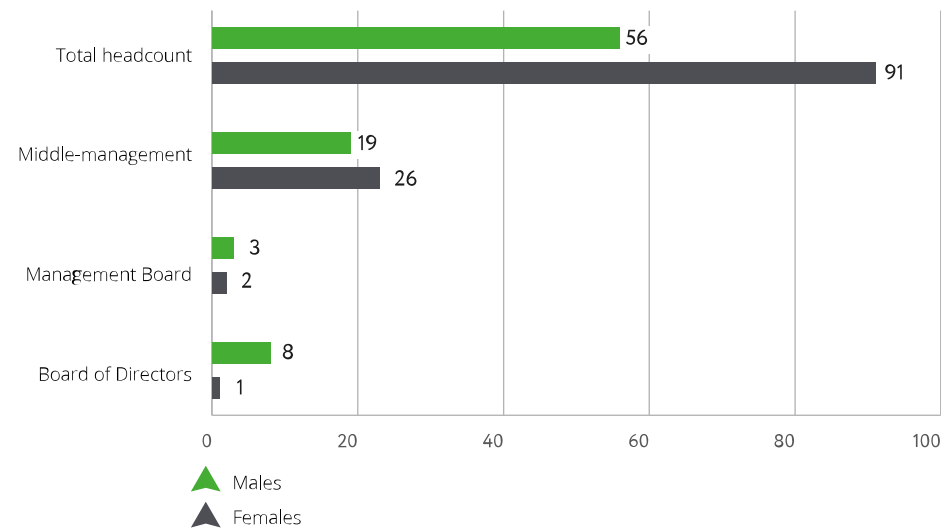
The Exchange encourages employees to gain new knowledge and develop existing competencies and skills. As at the end of the reporting period, majority of KASE employees (97%) have higher education, of which 20% have received postgraduate education, including PhD degrees (7%). Ten per cent of employees received education abroad.

Gender Composition of KASE Staff

KASE has joined global initiatives to support gender equality in order to empower women, to expand their rights and economic opportunities and to enhance their role in the society.

Total number of female employees is 61.9% and the male employees account for 38.1%. Top management (Board of Directors) is represented mainly by male employees (88.8%).

Distribution of KASE employees by gender



Implementation of HR Management Policy

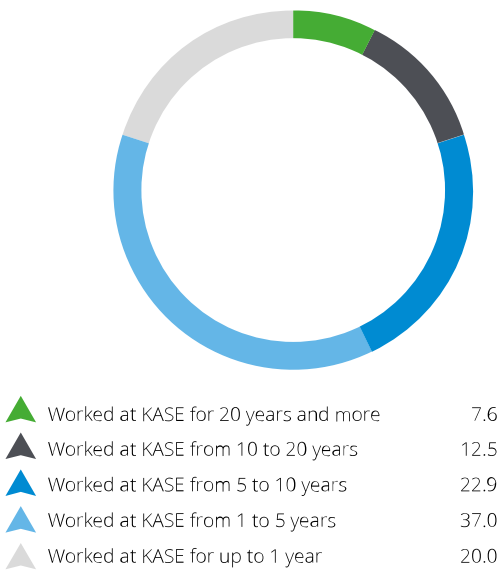
In implementing its HR policy, KASE pays attention to optimization of the Exchange's business processes, fostering employee loyalty, employee performance appraisal, development of KASE corporate culture as well as to the staff training and development.

The positions of managing directors, whose main task was to implement projects aimed at developing the business in the following areas: improvement of listing procedures, attracting issuers and investors, as well as interaction with KASE members were introduced in order to improve the efficiency of structural subdivisions of KASE.

Loyalty of KASE Employee

An important indicator of the employee loyalty is relatively low employee turnover rate, which was 12.67% in 2018.

In the meantime, the majority of employees (37%) have been working with the Exchange for up to 5 years, 13% of employees have been employed with the Exchange for more than 10 years, employment history of 7.6% employees with the Exchange is 20 years or more.



Employee Performance Appraisal

In accordance with HR Policy, employee performance appraisal system is implemented in order to stimulate the achievement of corporate and individual objectives and plans of the Exchange, as well as to improve performance of the Exchange's staff members as a whole.

Staff Training and Development

Training and skill improvement is part of HR management policy of KASE. Main priorities in this area are to acquire new knowledge and skills necessary to achieve strategic goals of KASE. In 2018, 40 employees of the Exchange were trained in such areas as project management, building strategic business models, changes in tax laws, risk management, combating money laundering and terrorism financing, strategic and operational management, learning PL/SQL packages and program units and operation and support of IT services.

KASE Corporate Culture Development

KASE corporate culture is one of most important elements of non-financial employee motivation. It represents a system of fundamental values and standards that helps to form positive psychological climate among employees, to foster employee loyalty and to create favourable environment for effective work, supporting employees' cohesion and commitment to the goals and objectives set by KASE.

Corporate events were held in 2018 in order to improve internal communications. The Exchange's employees were actively involved in the preparation and organization of such events as Nauryz Meiramy, Almaty Marathon, Children's Day, teambuilding with former KASE employees, 25th anniversary of the Exchange, New Year and other internal corporate events.

The KASE team hiked the Great Almaty Peak (3,681 m) and unfurled the Exchange's flag there as part of the events dedicated to the 25th anniversary of KASE.

To mark the 25th anniversary of the Exchange, 44 employees including former employees were awarded by the following nominations: Long-Service Employees of KASE, Honorary Employees of the Exchange and For Contribution to the Development of the Exchange.

12 employees were awarded commemorative medal "Ules" and one employee was awarded KFA's public order "Distinguished Financier" for dedicated and distinguished work and the contribution to the development of Kazakhstan's financial sector on the occasion of the celebration of the 25th anniversary of the national currency of Kazakhstan.

Social Responsibility

KASE pays special attention to its corporate social responsibility in order to achieve sustainable development. One of the areas of this activity is the improvement of the financial literacy of young people. For example, 28 students including students from the Sultanate of Oman, underwent practical training and internships on KASE in 2018.

Employees of various units of the Exchange including KASE management conduct educational lectures about stock market in the Exchange's premises and at universities on ongoing basis. In 2018, four introductory lectures were conducted: for undergraduates of the National Bank of Kazakhstan (37 participants), for ALMAU students (42 participants), Kazakh-German University (15 participants), Caspian University (10 participants) and pupils of the National Physics & Mathematics School (66 participants).

In 2018, KASE employees showed their social responsibility by taking an active part in organizing and holding a charity event for lonely elderly people living in a nursing home for the elderly, conducted painting workshop, organized a tea party, held live communication and presented them painting materials as a gift.

Environmental Responsibility

In its work, KASE continues to adhere to environmental principles:

- Measures of lean consumption of paper, consumables and energy resources are applied;
- electronic documentation management systems, including electronic reporting systems, are being improved;
- measures are being implemented to reduce energy consumption and improve energy efficiency.

TERMS AND ABBREVIATIONS



BSE	Baku Stock Exchange
Clearstream	International Central Securities Depository, a part of the Deutsche Börse Group
CNY/KZT	Chinese yuan with settlements in tenge
EBRD	European Bank for Reconstruction and Development
ETF	Exchange Traded Fund
Euroclear	clearing system of settlements between banks on the secondary market of Eurobonds and other securities
EY	Ernst & Young
FEAS	Federation of Euro-Asian Stock Exchanges
GRI	Global Reporting Initiative
IFC	International Finance Corporation
IIRC	International Integrated Reporting Committee
IPO	Initial Public Offering
is2in	electronic document management system
IT	Information Technology
KASE	Kazakhstan Stock Exchange JSC name abbreviation
KASE_BMC	"clean" price index of the main market
KASE_BMY	corporate bonds yield index for the main market;
KAZRC	Kazakhstan Association for Public Reporting of Exploration Results, Mineral Resources and Mineral Reserves
LSE Group	London Stock Exchange Group
MiFid	The Markets in Financial Instruments Directive — The EU Directive regulating investments in financial instruments
MOEX	Moscow Exchange PJSC
MSCI Russia	Morgan Stanley Capital International Russia
MSCI EmerginMarkets	Morgan Stanley Capital International Emerging Markets

Road-show	a series of meetings with potential investors and analysts when issuing the issuer's securities
RUB/KZT	Russian ruble with settlements in tenge
S&P 500	stock index of the 500 largest U.S. publicly traded companies
SASB	The U.S. Sustainable Accounting Standards Board
TOD	settlement condition whereby a transaction is settled on the day of its conclusion (English, "today")
TOM	settlement condition whereby a transaction is settled on the next business day following the date of its conclusion (English, "tomorrow")
TONIA	weighted average interest rate on repo opening transactions for one day in the automatic repo market in government securities of the Republic of Kazakhstan
TWINA	weighted average interest rate on repo opening transactions for seven days in the automatic repo market in government securities of the Republic of Kazakhstan
UZSE	The Tashkent National Stock Exchange
WFE	World Federation of Exchanges
JSC	joint stock company
KFA	Kazakhstan's Financiers Association
IAEx of CIS	International Association of Exchanges of the Commonwealth of Independent States
STB	second tier bank
GDP	gross domestic product
VUZ	Higher educational institution
UAPF	Unified Accumulative Pension Fund JSC
Exchange	Kazakhstan Stock Exchange JSC
Brokers-dealers	Brokerage and/or dealer organizations
GDR	Global Depositary Receipt

MMC	Mining and metallurgical companies
GS	government serial securities
EAEU	Eurasian Economic Union
ECB	European Central Bank
SSE Initiative	The UN Sustainable Stock Exchanges Initiative
ESG criteria	Environmental, Social and Governance criteria
MEKKAM	short-term government treasury bonds of the Ministry of Finance of the Republic of Kazakhstan (with the circulation term up to one year inclusive) (abbreviation of the securities title is given in the Kazakh language)
MEOKAM	medium-term government treasury bonds of the Ministry of Finance of the Republic of Kazakhstan (with the circulation term from one to five years inclusive) (abbreviation of the securities title is given in the Kazakh language)
MEUJKAM	long-term government saving treasury bonds of the Ministry of Finance of the Republic of Kazakhstan (with over five years circulation term) placed among pension saving funds (abbreviation of the securities title is given in the Kazakh language)
MEUKAM	long-term government treasury bonds of the Ministry of Finance of the Republic of Kazakhstan (with over five year circulation term) (abbreviation of the securities title is given in the Kazakh language)
mln	million
bn	billion
Moscow Exchange	Moscow Exchange PJSC
MCI	Monthly calculation index
SME	Small and medium-sized businesses
IFI	International financial institution
NBRK	National Bank of the Republic of Kazakhstan

NCE RK Atameken	Atameken National Chamber of Entrepreneurs of the Republic of Kazakhstan
CS	corporate serial securities
U.A.E	United Arab Emirates
UN	The United Nations
ULE	Union of legal entities
Government	Government of the Republic of Kazakhstan
RCE	Regional chamber (chambers) of entrepreneurs
CIS	Commonwealth of Independent States
Media	Mass media organizations
USA	United States of America
thous.	thousand
trln	trillion
LLP	limited liability partnership
Trading system	trading system of Kazakhstan Stock Exchange JSC
Damu Foundation	Damu Entrepreneurship Development Fund JSC
CC	central counteragent