

KAZAKHSTAN STOCK EXCHANGE JSC

PRESS RELEASE

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Kazakhstan Stock Exchange (KASE) informs you about main results of operations in 2016.

- *The new KASE development strategy for 2016–2018 was adopted.*
- *The total volume of trading amounted to KZT94.5 trln.*
- *KASE Index rose by 58 % to 1,357.87 points over the last year. This is the highest figure of the past six years.*
- *The equity market capitalization as of January 01, 2017 reached KZT14.3 trln rising by 15 % over the last year.*
- *The number of individual accounts registered in the Central Securities Depository as of January 01, 2017 reached 105,319, increasing by 3,587 accounts over the last year.*
- *KASE hosted an IPO of Aktobe Metalware Plant whereas the company raised KZT 800 mln. The combined demand reached KZT2,975.3 mln exceeding the supply 3.7 times. As of January 01, 2017 the share's price grew 26.7 % to KZT14,165.7 per share (yield for buyer to offering price – 60.2 % APR).*
- *First issues of commercial (short-term) bonds were sold. PAVLODARENERGO, SEVKAZENERGO and Eastcomtrans raised KZT1.8 bn selling bonds on KASE.*
- *KASE rebranding was conducted.*
- *KASE launched an early beta-version of its new website and announced co-branding with TradingView Inc.*

Main indicators of the exchange market

In 2016 KASE market was influenced by two main factors:

- increasing oil prices worldwide, and as a consequence, the Russian ruble strengthening against the dollar, which triggered an adequate movement of the tenge;
- actions of the National Bank that was able to reverse the trend on the money market in February while implementing its monetary policy and switch from feeding banks with tenge liquidity to sterilizing the market at the bottom of the base rate corridor.

Speculations on currency market lost their attractiveness. Market participants and individuals began to reduce positions in foreign currency and prefer the tenge and tenge-denominated instruments. To reduce the inflation, the tenge supply was tied by the National Bank's notes, whose volume in circulation was continually increasing, and the yield decreased. That allowed the regulator to reduce the base rate from 25 % to 12 % p.a. during the year, to cut the inflation by 40 % to 8.7 % YoY, and the price of short-term tenge-denominated funds fell on the open market from 87 % to 10.55 % per annum.

In the described market conditions the total volume of exchange-based trading reached KZT94.6 trln in 2016 which is by KZT2.6 trln (2.8 %) higher YoY. In tenge terms this indicator has never been that high, however in dollar terms the volume of trading on KASE fell by 35.7 % (YoY).

The main contribution to the growing trading volume came from the repo transactions sector; the largest fall was seen in the currency swap sector.

Equity market

The equity market's capitalization rose from the beginning of the reporting year by KZT1,889.1 bn, or 15.3 % reaching KZT14.3 trln. A reason for that was the growing value of shares traded on KASE.

However, the extending range of available equities was also in play. Shares of 18 titles were included in KASE lists during the period under review: those of Scipio, Bank VTB OJSC, AsiaCredit Bank, Uralkali OJSC, KM GOLD, Sberbank OJSC, Aktobe Metalware Plant, Rostelekom OJSC, AltyntauKokshetau, Magnit OJSC, Karazhyra, Gazprom OJSC, Irtysh-Polymetall, Aeroflot OJSC, Temirtau Electrometallurgy Plant, AlatauMunaiAltyn, Estate Management Company, Freedom Finance. Shares of five titles were removed from the lists.

As of the end of 2016 KASE's trading lists included shares of 120 issued by 102 companies.

The volume of equity trading reached KZT250.2 bn in 2016 (equivalent of USD744.1 mln) decreasing by 72.2 % on 2015. However, without taking into account the major transaction concluded with KazMunaiGas's shares in 2015 on special terms, the trading volume rose by 67 %. At the same time growth in the equity trading volumes is clearly perceived, beginning from 2013.

An important change on the equity market in 2016 is the growing liquidity of the market. The average daily trading volume on KASE secondary market grew to KZT1.0 bn, the daily average number of deals increased to 234. It should also be noted that the number of opened individual accounts in the accounting system of the Central Securities Depository reached a historic high by the end of the year. This indicator as of January 1, 2017 totaled to 105,319, increasing by 3,587 accounts over the year.

During the period under review KASE Index grew by 499.1 points, or 58.1 %. At the beginning of the year, the index was moving downward, reaching the bottom by January 21 (799.3 points). The following development was mainly positive at the background of the stabilizing currency and money markets, as well as undervalued shares of KASE Index universe. The maximum value of the Index on record was November 11 – 1,365.8 points.

The main driving forces of KASE Index were shares of KAZ Minerals PLC, whose value increased by 219.5 %, or KZT1,038.7 to KZT1,512.0 per share. They grew on the back of improved macroeconomic conditions on the commodity market, as well as favorable operating and financial results of operations in 2016. The second best were stocks of KazTransOil gaining 61.3 %, or KZT465.9 to KZT1,226.3 per share. They are followed by shares of KEGOC, which appreciated by 58.2 %, or KZT431.4 to KZT1,173.0 per share. The three instruments were growing in value following releases of positive performance indicators and investors' eagerness for tenge-denominated instruments on the back of gradual strengthening of the national currency against the dollar.

It is worth noting that according to Bloomberg, Kazakhstan occupied rank three in the world in 2016 in terms of growing equity market index after Brazil and Peru. What these three countries have in common is the commodity economy and devaluation of the national currencies after which investors have shown a substantial interest in shares circulating on the local market.

In terms of investors' main categories (without taking into account special trading sessions and major transactions) the most active on KASE-operated equity market were individuals whose share was as high as 49 % of the transactions' volume. Own accounts of brokers and dealers accounted for 31 %, their clients' accounts – 16.5 %, the Single Accumulative Pension Fund – 0.2 %, second-tier banks – 3.2 % of the total turnover of the equity market. None-residents' share made up 6.3 %.

Corporate bond market

The volume of corporate bond trading on KASE made up KZT507.4 bn (equivalent to USD1,607.8 mln) and decreased by 58.7 % upon 2015. The main decrease in activities took place on the primary market, where funds became more expensive following the enhancement of the base rate of the National Bank. For banks – traditional for Kazakhstan issuers of corporate bonds – the new value of funding turned out to be very high, and new companies of the real sector started to enter the market only in the second half of the year, gradually adjusting themselves to new conditions .

Overall, 10 issuers sold their bonds on KASE in 2016 (in 2015 – 18). The total volume of funds raised made up KZT424.4 bn, which is lower than last year more than twofold. The most active issuers were Development Bank of Kazakhstan (50.1 %), National Managing Holding KazAgro (16.5 %), National Company Kazakhstan Temir Zholy (11.8 %) and KEGOC (11.6 %).

It needs to be pointed out that offerings involving government organizations were conducted in the second half of 2016 at rates close to the market ones, and the number of issuers oriented during the offering on private companies, increased. Of special interest is the offering by KazAgroFinance in the amount of KZT8bn, for five years under 15 % APR, marketed by the financial advisor for the broad

public, as well as three issues of commercial bonds sold by SEVKAZENERGO, PAVLODARENERO and Eastcomtrans to the total amount of KZT1.8 bn under 13.2–14.0 % APR.

The volume of trading on the secondary market of corporate bonds decreased by KZT133.6 bn in the reporting year, or 61.7 %, not exceeding KZT83 bn. The largest share in the volume of the secondary market was taken by coupon bonds of the Mortgage organization Kazakhstan Mortgage Company (KZIKb26) – 14.0 %, AsiaCreditBank (LAR1b6) – 13.8 % and KazTransGas Aimak (KTGAb2) – 9.4 %. The most liquid bonds were the ones of Bank CenterCredit (CCBNe3), Kazkommertsbank (BTASe16) and ATFBank (ATFBe5).

Index KASE_BY (index of yield of corporate bonds) from the beginning of 2016 decreased by 142 basis points to 10.0 % APR.

As of the end of the reporting year bonds of 272 titles of 66 issuers were included in KASE trade lists.

In 2016 27 bond issues underwent the listing procedure. Bonds of 37 titles, mainly of issuers from the banking sector, were removed from KASE lists due to circulation period expiry, and securities of Bolat Nurzhanov Ekibastuz GRES-1 were delisted following the issuer's request.

Sorted by main investor categories on the corporate bond market, 3 % of the trading volume were attributed to individuals, 31.7 % – to clients of brokerage and dealing firms, 38.3 % – to the SAPF, 1.7 % – to own accounts of brokers and dealers, 25.3 % – to second-tier banks. Non-residents' share didn't exceed 0.5 %.

GS market

The volume of GS trading on KASE market rose by 30 % in the reporting year. That increase was brought about by moves of the National Bank that used its securities for building the risk-free yield curve and sterilizing the market from the tenge which flowed in in exchange for dollars.

The volume of offerings on the primary market went down by 48 % to KZT218.2 bn in 2016, of which KZT180 bn are allotted to long-term savings treasury bonds of the Ministry of Finance, and KZT38.2 bn – to bond offerings by local executive authorities.

The volume of trading on the secondary market rose from KZT8.2 bn to KZT337.7 bn. That increase was nourished by the National Bank's issuing of short-term notes over-the-counter and repurchasing them on KASE. The share of the National Bank's short-term notes in the total volume of trading in KASE trading system reached KZT317.6 bn in the reporting year, or 94.1 % of the whole GS market's turnover. The GS secondary market was also propped up after the National Bank conducted 20 "own portfolio MEUKAM" auctions in KASE trading system in the end of 2016 in a bid to build a risk-free yield curve for terms longer than it was allowed by the notes. The total volume on those transactions made up KZT18.1 bn; the demand, as a rule, exceeds the supply several times .

The main achievement on the GS market in 2016 was the building of the benchmark for the price of risk-free tenge-denominated borrowing for up to five years.

Foreign currency market

The total volume of trading on the currency spot-market made up KZT10.5 trln, going down by KZT2.0 trln, or 15.8 % on 2015. The trading volume decrease was brought about by the above-mentioned market factors. The same factors ensured the tenge's 2.1 %-strengthening against the dollar to KZT333.29 per dollar in 2016.

The US dollar remains the most actively traded instrument on KASE, accounting for 99.2 % of the total trading volume. The second most liquid instrument was the Russian ruble – 0.6 %. Activity went down (however, volumes rose in tenge terms), but at a slower pace than that of the dollar trade. The reason was the 20% fall of volumes of trading between Kazakhstan and Russia.

In the nominal terms the tenge lost 18 % to the ruble during the exchange trading, and of special interest was the substantial growth of the ruble against the tenge over the two past months.

Comparing the markets of currency pair "ruble/tenge" on Moscow Exchange and KASE, we can see that the tenge was sold against the ruble in Moscow less and less actively in the second half of 2016, whereas the trading in the ruble against the tenge in Almaty was showing a reverse trend. A certain role here was performed by subsidiary bank Sberbank of Russia, the main market-maker for the ruble on KASE that moved transactions in that currency pair from the inter-bank market to KASE.

Emergence of a second market-maker – Eurasian Development Bank – had an impact, too. Overall, that currency pair's trading volume on KASE in 2016 exceeded 587 times that figure on MOEX.

The situation on the Chinese yuan market in 2016 was different from that on other currencies markets. The exchange rate developed more like that of the dollar than that of the ruble, since the tenge appreciated 5.8 % against the yuan, and the trading activity is continually growing. The volume of yuan-transactions on KASE grew by 89 % in 2016. The increase in the yuan trading on KASE is nourished by two factors: the growing trade turnover between the two countries and the unusually high number of yuan-market-makers on the Exchange, with the Trading and Industrial Bank of China in Almaty becoming the fourth market-maker for the yuan in 2016.

Currency swap market

The volume of trading on the swap market went down by KZT28.1 trln (52.3 %) in 2016 to KZT25.6. On the background of favorable trends on the spot market compared to last year, as well as following the implementation of the National Bank's monetary policy, rates on one-day currency swaps decreased from 79.6 % p.a. as of January 01 to 6.4 % p.a. by the end of the year. Due to stabilization of the currency exchange rate participant's demand for the tenge liquidity decreased significantly and is being met in full by the repo market, which explains the substantial fall in the trading activity in this sector.

Repo transactions market

The volume of trading here rose by KZT33.0 trln, or 2.5 times, YoY, to KZT57.1 trln. The tenge liquidity shortage seen on the market in 2015 and in January 2016, turned into a surplus, and the repo market became a very convenient place for placing "short" tenge with minimum credit risk.

Key projects and measures

Ordinary shares of Aktobe Metalware Plant were included in the second category of sector "Shares" in June 2016, with the company raising KZT800.0 mln from the IPO. The total demand during the subscription reached KZT2,975.3 mln exceeding the supply 3.7 times. Demand from brokerage companies made up KZT71.4 mln (8.9 % of the supply), from legal entities – KZT101.2 mln (12.7 % of the supply) and from individuals – KZT2,802.7 mln (350.3 % of the supply).

As part of implementing one of key tasks of KASE's Development strategy for 2016–2018 on increasing the focus on clients and improving the Exchange's image a rebranding of KASE was carried out in the year under review, to represent KASE's rich experience, high professionalism, dynamics, openness to innovations and the Exchange's commitment to high-tech solutions. A series of events were conducted in support of the updated brand, and first of all the launch of an early beta-version of the Exchange's new website was announced (beta.kase.kz).

KASE's new website's special feature is the use of the popular library of stock exchange trends TradingView (<https://ru.tradingview.com/>) in accordance with the co-branding agreement concluded between KASE and TradingView Inc. (USA).

In the reporting year KASE set up a new sector – "Commercial Bonds" – to cover the needs of listed companies, large businesses, for fast and cheaper short-term funds. Such bonds enjoy a faster registration in the National Bank and simplified listing procedure, as well as lower listing fees. In November first instruments were offered in the new sector – bonds of PAVLODARENERGO and SEVKAZENERGO, and in December – bonds of Eastcomtrans. Their results were described above.

Throughout the year KASE continued to conduct events aimed at increasing entrepreneurs' and the broad public's awareness of the stock market and its opportunities. An Invest Show was held in May 2016, whereas 44 various companies presented their business projects to prospective investors for fundraising purposes.

In association with the National Chamber of Entrepreneurs 12 regional events for entrepreneurs from all regions, as well as from Almaty and Astana were conducted since the beginning of 2016. The purpose of those events was informing entrepreneurs and business executives of opportunities offered by the stock market with regard to raising additional funds.

At the end of 2016 KASE conducted a competition among retail investors on the equity market. 1,046 people – clients of seven brokerage companies – took part in the contest. The total volume of deals concluded by participants during the competition exceeded KZT753 mln, and their number reached

3,358, making up 42 % of the total number of transactions in shares from KASE Index, concluded during the same period in the Exchange's trading system.

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 a 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 is the second strongest stock exchange in the CIS, as far as the volume of securities trading is concerned. It is also in the top-5 of the FEAS exchanges in terms of the stock market capitalization.

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