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KAZAKHSTAN STOCK EXCHANGE
ANNUAL REPORT

2010

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CONTENTS

KASE President's Address to Shareholders and Market Players

DEAR LADIES AND GENTLEMEN,

The Year that is discussed in this report became for the Exchange the year of the completion of an important phase; a phase in which we learnt lessons from the crisis and solved detected problems. In this phase we prioritised tasks that would increase the reliability of the stock market.

In an attempt to minimise defaults inherent to foreign currency transactions the Exchange has set up the Currency Market Committee, which tracks the solvency of foreign exchange players and is designated to take measures to make less reliable players supply tenge and foreign currency in advance of transactions. A system of compensatory payments with a weekly revaluation of traders' liabilities has been devised in the "nego" repo transactions market that was the cause of so many disappointments at the height of the crisis. In 2010 we designed and began implementing a blueprint for a system of settlements on the securities market according to the T+0 scheme with complete preliminary delivery of securities and cash in order to considerably improve the reliability of the stock market of securities transactions. A fundamentally new risk management system that meets international standards was adopted by KASE on the futures and options market in 2010. Against this background, the Exchange for the first time acted as a central counterpart and assured the implementation of deals concluded in any circumstances in the amount of reserve and guarantee funds. Another reason these activities are important to us is that KASE is now applying the same principles when developing the risk management of multiparty net clearing and settlements on the securities market in accordance with the T+3 scheme. Jointly with regulators, we have drafted, adopted and improved a methodology to respond to defaults on listed bonds by corporate issuers. Even though only few names returned from the buffer to other categories of the official list, each of these returns is valuable for our market. In the year in question, the Exchange, the FSA and ARA RFCA made considerable advances on issues of cooperation with auditors that have been granted the right to audit financial statements of listed companies. The work performed has made it possible to include measures to dramatically improve the situation in this sphere in the 2011–2013 Strategic Plan.

We should highlight the Exchange's efforts to minimise its operating risks. The shareholders have more than doubled the equity capital of KASE, building a factor of safety to allow the Exchange to meet prudential requirements. During the entire year the Internal Audit Service worked intensively on the Exchange and by the end of the year it had managed to audit all chief aspects of KASE activities. A system to manage this service was also perfected. The Risk Management Service was set up in 2010 and it has already arrived at an understanding of what to do within the next three years and how. On our behalf Ernst and Young carried out a technical audit of IT processes of the Exchange and drafted recommendations on improvements in this field. All this should bring the provision of uninterrupted operations of KASE to a fundamentally new level.

And now, having done significant work on the reliability of the stock market, KASE is at the threshold of a new phase – the phase of post-crisis development. We can clearly see where we should move to and what we need to do. A three-year Strategic Plan has been drafted on the basis of work on a crucial increase in the liquidity of financial instruments traded on the Exchange. During the reporting year we, along with our partner structures, created the foundation for this path.

The most important here is the government programme, "people's IPO". The initiatives proposed by KASE and RFCA agencies were backed by government bodies. The programme of floating national companies' shares on the local market instils great hopes for a fundamental increase in the liquidity of shares on Kazakhstan's stock market. Another state programme – the *Roadmap for the Development of the Securities Market*, many provisions of which were drafted by Exchange specialists – will work in the same direction.

Other projects by the Exchange are also worth noting, as they create a basis for increasing liquidity. For instance, in 2010 new *Rules for the Activities of Market Makers* were adopted to offer more comfortable, in our opinion, conditions for the work of brokers on KASE. During the entire reporting year the Exchange studied other trade and post-trade technologies and assessed the possibility of using them on its own floor to improve liquidity. The year 2010 was the first year when the Exchange supplied trade data in the real-time regime to major global providers of market information, using established international standards and protocols in this sphere. Investors from any country are now able to efficiently use our data when making decisions. The Exchange completed the design of a new terminal for trading shares on KASE via the Internet. In December 2010 we successfully used this terminal to organise an exchange simulation game for an unlimited number of private investors.

In performing these tasks, KASE continued to develop as a commercial structure. In the reporting year for the first time in its history, the Exchange paid dividends to its shareholders. In 2010 the Exchange reached double its target for net profit, despite the continued fall in turnover in certain sectors of the market that did not recover from the crisis.

In conclusion, I would like to express my gratitude to shareholders and Exchange members for their joint productive work and to reassure you that the Exchange will put every effort into implementing the intended strategic tasks.

Kadyrzhan Damitov
President of the Kazakhstan Stock Exchange

Conditions on Kazakhstan's Financial Market in 2010

The reporting year was marked by a better economic situation in Kazakhstan amid the continued volatility on global financial markets and, as a result, by differently directed and contradictory dynamics of the main indicators of the domestic financial market.

The end of the acute phase of the financial crisis in Kazakhstan can be fairly linked to the completion in 2010 of the process of restructuring debts of the three major Kazakh banks that declared default on their liabilities in spring 2009. Various estimates put the size of written-off debts of Alliance Bank JSC, BTA Bank JSC and Temirbank JSC somewhere between USD11bn and USD12bn; the remaining debts were converted to shares and new bonds in these banks.

The situation on Kazakhstan's corporate debt market significantly stabilised in the second half of 2010. Beginning from May KASE-listed companies had not committed any new defaults. The volume of unsettled debts fell, our estimates show, by 54 % to KZT94bn in the second half of the year[1]. By the end of 2010, the official list of the Exchange included securities of only nine companies that had committed defaults. One of these companies paid up its debts fully during the reporting year, while three companies settled their liabilities on debenture bonds through restructuring them. The remaining companies in arrears were made report to the Exchange every three months about their progress towards settling their liabilities before shareholders.

Despite a significant reduction in credit risks in the corporate sector of Kazakhstan's financial market, players continued to adopt conservative investment strategies. Investors were inclined to buy government securities and corporate bonds with the highest investment quality – liabilities of major state-owned and quasi-state-owned companies (Figure 1). The Ministry of Finance heavily issued MEKAM, financing the state budget deficit that stood at 2.89 % of GDP at the end of the year (Figure 2). High demand and supply on the government securities market sustained the stock market of government securities, with the size of transactions on it growing by 1.7 % year-on-year to KZT1,431.4bn in 2010.

In the context of strong demand for first-class instruments with fixed yield, the role of the primary market of corporate bonds grew significantly. In 2010 the Kazatomprom National Nuclear Company JSC, KazMunayGas National Company JSC and the Development Bank of Kazakhstan JSC issued bonds on local and foreign markets. This resulted in the volume of funds raised only through Kazakhstan's stock primary market of corporate bonds reaching a record high for KASE of KZT64.8bn (USD438.8m).

At the same time, the year 2010 was marked by relatively high prices on global commodities markets. The Brent oil price jumped by 14.6 % to USD93.49 per barrel. The three-month futures contract of copper on the London Metal Exchange soared by 23.8 % to USD4,213 per tonne (Figure 3).

[1] The Exchange does not possess comprehensive information about the volume of unrealised liabilities on corporate debt, as well as measures taken by issuers to settle them, because bonds of several companies committed default were de-listed and their issuers lost liabilities before the Exchange on disclosing information of their activities.

Figure 1

STRUCTURE OF CONSOLIDATED INVESTMENT PORTFOLIO OF KAZAKHSTAN'S PENSION ASSETS IN 2005–2010, %

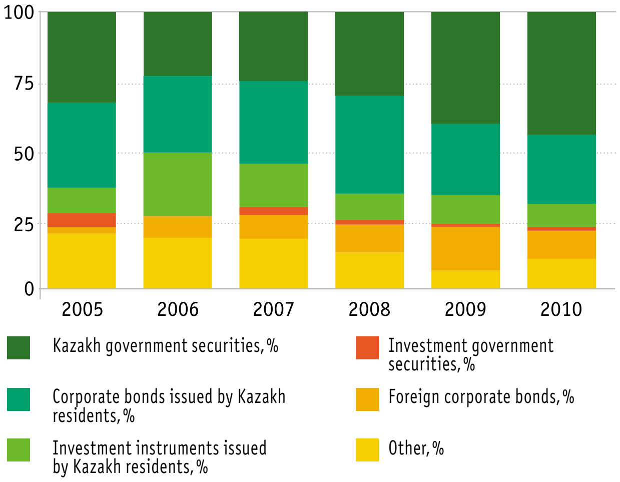


Figure 2

STATE BUDGET DEFICIT IN 2005–2010, % OF GDP

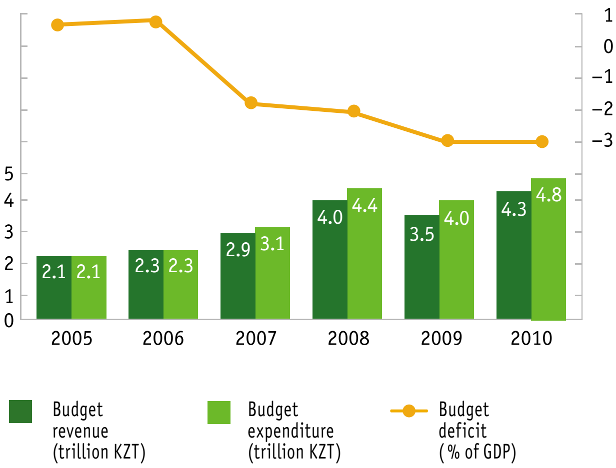
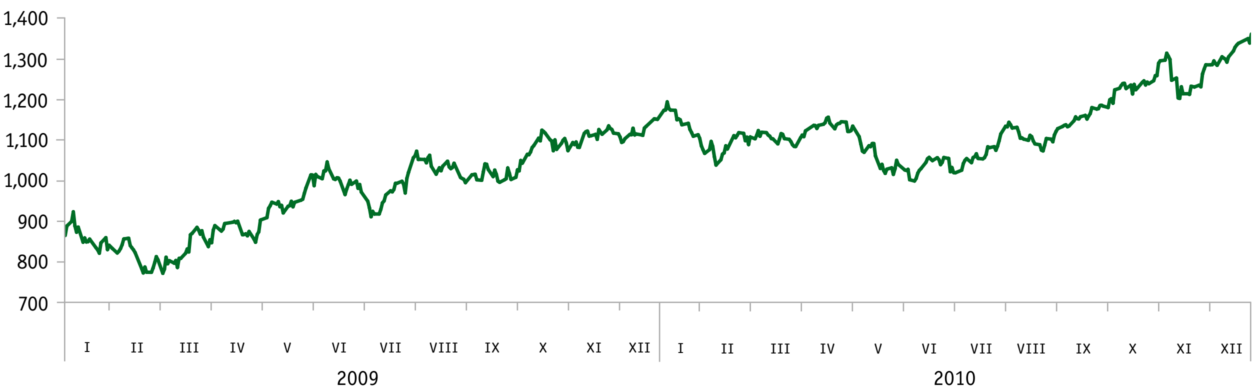


Figure 3

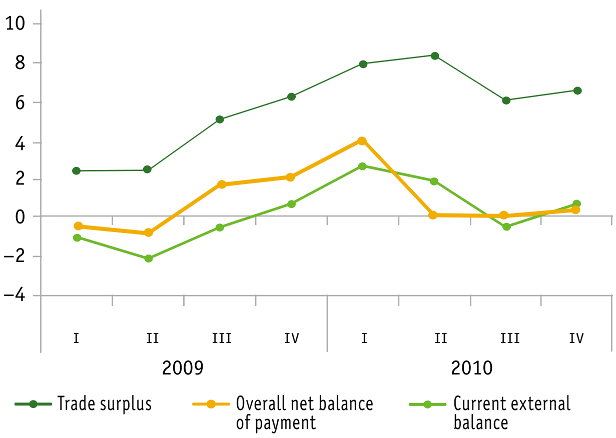
DYNAMICS OF COMMODITIES MARKETS INDEX UBS CMCI COMPOSITE USD TOTAL RETURN*, ITEMS**



* An index that reflects the yield of a wide diversified basket of commodities futures contracts
** Bloomberg data

Figure 4

KAZAKHSTAN CURRENT ACCOUNT BALANCE INDICATORS DYNAMICS IN 2009 AND 2010, BILLION USD*



* Data of the National Bank of Kazakhstan

Figure 5

DYNAMICS OF MONEY MARKET INDICATORS IN 2010, % PER YEAR

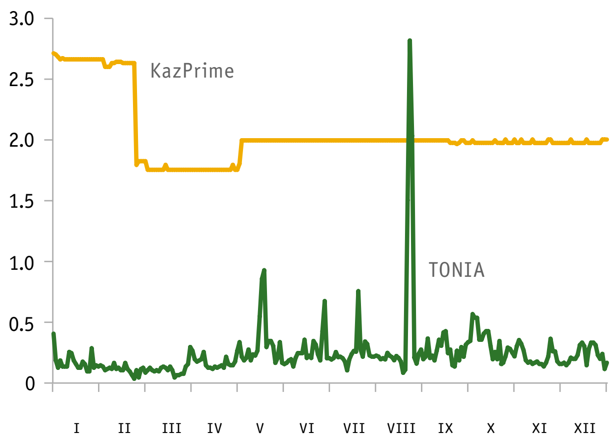


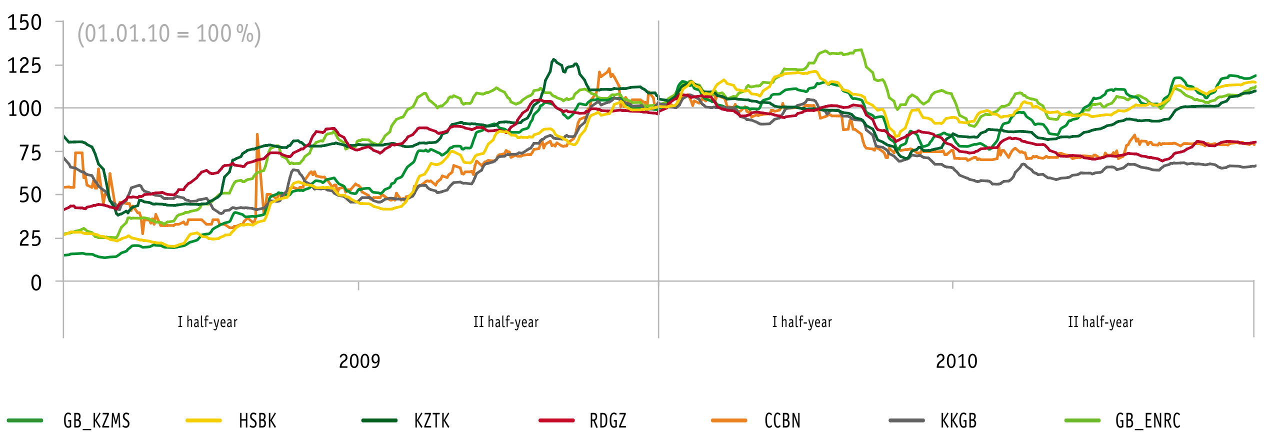
Figure 6

KASE INDEX AND WORLD STOCK INDICES DYNAMICS IN 2010, %*

* Bloomberg data

Figure 7

REPRESENTATIVE LIST SHARES PRICES DYNAMICS IN 2010 AND 2009, %



High prices of Kazakhstan's main exports led to a growth in export earnings of local companies and improved foreign trade statistics. In 2010 Kazakhstan's trade surplus reached an equivalent of USD28.9bn and the current account surplus was equal to an equivalent of USD4.32bn (Figure 4).

A sizeable part of export earnings were accumulated on exporting companies' accounts in second-tier banks, increasing currency exchange transactions between foreign exchange market players. The volume of foreign currency traded stood at KZT15.7tn in 2010, a 59.4 % growth on 2009. The foreign exchange market's speculative potential remained low, because the US dollar fluctuated in a quite narrow corridor of KZT146.5–148.

The growing volume of unclaimed liquidity of commercial banks drove interest rates down but increased the volume of transactions on Kazakhstan's money market. In 2010 the KazPrime-3M quarterly index stood at 2 % APR, while the TONIA indicator did not exceed 2.8 % APR during the course of the year (Figure 5).

The volume repo transactions reached KZT12.7tn in 2010, increasing 22 % from the 2009.

The conditions for the development of the Kazakh stock market were largely defined by the events on global stock and commodities markets during the last year. In the middle of the year, due to a fiscal crisis in EU countries investors all over the world sold their European assets and closed long positions on shares of companies from developing countries. The situation was complicated by concerns over the overheating of the Chinese economy and many analysts' doubts about the sustainability of the global economic recovery. By the end of May-early June the main global stock indices reached their lowest points in the year, while the KASE Index slumped by 23.7 % to a yearly low of 1,349 (Figure 6).

The situation stabilised in autumn when the USA announced the so-called second phase of quantitative ease that envisaged buying back government securities to the tune of USD600bn over the following eight months. Additional injections of liquidity caused a rapid growth on global stock exchange and commodities markets.

Kazakhstan experienced a correctional growth in prices at the end of last year when positive macroeconomic information was published. Fitch Ratings changed its forecast on its long-term sovereign rating of Kazakhstan from "stable" to "positive", but left GDP growth forecasts unchanged at 7 % per year. Against this background, the KASE Index reclaimed the previous decrease, and it reached 1,718 points by the end of the year. The best performers were the ordinary shares of Kazakhmys PLC (+18.1 %), the Eurasian Natural Resources Corporation PLC (+14.3 %), Halyk Savings Bank of Kazakhstan (+12,8 %) and Kazakhtelecom JSC (+8.7 %). The worst performers were the ordinary shares of Kazkommertsbank JSC (–33.5 %), KazMunayGas Exploration Production JSC (–20.9) and CenterCredit Bank (–22.6 %) (Figure 7).

Macroeconomic statistics in 2010 make it possible to state that a number of fundamental positive changes had been brought about in the Kazakh economy and financial market during 2008–2010. Nevertheless, many problems remain current. The subsequent development of the stock financial market in Kazakhstan will mostly depend on the success of the solutions to these.

Measures to Draw Issuers and to Increase Liquidity of Securities

PREPARATIONS FOR NATIONAL COMPANIES' IPOs

On 29 January 2010 in the annual state-of-the-nation address Kazakhstan's President Nursultan Nazarbayev announced the launch of the *Strategic Plan 2020*, and one of the basic conditions to implement it is a developed domestic stock market. The head of state stressed that Kazakhstan's stock market should turn into a regional financial centre for Islamic banking in the CIS and Central Asia, while Almaty should be among Asia's top 10 financial centres by 2020.

The entire previous experience of developing the domestic stock market, as well as the relevant experience of many other countries, shows that this objective cannot be achieved without bringing major national and quasi-state-owned companies to the local organised stock market. Having realised this, the Exchange has repeatedly pointed in the past few years to the necessity of this launch. ARA RFCA and the Regional Financial Centre of Almaty JSC have joined in the promotion of this idea in recent years. In the reporting year, this idea was recommended by consultants[2], and was supplemented by a condition that required the launch of IPOs of these companies exclusively in Kazakhstan in order to draw foreign investors to the local stock market.

In the end, the position held by the Exchange and the management of the RFCA was backed by the head of state and the Government of Kazakhstan.

On 25 May 2010, Prime Minister of Kazakhstan Karim Masimov issued orders to activate the development of the domestic stock market. For this purpose a special working group was set up under the *Council for Financial Stability and the Development of the Financial Market* under the President of Kazakhstan with the following objectives:

- considering issues regarding improving the legislative basis for the securities market;
- simplifying foreign players' access to the domestic foreign currency and stock markets;
- activating retail investors;
- developing a state programme on bringing issuers to the securities market.

On 12 August 2010, at an expanded-format meeting of the Management Board of the Samruk-Kazyna National Welfare Fund JSC, the head of government made a proposal to float blocks of shares of certain subsidiaries of Samruk-Kazyna on the country's stock market. Later, on 18 November 2010 at the second Expert-100-Kazakhstan economic forum, Prime Minister Karim Masimov once again reiterated the government's intention to carry out IPOs (SPOs) of national companies on Kazakhstan's stock market.

On 24–25 November the Exchange and the Regional Financial Centre of Almaty JSC held the two-day forum *Kazakhstan's Stock Market: IPOs on KASE*. Key topics discussed at the forum were: the role of national companies' IPOs in Kazakhstan's

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2 See section "Implementation of EBRD's Consultancy Project".

post-crisis development; conditions for making IPOs on the Exchange and the investment potential of Kazakhstan's stock market. The forum became a platform for a constructive dialogue between business circles and government structures of the country.

With the aim of creating favourable conditions for companies planning IPOs in the local market, the Exchange and ARA RFCA drafted and adopted changes in the Exchange Listing Rules. In particular, from 25 August 2010 initiators of floating shares on the Exchange may be relieved of paying the application and first yearly listing fees, if:

- shares are included in KASE's official list for the first time as a result of carrying out an IPO;
- shares are placed on KASE in an open trading manner;
- the volume of funds raised in an IPO within six months of the Listing Commission's decision on including these shares in the official list coming into force stands at least at an equivalent of 1m MCIs;
- in the IPO at least 50 investors buy floated shares;
- as a result of the IPO, the weight of shares in free circulation is at least 10% of the total number of floated shares of the listed company that made the IPO (except for shares bought back by an issuer that were pledged or blocked).

In addition, on 13 August 2010 by a decision by the Management Board of KASE a procedure for the Exchange to provide wide information support to listed companies in their IPOs was developed. This support is rendered free of charge and includes a wide set of measures such as using the entire stock exchange infrastructure for distributing information for the purpose of publicising a listed company and its operations among investors.

ADOPTION OF ADDITIONAL BENEFITS FOR LISTED COMPANIES

On 9 June 2010 a decision was passed to adopt additional benefits for issuers whose securities are most widely traded on the Exchange: if the amount of commission fees collected from deals with certain shares in the past 12 months exceeds 2,000 MCIs, the yearly listing fee on these shares is reduced to up to 100 MCIs.

This benefit is designed to encourage companies that maintain a relatively high level of free float and ensure constant relations with shareholders, thus stimulating the liquidity of their shares on the open market. In 2010 this benefit was granted to only two companies – KazMunayGas Exploration Production JSC and Kazakhmys PLC.

IMPLEMENTATION OF EBRD'S CONSULTANCY PROJECT

As part of cooperation with the EBRD, the Exchange initiated and run the consultancy *Kazakhstan Stock Exchange Capacity Building Project* in July 2010 to increase the liquidity of securities on Kazakhstan's organised stock market and improve the quality of services the Exchange offered to issuers and investors.

The project was run jointly with Austria's Wiener Boerse AG and its partner CAPMEX consultancy. The EBRD financed the project via a grant provided to the Exchange for developing Kazakhstan's organised securities market by the adoption of international standards and experience.

During six months a group of five consultants studied the Exchange and key aspects of its operations. As part of this project the Exchange held a seminar for regulators and market players on 27 September 2010 to present measures recommended by the consultants to increase the liquidity on Kazakhstan's securities market. At the end of the year, consultants drafted a final report and drew final recommendations to boost the attractiveness of Kazakhstan's securities markets.

CAPMEX specialists stressed the need to conduct IPOs by Kazakhstan's major national companies and recommended that the software and technical infrastructure and the Exchange's system of settlements be modernised, that access to the local market made available for foreign companies, and so on. A full list of recommendations can be found on the relevant pages of the Exchange's website.

PERFECTING THE INSTITUTION OF MARKET MAKERS

As part of work to increase the liquidity of financial instruments traded on the Exchange, KASE paid particular attention to perfecting the institution of market makers in 2010. This resulted in the adoption of new *Rules for Market Makers' Activities*, which the Exchange Board of Directors endorsed on 25 June 2010. Here are basic new characteristics of the Rules:

1. The maximum spread between the best mandatory quotes for purchase and sale of shares permitted to be traded in the highest category of KASE's official list and liquid shares was set at 7 %, for illiquid shares and equities at 10 % of the value of quotes for purchase; for bonds at 4 % of the difference between the value of yield of quotes for purchase and sales; for bonds whose yield is not traced by the KASE trade system at 8 % of the difference between the value of quotes for sale and purchase relatively to the value of quotes for purchase[3].
2. Market makers' responsibility for failing to perform their functions in a timely manner or performing them insufficiently was changed. In case of untimely performance of liabilities on quoting and maintaining mandatory quotes a market maker should pay the Exchange a fine of 20 to 200 MCIs depending on the duration of the non-performance[4].
3. Market makers are granted the possibility of using "time outs" – periods of time within a business day given to a market maker to make new values for mandatory quotes during which the market maker is allowed not to maintain mandatory quotes, but:
   - conditions for using time outs depend on the type and degree of liquidity of securities on which a market maker performs his duties;
   - total length of time outs during one trade session on liquid shares, equities and bonds should not exceed 30 minutes and on illiquid shares – 15 minutes;
   - a market maker in any case has to maintain mandatory quotes in the Exchange's trading system for 15 minutes from the opening of the trade session on securities, in the period of a waiting regime and in the period of holding a closing auction on shares.
4. The category of specialists was abolished because the Exchange members did not need them. However, the Exchange does not rule out that this category may be restored in the future but on different conditions and principles.

The new rules also envisage benefits and a system of incentives for market makers based on their monthly performance.

The new rules were agreed with the FSA on 17 September 2010 and came into force on 17 January 2011.

[3] According to the previous edition of this document, market makers had obligations to maintain a spread between the best mandatory quotes on all shares in the amount not exceeding 10 % of the value of quotes for purchase, on all bonds – not exceeding 2 % of the difference in absolute values of the yield of bonds to redemption.

[4] In case of non-performance by a market maker of their obligations on making and maintaining mandatory quotes for more than 60 minutes, the Management Board of the Exchange may strip this Exchange member of the status of a market maker.

Development of Trading and Settlements Technologies

ADOPTION OF SYSTEM OF COMPENSATORY PAYMENTS ON THE "NEGO" REPO TRANSACTIONS MARKET

In 2010 the Exchange completed work that was planned jointly with the FSA on a fundamental reduction in the level of risks on the repo transactions market. These measures were launched in 2009 after a series of defaults on performing deals of closing "nego" repo transactions in late 2008 – early 2009.

The *Agreement on General Conditions for Carrying Out "Nego" Repo Transactions*, an appendix to the *Rules for Carrying Out Repo Transactions*, came into force on 4 May 2010 after the Exchange Board of Directors endorsed it on 28 May 2009. This document served as a legislative basis for adopting a mechanism of market revaluation of liabilities on repo transactions carried out by the "direct method"[5] on the Exchange's money market. The adoption was possible as a result of the corresponding modernisation of the TS and the launch of its new version on 4 May 2010.

The new mechanism provides for transfers of compensatory payments from one party in a repo transaction to another when during the repo transaction the current market price of the subject of repo reaches critical minimum or maximum values that are set by the parties at the opening of the repo transaction. The value and direction of payments depend on the direction and value of changes in the price of the subject of the repo.

PERFECTING SETTLEMENTS SYSTEM ON THE STOCK SECURITIES MARKET

The crisis on the global and domestic financial markets exposed weaknesses of the settlements system used on the Exchange's securities market and had a negative impact on competitive positions of Kazakhstan's stock exchange market. In 2010 the Exchange accounted for only 3.2 %[6] of the total volume of trade in shares of companies with fixed assets in Kazakhstan.

Since an efficient post-trading service that is compliant with international standards is one of the crucial conditions for attracting foreign investors, in the reporting year the Exchange launched a project to switch to a guaranteed settlements system in accordance with the T+n (n>0) scheme.

5 This mechanism is known as "mark-to-market" in the global practice.

6 The figure includes major one-off deals. Without these deals the share of the Exchange will go down almost by a factor of 10.

According to plans, endorsed a year earlier, in the first phase a system of settlements and clearing according to the T+0 scheme with full pre-delivery of securities and money is expected to replace the DVP[7]. This should serve as a basis for the second phase – a switch to the T+n (n>0) clearing system with partial pre-depositing of cash.

The first familiarisation presentation for the T+0 settlements scheme with complete security was held for participants by the Exchange on 2 November 2010. This event also included discussions and the requirements set for participants' accounts for conducting settlements in accordance with the new scheme were explained.

On 30 November 2010 the Exchange Board of Directors endorsed a new document entitled *Regulations for Conducting Settlements on Securities Transactions according to the T+0 Scheme with Full Backing* that identified rules for conducting settlements on securities deals and the order for conducting trade procedures relating to securing deals under conclusion.

As part of the switch to the guaranteed settlements system in accordance with the T+0 scheme in 2010, necessary changes were adopted to the TS. The updated version of the TS is expected to undergo a trial in 2011, after which these regulations will come into effect and replace the previous *Regulations for Conducting Settlements* on completed deals on securities.

In 2011 the Exchange will implement plans to switch to a system of clearing and settlements based on the T+3 scheme, with the adoption of a system of settlements risks management. In the initial phase this mechanism is expected to be applied to the most liquid shares. The project will enable the Exchange to switch from a system of settlements "deal after deal" to a more perfect system of multiparty net clearing. At the same time, risks of default on deals concluded will be secured by the Guarantee Fund formed by the participants in the trade and the Reserve fund formed by the Exchange. The risk of a change in the price of the object of the deal during a settlements cycle will be compensated by mandatory contributions of initial margin fees on the day of concluding the deal and, if necessary, additional margin fees on the first and second trading days after the conclusion of the deal.

Parameters of the new clearing system will be identified and agreed with by participants during each stage of its adoption.

Even though a longer settlements cycle on a deal may create temporary inconveniences for local investors, the new system will boost the attractiveness of the local stock market for foreign investors and restore the Exchange's competitive positions in the future.

CREATION OF NEW STRADE PLATFORM

In 2010 the Exchange's subsidiary eTrade.kz LLP continued the development of a new TS terminal for online trading (the working title of the terminal was *Thin Client*). The first presentation of it for professional players on the stock market was held on 30 June 2010.

In August 2010 the new product was tested during a business game with the involvement of the Exchange personnel, while in September it hosted another series of student games and in December 2010 the Exchange held a competition game on this platform for an unlimited number of retail investors all of whom worked with the terminal via the Internet.

The Exchange members are expected to carry out the first installations of the terminal in 2011 after resolving a number of legal issues.

The chief advantages of the new product are: a modern ergonomic interface, high-speed performance, the possibility of mapping a user's portfolio in a link-up with a back office and the use of electronic digital signatures which comply with GOST 34.310–2001 state standards and certificates of keys of electronic digital signatures issued by VC KISC.

7 The existing and new T+0 scheme does not provide for net settlements on securities, i.e. settlements are made in the "deal after deal" mode.

CREATION OF SYSTEM OF ELECTRONIC DOCUMENT EXCHANGE WITH ISSUERS

For the purpose of boosting the speed and efficiency of the existing system of disclosing information the Exchange started the development of an electronic system of exchange of documents with listed companies in 2010, naming it Is2in.

Is2in is a specialist system of electronic exchange of documents between issuers of securities and the Exchange that will enable them to achieve a more speedy procedure for disclosing information, minimise human factor on part of the Exchange in this process and reduce risks of discrepancy between electronic and paper versions of documents submitted to the Exchange. The system will enable listed companies to transfer automatically to the Exchange regular financial statements and other documents necessary for opening access by initiators as part of their performance of listing requirements. Moreover, the system will make it possible to send standardised news reports from listed companies for their subsequent publication on the Exchange's website.

In the first half of 2010 the Exchange learnt and analysed the experience of adopting similar systems of document exchange with identical objectives and functions in the USA, Bulgaria, Russia, Germany and the UK. At the end of the year internal technical documentation was drafted, and on 23 December 2010 the Exchange Management Board endorsed the *Plan of Measures to Develop and Adopt a System of Electronic Document Exchange with Issuers of Securities*, which provides for the commissioning of the Is2in system in 2012.

Development of Derivatives Market

As part of the Development Strategy in 2007–2010, a project to restore trade in derivatives on the Exchange was carried out in 2010.

Attempts to launch a derivatives market on KASE had been made previously. In 1996 and 1999 trade in futures on the rate of the US dollar to the tenge opened, in 2001 futures on the rate of the US dollar to the euro, in 2002 futures on the yield of Kazakhstan's international securities, in 2008 deliverable futures on refined gold in bullion were launched. Despite incidental activity of traders in futures on the rate of the US dollar to the tenge between 1999 and 2004, the derivatives market ceased to exist.

Taking into account past experience, a decision to launch the futures market in 2010 was taken in the context of the creation of a fully-fledged system of risk management that meets international standards. Lawmaking, technical and marketing activities in this direction began after the Exchange Board of Directors endorsed the *Plan of Measures to Develop the Futures Contracts Market and the Blueprint for the Project to Organise Trade and Conduct Settlements on the KASE Futures Contracts Market* on 30 March 2010.

These documents identified the following elements of the risk management system on the derivatives market:
- a system of limits on opening positions and changes in prices depending on the capital adequacy of a participant;
- a system of margins to cover risks of changes in price;
- the Guarantee and Reserve Funds for ensuring timely clearing on deals in case of a default of one or more participants.

These elements are standard tools to manage risks on developed derivatives markets and they were used by the Exchange in its practice for the first time.

In accordance with the Exchange's plans, the *Rules for Exchange Trade in Futures Contracts* and the *Rules for Conducting Clearing Activities on the Futures Contract Market* were drafted and they set regulations for concluding deals on futures contracts and the procedure for the Exchange to conduct clearing activities on deals concluded on the futures market.

In order to define the procedure for forming, using and replenishing the Guarantee and Reserve Funds of the futures market, on 25 June 2010 the Exchange Board of Directors endorsed the *Provisions on the Reserve and Guarantee Funds*, which reads as follows:
- The Reserve Fund is formed by the Exchange from its own capital and is replenished from a one-off fee and monthly fees equaling 15% of commission fees on the futures market;
- The Guarantee Funds are formed for each type of futures contracts separately from mandatory one-off guarantee fees in fixed amount by members of the futures market.

This document stipulates that the money of the Reserve and Guarantee Funds will only be used in the event of the insolvency of one or more members of the Exchange's futures market in order to perform their net liabilities. Each member of the futures market on whose net liabilities the money of the funds is used is liable to replenish the money spent in the following order: the money of the Reserve Fund; guarantee fees from solvent members of the Exchange; a guarantee fee from the insolvent member of the Exchange.

The *Rules for Stock Exchange Trade in Futures Contracts* were agreed by the FSA on 19 July, the *Rules for Conducting Clearing Activities on the Futures Contract Market* on 14 October, and the *Provisions on the Reserve and Guarantee Funds* on 17 September 2010. All documents came into force on 20 October 2010 and replaced the previous *Rules for Stock Exchange Trade* and *Settlements on Futures Contracts*, as well as the specifications of previously existing futures.

On 9 November 2010 amendments and addenda were endorsed to the *Regulations on Trade and Work of the System of Confirmation* that set the procedure of conducting trade and clearing on derivatives. On 10 November 2010, the Exchange Board of Directors endorsed the new internal documents *Specifications of Futures Contracts on the Rate of the US Dollar to the Tenge* and *Specifications of Futures Contracts on the KASE Index*.

In addition, a number of marketing and PR events were staged in 2010 to publicise and boost the attractiveness of derivatives.

A demo game on trading in futures contracts was held for Exchange members between 8 and 22 September 2010. Its participants had a chance of conducting transactions with cash-settled futures on the rate of the US dollar and on the KASE Index. This event demonstrated to participants the capacity of working with derivatives in the TS, as well as testing the software and equipment in this segment of the market.

On 6 December 2010 the Exchange started online trading in futures on the exchange rate of the US dollar to the tenge and on the value of KASE Index in online regime on its trading floor. The first deal on dollar futures was concluded the same day and on futures on the value of the KASE Index on 13 December.

Despite the low activity in the new segment of the market, the Exchange hopes for a gradual growth in the attractiveness of derivatives in the near future. With this aim, it plans to carry out a set of marketing events and a series of training seminars and continue work with regulators to remove causes hindering professional market players from closely working with futures contracts on the Exchange at the moment.

International Cooperation

In the reporting year the Exchange continued to get actively involved in cooperation with international organisations, foreign stock exchanges and investors.

On 8 December 2010 the 16th General Assembly of FEAS was held in Istanbul (Turkey), and the Exchange, represented by its President, was accepted as a member of the organisation's Executive Committee. It was then decided that the 17th General Assembly of the Federation would take place in Almaty in autumn 2011.

The FEAS Executive Committee is made up of 12 members who are elected every two years. As a member of the management body, the Exchange will be able to take a more active part in the development and management of the Federation.

As part of a project to obtain the status of a full member of the WFE, the Exchange set up the *Committee for Cooperation with the WFE* on 26 July 2010 under the chairmanship of Exchange President Kadyrzhan Damitov. The Exchange's Foreign Relations Department drafted the *Analysis of KASE Activities with a View to Compliance with Requirements Set for Full Members of the WFE*, which established the non-compliant KASE operating activities with regard to WFE criteria and proposed measures to eliminate them. On the basis of this analysis, on 30 July 2010 the Management Board endorsed the Plan of KASE measures to eliminate non-compliance to the WFE criteria, with the distribution of corresponding tasks and identification of dates for performing them within the next two years. In 2010 the larger part of this plan was implemented.

Last year the Exchange paid particular attention to modernising or replacing the TS in use. For this purpose, during the entire period in question Exchange staff members, including members of the Exchange Board of Directors, held meetings and negotiations both in Kazakhstan and foreign countries with the world's major stock exchanges and independent suppliers of stock exchange technologies. At the same time, options either to obtain a ready-made trading system or commission for the development of software adapted to the Kazakh market were considered. The final decision on this issue will be made in 2011.

The EBRD-funded consultancy – *Kazakhstan Stock Exchange Capacity Building Project* began in July 2010: it is discussed in this report's Increasing Liquidity chapter.

Another important event in the reporting year was the election of a non-resident organisation of Kazakhstan as a member of KASE for the first time in its history. By a decision the Exchange Board of Directors made on 30 November 2010, Promsvyazbank JSC (Moscow) was elected as a member of the Exchange's foreign currency market after discussion with the National Bank of Kazakhstan and the FSA.

CREATION OF RISK MANAGEMENT SERVICE

By resolution No. 244 *On Endorsing Instructions on Requirements for the Availability of a Risk Management System on the Stock Exchange* of 30 November 2009, the regulator legislatively stipulated the need to create an internal risk management system on the Exchange in the first quarter of 2010.

With this aim, the Exchange set up the Risk Management Service on 1 March 2010, which is responsible for monitoring and controlling all corporate risks at the Exchange. On 30 March 2010, the Exchange Board of Directors endorsed a new internal document entitled *Risk Managements Policies of Kazakhstan Stock Exchange JSC* that defined the main objectives, tasks, principles and components of the risk management system, as well as mechanisms, instruments, power and liabilities of participants in the risk management process.

During 2010 the RMS was involved in day-to-day and monthly collections of data from the Exchange's subdivisions about risk events that had taken place and presented day-to-day and regular reports on these risks to the Exchange management. Based on data collected, measures were taken to minimise the consequences and frequency of emergence of risk events.

In accordance with regulatory requirements, the RMS conduct stress tests of the Exchange's investment portfolio on a quarterly basis to identify the impact of fluctuations in the exchange rate, interest rates and the price of financial instruments on the yield and value of the portfolio. Apart from this, the TS was also stress-tested every quarter with a view to its robustness to operating risks. Results of these tests were sent to the relevant bodies.

In the fourth quarter of 2010, the RMS and Exchange specialists conducted the identification and quality assessment of the Exchange's corporate risks. The results of this research became the basis for a register and map of risks that had been endorsed by the Management Board on 27 December 2010. The register and map of risks made it possible to arrange existing risks in the order of their impact on the achievement of objectives set for the Exchange. On the basis of this a plan of measures to manage the Exchange's critical risks will be drafted and endorsed in 2011.

It is also worth noting that in 2010 the internal document *Procedure of Investment in Kazakhstan Stock Exchange JSC's Own Assets* was adopted to limit the list of instruments with minimum risks available for investment to government securities and fixed-term deposits.

ACTIVITIES OF INTERNAL AUDIT SERVICE

The Internal Audit Service, set up in June 2009, considerably boosted its activity in 2010. It conducted 12 audits covering the core spheres of KASE or spheres that are exposed to high risks. In particular, activities of the Clearing Chamber, the Trading Department, operating activities of the Listing Department were audited, the processes of assigning and paying salaries were studied, income from operating activities was considered, the procedures of purchase and monitoring the observance of prudential requirements and other spheres of activities of KASE were audited.

We should also note that the Exchange Board of Directors endorsed the internal document *Provisions on the Audit Committee* on 30 December 2010. It defined the status, powers, composition, work procedures and functions of the Exchange Board of Directors' Audit Committee, as well as procedures to convene and hold its sittings, documenting its decisions and the rights and liabilities of its members.

OPERATING ACTIVITIES

In 2010 the Exchange received 5,301 incoming correspondences and sent 2,181 outgoing correspondences. In the given period, the Management Board adopted 492 decisions, while the Exchange Board of Directors held 20 face-to-face meetings and seven remote meetings.

Financial Performance in 2010[8]

CAPITAL

On 28 October 2010 the Exchange Board of Directors passed a decision to recapitalise the Exchange. Several reasons were given for the move.

A forecast change in the MCI at the beginning of 2011 was expected to lead to a situation when the Exchange's share capital stopped complying with the requirements set by FSA. Moreover, increasing equity capital was expected to create a factor of safety for the Exchange to fulfil prudential requirements K_1 and K_2.

To achieve the decisions passed by the Exchange Board of Directors on the Exchange acquiring its own building, creating reserve funds of the Exchange on the future markets and for clearings in accordance with the T+3 scheme, reserves for ensuring uninterrupted operating activities of the Exchange and renewing property, plant and equipment and completing the construction of a building for a reserve centre, there was the need for additional capital expenditure.

Throughout 2010, the Exchange considered a project that involved acquiring IT solutions from a foreign stock exchange (a trading system and/or clearing) with entry and without entry of a strategic partner in KASE's capital. In this scenario, the Exchange estimated recapitalisation in 2010–2011 to range between KZT309m and KZT456m.

The Exchange Board of Directors considered various scenarios of capitalisation and decided to increase KASE's share capital by KZT315.1m by issuing 85,000 ordinary shares at a price of KZT3,707 per share. In 2010 the Exchange managed to place 57,650 ordinary shares (67.8 % of the initially planned figure) to the tune of KZT213.7m, which resulted in the share capital increasing by 108.9 % to KZT406.2m[9].

In addition, shareholders received dividends totalling KZT143.1m for the year 2009, while KZT170m of undistributed profit was channelled into the formation of the Reserve Fund on the futures market. As a result, the final volume of undistributed profit practically did not change as compared with 2009 (–0.5 %). Increasing equity by KZT372.3m (+21.7 %) to KZT2,089.6m was prompted by a growth in the share capital and profit made in the reporting year.

ASSETS AND LIABILITIES

As at 31 December 2010 the Exchange's consolidated assets totalled KZT2,221.2m, an increase of KZT412.4m (+22.8 %). Profit and cash received as a result of increasing the share capital the Exchange put on deposit and correspondent accounts in STB. Cash and their equivalents increased by 39.3 % to KZT360m (16.2 % of total assets), cash on deposits and correspondent accounts in STB jumped by 65.2 % to KZT1,071.8m (48.2 % of total assets).

As discussed earlier, the new *Procedure of Investment in Kazakhstan Stock Exchange JSC's Own Assets* was adopted on 30 March 2010, setting a more conservative strategy for investing the Exchange's cash. Moreover, in the reporting year the Exchange conducted a number of transactions on the corporate securities market, resulting in the number of corporate securities in the Exchange's investment portfolio halving and surplus on "securities held to maturity" fell by 60.3 % to KZT205.6m, while cash deposited in STB increased by 65.2 %.

Along with current income, share capital and undistributed income were the main sources of financing activities. The Exchange did not attract additional loan capital; as a result, the share of this in the Exchange's liabilities remained low – 5.9 % (5 % in 2009). The financial leverage indicator was 1.06x, the debt-to-equity ratio did not exceed 0.007x.

[8] This chapter, unless stated otherwise, contains data from the KASE Group's audited consolidated financial statements for the year ending 31 December 2010.

[9] Information on changes in shareholders is provided in the Factbook.

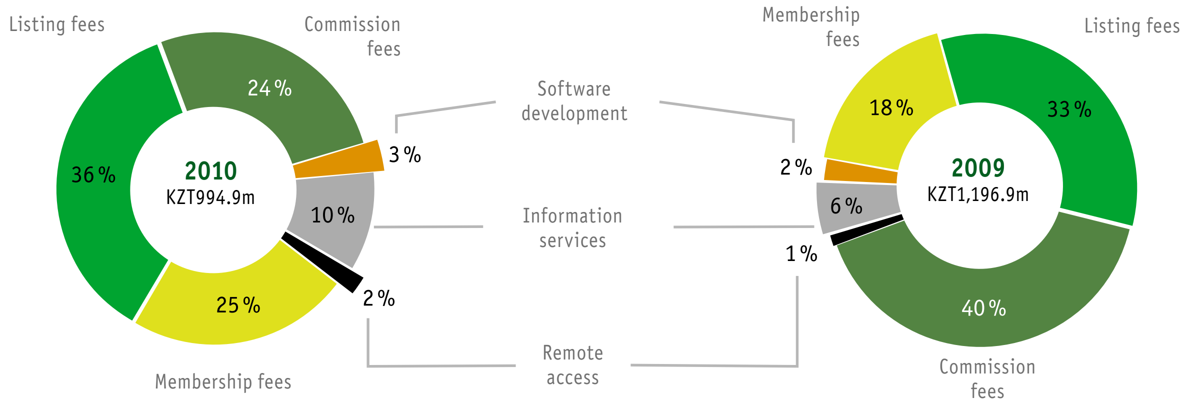
INCOME

Income from Membership Fees

Forecasting a possible decrease in the number of broker-dealer organisations and mergers of professional market players, the Exchange expected a reduction in membership fees by 6.5 % to KZT199.7m in 2010. However, the actual income from membership fees stood at KZT251.8m, exceeding the target by 26.1 % and last year's figure by 17.9 %. The share of this item of income in the consolidated income grew from 17.3 % to 24 % (Figure 8).

Figure 8

STRUCTURE OF EXCHANGE PROCEEDS FROM CORE ACTIVITIES IN 2010 AND 2009



An important event here was that three new companies became Exchange members in the capacity of "a member of the currency market": they are Eurasian Development Bank, Astana-Finance Bank JSC and Promsvyazbank OJSC. This meant that the volume of membership fees reached KZT31.8m, although the Exchange had not expected collections from new members.

The number of Exchange members in the capacity of "a member of the stock market" fell from 80 to 75 in 2010. At the same time, eight organisations were removed from the membership of the Exchange's stock market – three because of the revocation of their licences by the FSA and five because they voluntarily gave up their licences to the relevant body and/or voluntarily resigned from membership of the Exchange. The narrowing of the broker-dealer corps was caused by a reduction in activity and liquidity on Kazakhstan's stock market. This factor had a negative impact on the volume of regular membership fees collected, but it was offset by an 11 % increase in the monthly calculation index. Thus, the collection of monthly membership fees increased by 9.6 % to KZT220m and exceeded the target by 10.2 %.

Income from Listing Fees

After a record-high income in 2009 as a result of several major issues of bonds that were not in open circulation but were used by bondholders as an instrument to attract additional liquidity, the Exchange forecast a decrease in the collection of listing fees by 19 % to KZT315.3m in 2010. However, against a backdrop of high demand for high-quality instruments with fixed yield in the second half of the reporting year, securities of Development Bank of Kazakhstan JSC, KazMunayGas National Company JSC, Samruk-Kazyna NWF JSC and Kazatomprom National Nuclear Company JSC were listed on the Exchange. The total collection of admission listing fees from these issuances of bonds exceeded KZT30m.

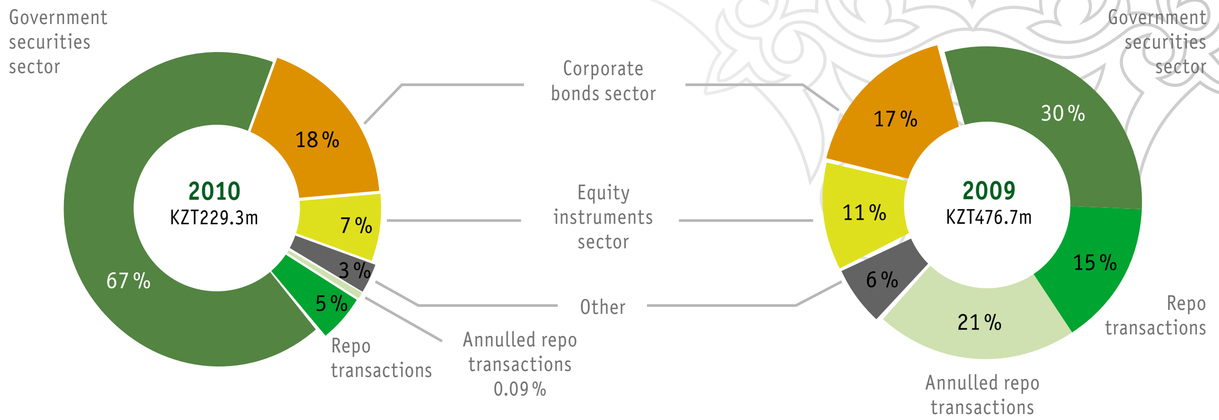
Thus, in 2010 the Exchange managed to exceed the target set for the collection of listing fees by 14.3 %. The volume of admission fees totalled KZT162.1m (26.8 % on top of the target) and annual fees stood at KZT198.4m (5.8 % above the target). The share of this item in the consolidated income of the Exchange grew from 31.6 % to 34.4 % (Figure 8). The volume of listing fees fell by 7.7 % on 2009, but increased by 33 % from 2008.

Income from Commission Fees

In 2010 income from commission fees amounted to KZT229.3m, of which KZT58m was raised from corporate securities, KZT153.1m from government securities and KZT11.1m from repo transactions (Figure 9). Because of the sluggish activity

Figure 9

EXCHANGE COMMISSION FEES IN 2010 AND 2009



in various sectors of Kazakhstan's financial market, the final indicator of commission fees was 35.9 % below the target and almost half the 2009 amount.

As a result of the continuing capital flight from the market in share instruments to other classes of assets or to foreign stock markets, the volume of trade in shares decreased by 56 % in the given period, while income from commission fees on this market plummeted by 67.1 % to KZT17.1m[10].

Commission fees on the corporate securities markets sank by 49 % to KZT40.9m because of credit risks remained high in this segment of the stock market. Despite some stabilisation in 2010, investors' trust in securities of the second and third tier companies remained low. Bonds issued by a number of high-quality issuers did not push the volume of trade and commission fees up on the corporate securities market, as many players invested in these instruments before their maturity.

Compared to 2009, commission fees on the government securities market increased by KZT10.1m (+7.1 %) to KZT153.1m, because of an increase in the volume of trade on the secondary market of government securities by 6.8 %. The volume and the number of transactions in this segment of the stock market grew because of high demand for risk-free instruments and the issuing activity by the Ministry of Finance, which heavily financed the state budget deficit by issuing MEKAM.

The low rates of loans to the economy, combined with excessive short-term liquidity in STB led to a considerable fall in interest rates on Kazakhstan's money market. The TONIA indicator did not exceed 0.5 % APR most of the year, while the KazPrime–3M indicator fluctuated between 1.7 % and 2.7 % APR. Because the size of the Exchange's commission fees from repo transactions until November 2010 had been in direct relation to the interest rates on transactions conducted, income in this segment of the stock market fell by more than 15-fold to KZT11.1m tenge[11].

In November, the Exchange's internal document *Provisions on Membership Fees and Stock Exchange Fees* was amended to remove the link between the Exchange's income and rates on the money market. As a result of these changes, the Exchange received an additional KZT7m in the form of commission fees from the repo transactions market (62.5 % of consolidated commission fees from the repo transactions market in 2010) and income from this novelty is expected to total about KZT53m in 2011.

Income from Provision of Information on Stock Exchange Transactions

In the reporting year the Exchange and the Thomson Reuters and Bloomberg financial news agencies concluded KASE's first licence agreements to disseminate information in real time mode on a fee-paying basis. As a result, income from

[10] Imbalance in dynamics of these indicators is linked to a major deal concluded in 2010 on which the Exchange did not receive income. Before concluding it the parties switched to a fixed method of paying commission fees which provides for one-off yearly commission fee based on deals concluded in the previous 12 months. Because of the lack of relevance and non-compliance with the Exchange's commercial status, the fixed method of payment was abolished by the Exchange Board of Directors' decision on 28 October 2010.

[11] It should also be noted that in 2009 on the report transactions market the Exchange raised an anomalous profit of KZT101.4m from annulled and/or unperformed deals of closing repo transactions.

provision of information in real time mode totalled KZT28.1m (EUR148,900), of which 53 % (EUR83,300) raised from licence fees and about 44 % (EUR65,500) came from payments from end-users.

The share of KASE's income from information services was as high as 9.9 % in 2010 (5.7 % in 2009)[12] (Figure 8). Licence agreements are expected to be signed by KASE with other distributors of information in 2011 and this will further increase income.

As at 31 December 2010 the number of end-users of information on the Exchange's transactions in real time mode was 267 individuals and legal entities, of whom 245 received information using Bloomberg and Thomson Reuters terminals, while 22 were direct users of the Exchange's website. The highest numbers of end-users were based in the USA and the UK.

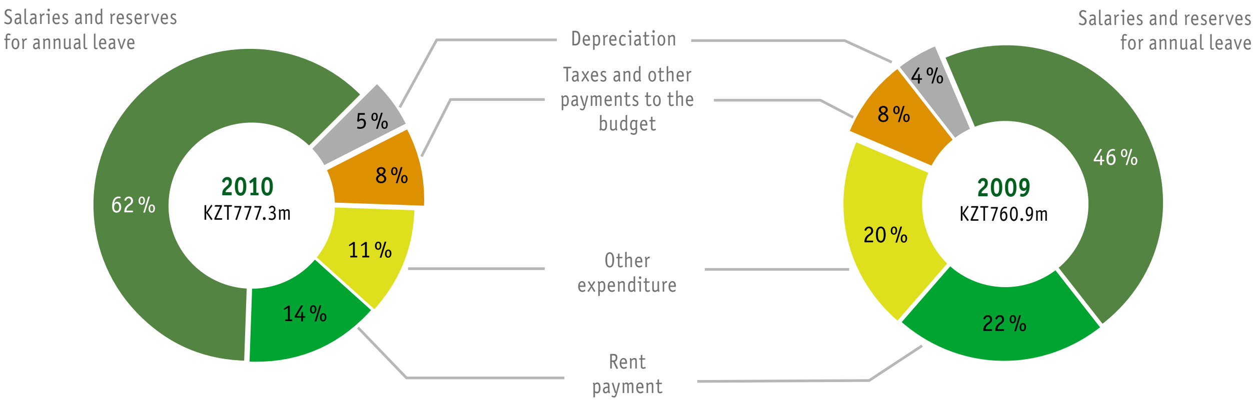
EXPENSES

In 2010 the Exchange management managed to maintain operating costs at previous levels. They stood at KZT777.3m, with the growth rate not exceeding 2.2 %.

Due to the modernisation of the trading infrastructure and the growing number of projects aimed at developing the Exchange, the number of personnel was expanded significantly and this, in turn, increased expenses on salaries and reserves on annual leave by 25 % (Figure 10).

Figure 10

EXCHANGE EXPENSES STRUCTURE IN 2010 AND 2009



In addition, in 2009 the Exchange management reached accords with proprietors that resulted in a 42 % decrease in rental payments for premises occupied by the Exchange's personnel. The share of this item in total expenses of the Exchange fell from 22 % to 14 %.

KEY FINANCIAL ACTIVITY INDICATORS

The KASE Group's financial performance in the reporting year, judging by the consolidated financial statements audited by Deloitte LLP, resulted in net profit of KZT305.1m, i.e. double the target. However, it fell by 17.5 % or KZT64.6m as compared with the previous year.

In accordance with the Development Strategy of Kazakhstan Stock Exchange JSC in 2007–2010 the target ROE was set at 5.88 % in the reporting year, while the target ROA at 5.83 %.

In 2010 the Exchange managed to achieve relatively high indicators of operating efficiency. The asset turnover indicator was 56.9 % and the net margin indicator – 26.6 %. As a result, ROA and ROE reached 15.1 % and 15.9 % respectively exceeding targets set by the Strategy by more than 100 %, despite the fact that it did not take the crisis into account.

12 In the audited consolidated financial statements of the Exchange provided in this report, this item takes into account not only information services provided by the KASE Group, but also income raised by the Group from developing software.

KAZAKHSTAN STOCK EXCHANGE JSC

Statement by the management on their responsibility for drafting and endorsing the consolidated financial statements for the year ended 31 December 2010.

The management bears responsibility for the consolidated financial statements that accurately reflects all significant aspects of the financial position of the Kazakhstan Stock Exchange JSC (hereinafter – the Company) and its affiliates (hereinafter – the Group) as of 31 December 2010 and the results of its operations, cash flow and changes in equity in the year ending on the aforementioned date according to the International Financial Reporting Standards (IFRS).

In preparing the consolidated financial statements the management is responsible for:

- Ensuring suitable selection of principles of accounting policies and application;
- Providing information, including information on accounting policies, in a form, ensuring applicability, accuracy, comparativeness and clarity of this information;
- Disclosing additional information in cases when the implementation of IFRS is insufficient for the comprehension of the impact certain deals and other events or conditions have on the consolidated financial position and financial performance of the Group's operations; and
- Assessing the Group's capacity to continue operations in the near future.

The management also bears responsibility for:

- Designing, implementing and maintaining an efficient and reliable system of internal control at all enterprises of the Group;
- Maintaining proper accounting records that enable them, with reasonable accuracy at any time, to prepare information on the KASE's financial position and to ensure that the consolidated financial statements of KASE comply with the IFRS requirements.
- Maintaining statutory accounting records in compliance with Kazakhstan's legislation;
- Adopting reasonable measures to ensure the safety of assets of the Group; and
- Establishing and preventing financial and other abuses.

On 29 April 2011, the management endorsed the Group's consolidated financial statements for the year ended 31 December 2010.

On behalf of the Management:

Kadyrzhan Damitov
President

29 April 2011
Almaty, Kazakhstan

Lyudmila Ryabushkina
Chief Accountant

29 April 2011

REPORT BY INDEPENDENT AUDITORS

For the Board of Directors and Shareholders of the Kazakhstan Stock Exchange JSC:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Kazakhstan Stock Exchange JSC and its affiliates (the Group) which include the balance sheet as at 31 December 2010 and the corresponding consolidated income statement, changes in equity statement and cash flow statement for the year ended on the aforementioned date, as well as a summary of significant accounting policies and other explanatory notes.

The management's responsibility for the consolidated financial statements

The management bears responsibility for drafting and fairly presenting the consolidated financial statements in compliance with the International Financial Reporting Standards (IFRS), as well as designing a system of internal control the management deems relevant for drafting the consolidated financial statements that are free from significant misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the accuracy of these consolidated financial statements based on our audit. We have conducted the audit in compliance with the International Standards of Auditing. These standards require that auditors observe ethical norms, plan and perform the audit to obtain sufficient assurance that the consolidated financial statements are free from significant misstatement.

The audit includes performing procedures that are necessary for obtaining evidence regarding quantitative indicators and disclosures in the consolidated financial statements. The choice of procedures is based on the auditor's professional judgment, including the assessment of risks of significant misstatement of the consolidated financial statements whether due to fraud or error. The assessment of these risks includes the analysis of the system of internal control over drafting and accuracy of the consolidated financial statements with the aim of designing audit procedures that are appropriate in the circumstances but not for the purpose expressing an opinion on the efficiency of the system of internal control. The audit also includes the assessment of the appropriateness of accounting policies used and the justification of accounting estimates by the management, as well as the assessment of the presentation of the consolidated financial statements as a whole.

We believe that audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements are accurate in all significant aspects and reflect the financial position of the Group as at 31 December 2010, as well as its financial performance and its cash flows in the year ended on the aforementioned date, in accordance with the International Financial Reporting Standards.

Other issues

The audit of the Group's consolidated financial statements for the year ended 31 December 2009 was conducted by another auditor, who on 31 March 2010 expressed unconditional positive opinion on these statements.

Andrew Weeks
Engagement Partner
Chartered Accountant
Certificate of Public Practice No. 78586
Australia

Deloitte LLP
State licence on auditing
in the Republic of Kazakhstan
No. 0000015, type MFU–2, given by
the Ministry of Finance of Kazakhstan
dated 13 September 2006

Nurlan Bekenov
Engagement Partner
Qualified Auditor
of the Republic of Kazakhstan
Qualification Certificate No. 0082
General Director
Deloitte LLP

29 April 2011
Almaty, Kazakhstan

KAZAKHSTAN STOCK EXCHANGE JSC

Consolidated financial statement on consolidated income in the year ended 31 December 2010
(in thousands of Kazakhstani Tenge)

	Notes	The year ended 31 December 2010	The year ended 31 December 2009
Fee and commission income	4, 19	994,939	1,196,993
Interest income	6	106,273	83,061
Provisions for impairment losses on interest bearing assets and other operations	5	(2,194)	(75,730)
Net gain on financial assets at fair value through profit or loss		–	8,085
Net (loss)/gain on foreign exchange operations		(169)	1,864
Net loss on investments held to maturity	13	(1,864)	(6,523)
Share of profit/(loss) of an affiliate		35,247	(47,090)
Other income	19	15,012	92,316
OPERATING INCOME		1,147,244	1,252,976
OPERATING EXPENSES	7, 19	(777,349)	(760,885)
PROFIT BEFORE INCOME TAX		369,895	492,091
Income tax expense	8	(64,820)	(122,421)
NET PROFIT		305,075	369,670
OTHER COMPREHENSIVE LOSS			
Unrealised loss on revaluation of investments available for sale		(1,488)	(7,757)
TOTAL COMPREHENSIVE INCOME		303,587	361,913

On behalf of the Management:

Kadyrzhan Damitov
President

29 April 2011

Lyudmila Ryabushkina
Chief Accountant

29 April 2011

KAZAKHSTAN STOCK EXCHANGE JSC

Consolidated statement on the financial position as at 31 December 2010
(in thousands of Kazakhstani Tenge)

	Notes	31 December 2010	31 December 2009
ASSETS:			
Cash and cash equivalents	10, 19	359,401	257,909
Restricted cash		30,776	1,504
Due from banks	11	1,071,777	648,641
Investments available for sale	12	30,834	27,814
Investments held to maturity	13	205,595	518,392
Investment in associate		126,560	35,053
Advances paid	19	78,261	38,399
Property and equipment	14	198,440	221,206
Intangible assets		3,278	3,576
Current income tax assets		55,984	–
Deferred income tax assets	8	659	612
Other assets	15, 19	59,573	55,484
TOTAL ASSETS		2,221,138	1,808,590
LIABILITIES AND EQUITY			
LIABILITIES:			
Payables to trade members on restricted cash		30,776	1,504
Advances received	19	48,567	31,762
Current income tax liabilities		2,054	12,075
Deferred income tax liabilities	8	14,488	14,947
Other liabilities	16, 19	35,617	30,994
Total liabilities		131,502	91,282
EQUITY:			
Share capital	17	406,244	194,418
Investments available for sale revaluation reserve		(2,060)	(572)
Other reserve		170,000	–
Retained earnings		1,515,452	1,523,462
Total equity		2,089,636	1,717,308
TOTAL LIABILITIES AND EQUITY		2,221,138	1,808,590

On behalf of the Management:

Kadyrzhan Damitov
President

29 April 2011

Lyudmila Ryabushkina
Chief Accountant

29 April 2011

KAZAKHSTAN STOCK EXCHANGE JSC

Consolidated statement on changes in equity for the year ended 31 December 2010
(in thousands of Kazakhstani Tenge)

	Share capital	Investments available for sale revaluation reserve	Other funds	Retained earnings	Non-controlling interest	Total equity
31 December 2008	165,020	7,185	–	1,159,251	15,169	1,346,625
Other comprehensive loss	–	(7,757)	–	–	–	(7,757)
Net profit	–	–	–	369,670	–	369,670
Total comprehensive (loss)/ income	–	(7,757)	–	369,670	–	361,913
Issue of ordinary shares	29,398	–	–	–	–	29,398
Increase in non-controlling interest	–	–	–	(5,459)	(13,528)	(18,987)
Decrease in non-controlling interest	–	–	–	–	(1,115)	(1,115)
Dividends of subsidiaries	–	–	–	–	(526)	(526)
31 December 2009	194,418	(572)	–	1,523,462	–	1,717,308
Other comprehensive loss	–	(1,488)	–	–	–	(1,488)
Net profit	–	–	–	305,075	–	305,075
Total comprehensive (loss)/ income	–	(1,488)	–	305,075	–	303,587
Issue of ordinary shares	211,826	–	–	–	–	211,826
Dividends declared	–	–	–	(143,085)	–	(143,085)
Increase on other reserve	–	–	170,000	(170,000)	–	–
31 December 2010	406,244	(2,060)	170,000	1,515,452	–	2,089,636

On behalf of the Management:

Kadyrzhan Damitov
President

29 April 2011

Lyudmila Ryabushkina
Chief Accountant

29 April 2011

KAZAKHSTAN STOCK EXCHANGE JSC

Consolidated statement of cash flows for the year ended 31 December 2010
(in thousands of Kazakhstani Tenge)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		369,895	492,091
Adjustments for non-cash items:			
Provision for impairment losses		2,194	75,730
Loss from disposal of property and equipment		790	1,863
Loss from disposal of investments held to maturity		1,864	6,523
Share of (profits)/losses of associate		(35,247)	47,090
Net change in fair value of investments available for sale		(438)	(12,042)
Net changes in accrued interest		6,207	18,405
Depreciation and amortisation	7	36,564	36,292
Cash inflow from operating activities before changes in operating assets and liabilities		381,829	665,952
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Restricted cash		(29,272)	3,956
Due from banks		(436,719)	(636,020)
Advances paid		(39,862)	81,565
Other assets		(3,592)	4,156
Increase/(decrease) in operating liabilities:			
Payables to trade members on restricted cash		29,272	(3,956)
Advances received		16,805	(10,377)
Other liabilities		4,550	10,286
Cash (outflow)/inflow from operating activities before taxation		(76,989)	115,562
Profit tax paid		(131,331)	(75,901)
Net cash (outflow)/inflow from operating activities		(208,320)	39,661
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	14	(14,290)	(16,269)
Proceeds on disposal of property and equipment		–	516
Purchase of investments held to maturity		–	(1,212,722)
Proceeds on redemption of investments held to maturity		307,709	933,262
Proceeds on sale of investments held to maturity		3,839	–
Proceeds on disposal of financial assets at fair value through profit or loss		–	72,658
Purchase of additional share capital of associate		(56,260)	–
Net cash outflow on acquisition of subsidiaries		–	(20,102)
Net cash inflow/(outflow) from investing activities		240,998	(242,657)

KAZAKHSTAN STOCK EXCHANGE JSC

Consolidated statement of cash flows for the year ended 31 December 2010 (continued)
(in thousands of Kazakhstani Tenge)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of ordinary shares		208,710	29,398
Dividends paid on ordinary shares		(139,896)	(526)
Net cash inflow from financing activities		68,814	28,872
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		101,492	(174,124)
CASH AND CASH EQUIVALENTS, beginning of period	10	257,909	432,033
FINANCIAL MEANS AND THEIR EQUIVALENTS, end of period	10	359,401	257,909

Interest received by the Group during the year ended 31 December 2010 amounted to KZT100,066 thousand.

Interest received by the Group during the year ended 31 December 2009 amounted to KZT64,656 thousand.

During 2010, the Group re-classified restructured bonds of BTA Bank JSC bonds which became equity instruments with a total nominal value of KZT4,070 thousand from investments held to maturity to investments available for sale.

On behalf of the Management:

Kadyrzhan Damitov
President

29 April 2011

Lyudmila Ryabushkina
Chief Accountant

29 April 2011

Glossary

ARA RFCA	Agency of the Republic of Kazakhstan on Regulation of Activities of the Regional Financial Centre of Almaty
bn	billion
CAPMEX	The Capital Market Experts, a Vienna-based consultancy, that specialises in developing capital market services
CIS	Commonwealth of Independent States
CS	corporate securities
Debt-to-equity ratio	The ratio of long-term debt to equity
DVP	Delivery versus payment, a procedure of fulfilling a deal in which settlements on the deal are made only in money and the subjects of the deal are on accounts held by financial organisations of parties participating in the deal
EBRD	The European Bank for Reconstruction and Development
EUR	Euro
Exchange	Kazakhstan Stock Exchange JSC
FEAS	The Federation of Euro-Asian Stock Exchanges
FSA	Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organisations
GDP	Gross Domestic Product (of Kazakhstan, unless otherwise specified)
GS	government securities (of Kazakhstan, unless specified otherwise)
IPO	Initial Public Offering
JSC	joint stock company
KASE	Kazakhstan Stock Exchange JSC
KASE Index	KASE Index of shares market
KazPrime	average value of offering rates of money for deposits announced by best credit quality banks for Kazakhstan
LLP	limited liability partnership
m	million
MCI	monthly calculation index for accounting of pensions, allowances and social payments, and imposing penalties, taxes and other payments in compliance with the legislation of the Republic of Kazakhstan, the value of which is set by laws of the Republic of Kazakhstan on the national budget for corresponding years

MEKAM	government treasury obligations of the Ministry of Finance of the Republic of Kazakhstan (abbreviation from securities name in Kazakh)
Ministry of Finance	Ministry of Finance of the Republic of Kazakhstan
National Bank	National Bank of the Republic of Kazakhstan
NWF	National Welfare Fund
RFCA	Regional Financial Centre of Almaty
RMS	Risk Management System
ROA	Return On Assets ratio
ROE	Return On Equity
SPO	Secondary Public Offering
STB	second-tier bank (banks)
T+0	see TOD
T+3	settlements term, when a deal is executed on the third business day from the day of its conclusion
T+n	settlements term, when a deal is executed on the n-th business day from the day of its conclusion
tab.	Table
th.	Thousand
The Strategy	Exchange internal document 2007–2010 Kazakhstan Stock Exchange Development Strategy
tn	Trillion
TOD	settlements term, when a deal is executed on the day of its conclusion (eng. "today")
TONIA	Average interest rate on repo opening deals with one day term on the automatic repo market on government securities of the Republic of Kazakhstan
Trading System	Kazakhstan Stock Exchange trading system
TS	Kazakhstan Stock Exchange trading system
USA	United States of America
USD	US dollar
VC KISC	Verification Centre of the Kazakhstan Interbank Settlements Centre
WFE	The World Federation of Exchanges

If this report does not specify a source reference, it is assumed that KASE used data collected and classified by its own personnel.

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