

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.