

KAZAKHSTAN STOCK EXCHANGE JSC

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Kazakhstan Stock Exchange JSC (KASE) informs about main results of operations in 2017.

- In 2017, the total volume of trades on KASE reached KZT151. 5 trillion and increased by 60.3% compared to 2016, which is a record indicator in the history of the Exchange.
- KASE index increased by 59% to 2,162.69 points having renewed a nine-year high.
- Equity market capitalization increased by 20% over the year to its historical maximum value of KZT17.1 trln.
- As of January 1, 2018, there were 127 shares issued by 110 issuers (historical maximum) and 262 issues of corporate bonds of 66 issuers on KASE trade lists.
- As at January 1, 2018, there were 109,245 accounts opened for individuals in the Central Depository, which is by 3,926 accounts more than at the beginning of 2017.

Key projects and activities

In 2017, KASE continued its work on implementing the development strategy of Kazakhstan Stock Exchange (KASE) for 2016-2018 within the following key areas: development of the stock market, improving client focus of the Exchange and its services, improving the efficiency and competitiveness of the Exchange's business.

Thus, three new members representing the EEU (Eurasian Economic Union) were admitted to trading on the Exchange in 2017. Interstate Bank has been operating on foreign currencies market since February 2017 and the Eurasian Development Bank was admitted to trading on the stock market. The UNIVER Capital LLC became the first foreign broker to be admitted to the stock market since April 2017.

In 2017, the Exchange has signed a memorandum of understanding with the Bank of China Limited aimed at developing interaction between national financial markets of the two countries.

The Exchange launched trades in Chinese yuan with settlements T+1 in tenge (CNYKZT_TOM) on February 20, 2017 and opened trades in Chinese yuan with settlements T+2 in tenge (CNYKZT_SPT) on September 14, 2017.

From 29 March to April 26, 2017, KASE held the national student competition dubbed "The Stock Exchange Simulator". Some 1,500 students took part in the competition; 16,277 deals for the total amount of KZT6.876 bln were concluded. The project's prize money amounted to KZT1 mln.

In the beginning of 2017, KASE held a meeting with the Development Bank of Kazakhstan (DBK) on investment of DBK funds in bonds of participants of the National Champions programme. At the end of Q1 2017, KDB made changes in its internal regulations that allow the bank to purchase bonds of an issuer provided that the issuer of bonds uses proceeds from bond offering for implementing an investment project on certain terms and conditions.

In the second half of 2017, a preliminary agreement was reached on financing export-oriented companies by the BRK by purchasing their bonds that are insured against risk of default. Currently, DBK is working on introducing relevant changes in internal regulatory documents regulating investment activity.

During the course of 2017, the Exchange continued work with the Association of Financiers of Kazakhstan (AFC) in its project offices. The result of this work the following norms and amendments

were made to the latest version of the draft law on the securities market: a mechanism of subsidizing coupon rate on bonds issued by the Kazakh companies is introduced in the Entrepreneurial Code; tax exemption on income from units of a unit investment trust is made in the Tax Code; norms simplifying conversion from an LLP to JSC; norms optimizing the disclosure by issuers; norms on the protection of investors (shareholders') rights and interests; norms improving corporate governance in a joint-stock company.

Last May, KASE launched monthly briefings for the media on the stock market indicators and trends.

The Exchange has transformed its listing since June 1, 2017. As a result, the structure of the KASE official list is now divided into three markets: main, alternative and mixed. This breakdown allows companies with small or medium market capitalization gain easier access to KASE, whereas investors are able to assess their liquidity levels and risks of traded instruments. In 2017, implementation of the project on modernization of risk management system and gradual launch of the central counterparty function at the foreign currencies market was approved. It planned to use the central counterparty function at the stock exchange and money markets over the next few years.

The Exchange conducted more than 50 consultation meetings with companies from various regions of Kazakhstan since the beginning of 2017. At present, there are about 1,072 companies in total in our database of which over 100 companies have been included in the database of potential issuers that meet listing requirements of the Exchange.

Last year, consultation meetings were held in Kyzylorda, Almaty, Akmola and North Kazakhstan regions and the towns of Shymkent, Aktau, Petropavlovsk and Taldykorgan within the framework of the Exchange's cooperation with the Atameken National Chamber of Entrepreneurs of the Republic of Kazakhstan for a great number of entrepreneurs. - The purpose of these activities is to inform entrepreneurs and senior business executives in regions about opportunities offered by the stock market for attracting additional funding. The Exchange held a number of workshops in 2017 for listed companies on the following topics: "Stock market basics", "Fundamentals of corporate governance" and "The basics of investor and stakeholder interaction" - The results of the Exchange's activities in this direction will be visible within the next two or three years.

FTSE Russell Advisory Committee (Financial Times Stock Exchange group) declared that the Republic of Kazakhstan has been assigned a Frontier market status as part of FTSE country classification in its annual review released in September 2017.

On October 2, 2017, KASE started calculating main market indicators (KASE_BM* series) i.e. KASE_BMC "clean" price index and KASE_BMY yield indicator as well as alternative market indicator (KASE_BA* series) i.e. KASE_BAC "clean" price index and KASE_BAY yield indicator.

In 2017, the Exchange offered 12 information products. Six new information products were introduced including use of trading data in Non-Display system/Derived information, providing information to KASE members, IRIS Finance information terminal, KASE news and information channel in Telegram – @KASEInfoBot.

On October 3, 2017, KASE signed a memorandum on mutual cooperation with leading Kazakhstan business incubators on creating a platform for raising funds by young companies to finance startup projects. It is planned to create the platform in 2018.

Margin and guarantee fund contributions for clearing participants of the foreign currency market were introduced in 2017. At the initial stage (February 2017), an additional level of protection - net position limit of a clearing participant - was introduced for clearing participants in respect of whom the Committee on Foreign Exchange Market of the Exchange has set the mode of urgent delivery of the sold and/or purchased foreign currency with determining net position limits for all foreign currencies. Also, KASE has developed a mechanism for single limit as part of an improvement of the margining system on stock market applications and transactions, where the T+2 procedure applies.

KASE held a competition among retail investors of the stock market in the end of 2017. A total of 1,808 persons participated in the competition (there were 1,046 people in 2016). - Over 12,224 transactions for the amount of over KZT1.5 bn (753 mln in 2016) were concluded by the participants of during competition with the support of ten brokerage firms which represents 42% of the total number of deals with shares of the KASE index representative list concluded during the same period in the KASE trade system. The best yield achieved in transactions during the competition amounted to 18.9%.

Main stock market indicators

In 2017, the total volume of trades on KASE reached KZT151. 5 trillion and increased by 60.3% compared to 2016 or KZT57.0 trillion. All markets demonstrated positive dynamics: securities market grew by three times (volume - KZT3,450.4 bn.), money market by 64% (volume - KZT135,726.4 bn.), foreign currency market grew by 17.6% (volume - KZT12,321.5 bn.). Volume of transactions on derivatives market amounted to KZT22.1 bn against KZT1.8 mln in 2016.

Equity market

As at the end of 2017, there were 127 titles of shares issued by 110 issuers in the KASE trade lists including 7 titles of shares issued by 7 companies. Equity market capitalization increased by KZT2,850 bn or 20% since the beginning of the reporting year and reached its historical maximum having come to KZT17.1 trillion.

The total volume of trades in shares has reached KZT269.4 bn in 2017 and increased by 7.7% compared to 2016. Liquidity indices also shown growth: average daily volume of trades on KASE secondary market rose to KZT1.1 bn, average daily number of transactions has increased by 94.2 percent to 454 compared to the previous year.

The volume of the primary market has reached KZT7.6 bn thanks to the placements of Bank of Astana JSC and Bast JSC. Bank of Astana placed 5,652,174 common shares worth KZT6.5 bn on KASE as part of the IPO; the demand exceeded supply by 16%. The demand from brokerage companies amounted to KZT231.2 mln (3.1% of the total demand), to KZT325.3 mln (4.3%) from other legal entities and KZT6,993.1 mln tenge (92.6%) from individuals.

Bast JSC has placed 36,886 mln shares at the price of KZT30,500 as part of SPO, 15.4% of the total number (239,837 pieces) of shares was placed, the volume of placement is KZT1.12 bn. All applications filed totalled KZT1.16 bn, which makes 38,039 shares. The proportion of individuals made up 96.5%, legal entities - 3.5%.

Secondary market volume rose to KZT261.8 bn (+5%). Individuals are the most active investors in the equity market; their share has reached 53.3% of the total volume of deals. The share of broker-dealers accounted for 28.0%, second-tier banks (STB) - 1.9%, other institutional investors - 3.8% of the total turnover on the stock market and the share of other legal entities came to 13%. The share of non-residents in the equity market amounted to 5.2%.

KASE Index

KASE index increased by 59.3% or 804.8 point for the reporting period. According to Bloomberg, KASE index ranked third in the world by speed of growth. Growth drivers were specific corporate cases, favourable commodity market trends as well as stability on foreign currency and money markets. The maximum value of KASE index was recorded on the final day of 2017 at 2,162.7 points.

The KASE index representative list has undergone changes over the year: on May 1, common shares of BAST JSC and shares of Bank CenterCredit were excluded on November 1 due to the change in the selection criteria.

Changes in prices of shares included into the KASE representative list

Issuer	Trade code	Price, KZT per share		Price change,% (YTD)
		as at January 1, 2017	as at January 1, 2018	
KAZ Minerals PLC	GB_KZMS	1,511.96	3,800.00	+ 151.3
KazMunaiGaz JSC	RDGZ	15,270.00	25,800.00	+ 69.0
Halyk Savings Bank of Kazakhstan JSC	HSBK	50.34	82.59	+ 64.1
Kcell JSC	KCEL	1,100.04	1,784.00	+ 62.2
Kazakhtelecom JSC	KZTK	14,423.05	20,505.00	+ 42.2
KEGOC JSC	KEGC	1,172.99	1,389.00	+ 18.4
KazTransOil JSC	KZTO	1,226.26	1,337.00	+ 9.0

Stocks of KAZ Minerals PLC, the price of which has increased by 2.5 times or KZT 2,288 to KZT3,800, have contributed the most to the growth of KASE index for the second consecutive year. Their growth was influenced by the improved macroeconomic situation, rising prices on the commodities market, opening of the Aktogai concentrating mill as well as favourable operational and financial performance in 2017.

Stocks of KazMunaiGaz JSC, the value of which increased by 69% or KZT10,530 to KZT25,800 per share, have ranked second. The company's shares grew following the recovery of oil prices. This sharp surge in early December was caused by the company's intention to buyback its GDR and to delist from LSE and KASE.

Shares of Halyk Bank of Kazakhstan JSC, which have increased by 64.1% or from KZT32.3 to KZT82.6 per share, ranked third. The reason for the growth was the purchase of Kazkommertsbank JSC

and, as a result, the maximum consolidated net profit for three months in the amount of KZT135.4 bn ever was received since the bank's inception. Investors reacted with optimism to the merger of the two banks in one that led to a new phase of growth for the bank's shares.

The table shows that the prices of four out of seven share titles included in the KASE Index representative list, have exceeded the index value.

Corporate bonds

A total of 262 titles of bonds of 66 issuers were included in KASE trade lists in KASE trade lists. In 2017, 37 bond issues were listed. A total of 42 bond titles, mainly of the banking sector issuers, were removed from KASE lists.

The volume of traded debt rose by 7.6% reaching KZT8.9 trillion.

The volume of trades in corporate bonds on KASE totalled KZT1,153.8 bn having increased by 2.3 times against 2016. A significant increase in the primary market was due to implementation of the Programme for Improving the Financial Sustainability of the Banking Sector of the Republic of Kazakhstan, under which five second-tier banks raised KZT620.0 bn by placing subordinated bonds on KASE.

The reduction of inflation was a positive factor for the bond market in 2017. It allowed the National Bank to lower the base rate by 175 b.p. to 10.25% per annum. Lowering of the base rate had a positive impact on the cost of borrowing for businesses, which was high in 2016. Another important development was that the National Bank and the Ministry of Finance have finally formed new risk-free yield curve for all outstanding non-indexed GS on the market. This benchmark is a reference point for local companies for determining the price of borrowed capital.

In 2017, bonds of 13 issuers were offered on KASE (10 in 2016). The total volume of funds raised amounted to KZT244.5 bn without account of loans of five banks received as part of the Programme for Improving Financial Sustainability of the Banking Sector, which is by 42.4% lower than the last year.

The largest share in offerings is accounted to the Development Bank of Kazakhstan (31.3%), Samruk-Energo (16.7%), KEGOC (14.8%) and National Company "Kazakhstan Temir Zholy (10.2%). The yield of offerings this year was set between 10.5 and 15% per annum and we can say that the rangebound has formed.

The structure of investors of the primary market is as follows: 5.3% are accounted for by STB, 2.0% by broker-dealers, 12.1% by other institutional investors, 80.4% by other legal entities and 0.2% by individuals.

The volume of trades in corporate bonds on the secondary market has increased to KZT289.3 bn by 3.5 times during the reporting year. The largest share of the secondary market belongs to coupon bonds of the Eurasian Bank (EUBNe1, 36.3%) and Kazakhtelecom (KZTKb2, 10.4%) and Samruk-Kazyna National Welfare Fund (SKKZb11, 9.5%). The bonds of Kazkommertsbank JSC (BTASe16), Bast JSC (BASTb1), Eurasian Bank JSC (EUBNe1) and Bank Centercredit (CCBNe3) were the most marketable.

By the end of 2016, KASE_BY index (corporate bonds yield index) made up 10.06%. The Exchange discontinued KASE_BY index calculation because of listing transformation and allocation of a

separate platforms for companies with medium and small capitalization and it started calculating and publishing two new indices: KASE_BMY (corporate bonds yield index for main market) and KASE_BSY (corporate bonds yield index for alternative market). According to the 2017 results, yield of bonds traded on the main market reached 10.35% APR in index terms, yield of debt securities on the alternative market made up 11.15%.

Main categories of investors in the corporate bond market were as follows: 11.5% of the gross turnover accounted for by broker-dealers' own accounts, 11.4% by second-tier banks, 38.3% by other institutional investors, 36.5% by other legal entities and 2.3% by individuals. The share of non-residents in volume of trades did not exceed 2.3%.

Government securities (GS)

The nominal value of the sovereign debt traded on KASE amounted to KZT9.9 trln, which is by 28% or KZT2,163.7 bn more than in 2016.

The volume of trades in GS on KASE made up KZT1,985.8 bn in 2017 having increased 3.6 times compared to 2016. The increase in volume is related to the increased number and volume of offerings in the primary market. In 2017, GS for the amount of KZT1,733.1 bn tenge were placed in 2017, which is by 7.9 times higher than in 2016. The share of offerings by the Ministry of Finance of the Republic of Kazakhstan accounted for 95% (KZT1,646.3 bn), the share of local executive bodies accounted for 5% (KZT86.8 bn). The yield of the Ministry of Finance's debt instruments ranged from 8.4% to 10.2% per annum. Yield of municipal bonds issued by local executive authorities for the purpose of financing housing construction as part of implementing the state and the government programs was in the corridor of 0.15%-0.35% per annum.

The structure of investors of the primary market is as follows: 68.9% are accounted for by STB, 16.5% by other institutional investors, 0.1% by broker-dealers, 14.5% by other legal entities.

The volume of trades in GS on the secondary market decreased by 25.1% to KZT252.8 bn. in 2017 compared to the previous year. The reduction in the volume of the National Bank notes is observed compared to 2016; they account for 79.9% (KZT337.5 bn) of volume on the secondary market of GS. The remaining 20.1% (KZT50.8 bn) account for the bonds of the Ministry of Finance of the Republic of Kazakhstan.

The structure of investors of the secondary market is as follows: 50.5% are accounted for by STB, 4.6% by brokers-dealers, 37.9% by other institutional investors, 6.8% by other legal entities and about 0.1% by individuals.

Bonds of international financial institutions (IFIs)

There were eight bond issues of two international financial institutions, six issues of the Eurasian Development Bank and two issues of the European Bank for Reconstruction and Development in trade lists as at the end of the reporting period.

The volume of trades amounted to KZT40.2 bn. over the past period. In May, the Eurasian Development Bank raised KZT15 bn. offering three-year bonds at 10.1%; in October, the bank raised KZT20 bn having offered three-year bonds at 9.4% per annum.

Units of investment funds

As at the end of the reporting period, there were six tools managed by five companies in the sector "Securities of investment funds".

The volume of trades amounted to KZT1,050.2 mln over the period, which is higher than the result for the same period of the last year by 95.3%. The units that were the largest in volume were as follows: units of ASYL_or (KZT552.3 mln; 6 transactions) managed by Freedom Finance; units CSECfe (KZT414.0 mln; 42 transactions), CSECgcm (KZT56.6 mln) and US_SPY_ (KZT27.2 mln) managed by Centras Securities.

Main categories of investors were as follows: 51.5% accounted for by individuals, 1.3% by broker-dealers firms, 47.2% by their clients being legal entities.

Individuals accounts at the securities market

As at January 1, 2018, there were 109,245 accounts registered that were opened for individuals in the accounting system of the Central Securities Depository, which is by 3,926 accounts more than as at the beginning of 2017.

Foreign currencies market

The total volume of trades in the forex spot market amounted to KZT12.3 trillion having increased by KZT1.8 trillion or 17.6% compared to 2016.

In 2017, there was no clear correlation between oil prices and the US dollar to tenge exchange rate the decline in oil prices by the mid-year was accompanied by the unusual strengthening of tenge. Having reached the minimum value of 2017 in late June, Brent, the benchmark crude, began a gradual upward movement. In its turn, tenge also shows trend reversal towards weakening. However, the year 2017 ended with strengthening of tenge: the US dollar exchange rate has decreased from KZT333.29 to KZT332.33 by KZT0.96, or 0.29%.

The US dollar remains the most traded instrument (USDKZT_TOD; USDKZT_TOM), its trading volume amounted to KZT12.1 trln or 98% of the total trading volume. The trading volume of the Russian ruble (RUBKZT_TOD) has reached KZT215.3 bn or 1.7%, of euro (EURKZT_TOD) KZT20.6 bn or 0.2%, Chinese yuan (CNYKZT_TOD; CNYKZT_TOM; CNYKZT_SPT) KZT5.3 bn or 0.04%.

The following table shows main characteristics of currency pairs traded on KASE (the change of an indicator compared to the previous year is indicated in parentheses).

The volume of trades in foreign currencies by instruments

Pair	Volume, mln units of currency	Share in trades volume, %	Number of deals	Min. and Max. exchange rates, KZT per unit of currency	Rate as at the end of the year (change in %)
USD/KZT	37,004.8 (+ 21.8%)	49.5%	82,173 (+ 16,958)	310.40-345.00	332.33 (-0.3%)
RUB/KZT	37,549.0 (+185.5%)	50.3%	2,310 (-434)	5.3755-5.9996	5.7862 (+ 4.9%)
CNY/KZT	110.0 (+ 13.8%)	0.1%	886 (57)	45.1000-52.3167	50.9200 (+ 6.2%)
EUR/KZT	56.6 (+ 140.1%)	0.1%	231 (+ 117)	330.00-406.55	396.45 (+12.8%)

Money market (repurchase transactions and currency swaps)

The total volume of trades in 2017 on money market reached KZT135.7 trln, which is by 64% higher than the last year.

Trading volume on the swap market rose by KZT36.3 trln or 141.5% and totalled KZT61.9 trln tenge. The average daily trading volume is equal to KZT252.8 bn tenge against KZT104.7 bn tenge in 2016. Rates on one-day currency swaps increased from 6.4% APR as at 01 January to 9.89% APR by the end of the year due to the increased trading volume.

The volume of trading in the repo market increased by KZT16.7 trln tenge or 29.2% and amounted to KZT73.8 trln tenge against the previous year. The average daily volume of transactions came to KZT301.2 bn in 2017 (+ 29.2% against 2016). More than 90% of the total volume of repo transactions accounted for the GS auto repo transactions. One-day repo, which accounts for more than 90% of the total volume of trades in the GS auto repo market, remains the most popular instrument.

TONIA (overnight repo) and TWINA (7-day repo) money market indicators continued to decline in 2017 by 2.8% and 1.3% to 9.3% and 9.8%, respectively. Given the improving domestic economic situation (lowering inflation, growth of business activity, reduction in deposits dollarization, etc.), the National Bank has reduced the base rate three times over the year from 12% at the beginning of the year to 10.25% at the end. Due to the strengthening and surplus of tenge, rates in repo segment of money market were within the lower limit of the base rate of the National Bank of Kazakhstan over the year and have gradually declined just as the base rate did. TONIA and TWINA indicators have increased to the upper limit of the base rate only for 4 and 10 days, respectively, during the entire period.

According to the main directions of the National Bank's monetary policy for 2018, the base rate in real terms which means the base rate minus the forecasted inflation over a 12-month horizon will be

maintained at the level not exceeding 4% being in line with the long-term potential rates of the economic growth. Therefore, if an inflation target will be within the range of 5-7%, the base rate is very likely to continue declining and TONIA and TWINA indicators will decline following the base rate.

Futures

Currently, in this sector of the exchange market futures, whose underlying assets are represented by the US dollar, KASE Index and particular stocks are available for trading. There are a total of 15 instruments.

In 2017, trading volume reached KZT22.1 bln, whereas in 2016, the volume of transaction on KASE amounted to KZT1.8 mln. There were 14 futures transactions, whose underlying asset is represented by the US dollar, made since the beginning of the year.

For reference

Kazakhstan Stock Exchange (KASE) is the leading stock exchange in the Central Asian region and the only exchange in Kazakhstan carrying out its activities in the financial market. It is a universal trading platform for repo market instruments, foreign currencies, government and corporate securities, bonds of international financial institutions as well as derivatives.

KASE is the member of the World Federation of Exchanges (WFE), the Federation of Euro-Asian Stock Exchanges (FEAS) and other international and local professional associations. In 2015, KASE joined the UN Sustainable Stock Exchanges initiative. KASE ranks second among the CIS exchanges on the volume of trading in securities, and it also ranks sixth on equity market capitalization among FEAS stock exchanges.

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