

Kazakhstan Stock Exchange

**Report,
2014**

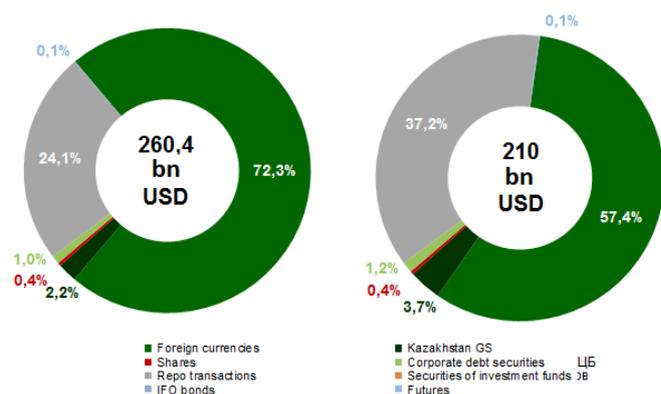
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Results of 2014

Trades

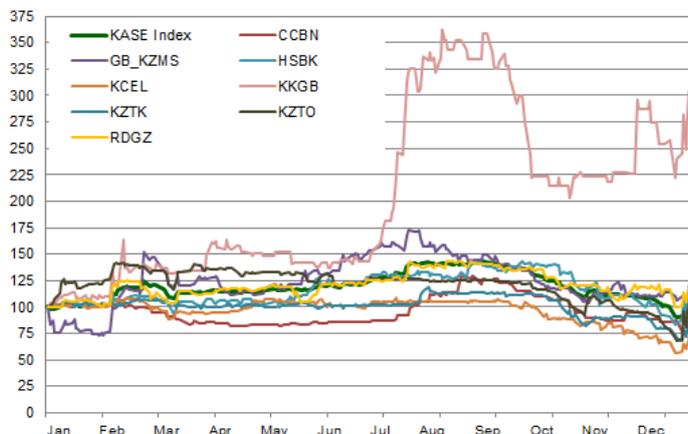
Based on 2014 results the total volume of exchange-based trades made up KZT46.7 trln (+45.9 % compared with the previous year) or USD260.4 bn (+24.0 %). In tenge terms, this is the highest value in KASE history, in dollar terms – the second highest indicator since 2008, when the trades volume reached USD263.2 bn.



The highest growth was seen in sectors "foreign currencies" (+83.8 %) and "shares" (+48.1 %). Nevertheless, the portion of the shares sector remains insignificant in the structure of exchange-based trade volume making up 0.4 % of the total volume. The foreign currencies sector (72.3 % in the trades volume structure) and repo sector (24.1 %) are still in the lead in this regard.

On the shares market there is still a high concentration of liquidity – the major portion of liquidity, up to 85 % in some months, fell on shares from KASE index, i.e. on less than 10 % of the total number of titles of shares quoted in the Exchange list. The volume of trade in shares not included in KASE Index's representative list, was generated mainly on account of one-off transactions.

KASE Index was changing in various directions over the year, impacted by current internal and external forces, making up 941.86 (+2.6 %) at the end of the year under review. Among shares from this index's representative list those of Kazkommertsbank performed the best in the year under review, with their price increasing by 192 % to KZT410.0 per share; shares of Kazakhtelecom fell the most – by 34.5 % to KZT9,601.0.



The most significant event for the shares market in the year under review was the subscribed offering of KEGOC shares on KASE as part of the implementation of the second stage of the People's IPO Program. Thanks to preparatory measures the number of individual accounts opened in the accounting system of the Central Securities Depository, increased to 99.5 thousand as at the end of December from 55.4 thousand as at the end of August 2014, when the information campaign started. Overall, 42,723 orders to the amount of KZT16.7 bn were submitted to the Exchange during the subscription – 1.3 times more than the announced offering volume. The demand from brokerage companies and their retail clients made up KZT9.7 bn (73.7 % of the supply), from the Single Accumulative Pension Fund – KZT7.0 bn (53.3 % of the supply). 18 members of KASE stock market and slightly less than 42 thousand individuals took part in the offering. Based on the subscription results, the total volume of orders executed reached KZT13.1 bn. Also, all active orders submitted by individuals were executed in full. After the opening of trades on December 19, 2014 ordinary shares of KEGOC JSC became the most liquid instrument on KASE, successfully competing in this regard with shares of KazTransOil put up on the market at the end of 2012 under the People's IPO Program.

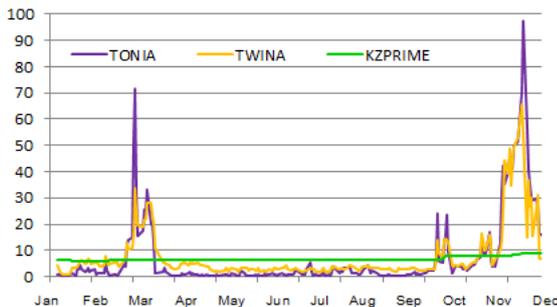
The volume of offerings on the corporate bonds market reached KZT345.0 bn (+68.3 %). This is the highest value in KASE history. However, the volume of secondary trades kept decreasing and based on

2014 results made up KZT103.6 bn (-44.7 %). In the year under review mainly bonds of Kazakhstan's second-tier banks were offered on the exchange-based market. 70 % of 34 special trading sessions for offering of corporate debt securities fell on bank bonds offering. The most volume of offerings was seen at the end of the year, since the Single Accumulative Pension Fund provided the banks with the so-much needed liquidity through purchase of their bonds on KASE.

The volume of exchange-based market of Kazakhstan's government securities showed a 12.4 % decrease in 2014 due to shrinking borrowings by the Ministry of Finance, whereas the volume of GS secondary market didn't virtually change compared with the previous year (+4.7 %). Overall, the GS market accounted for 2.2 % of the total volume of exchange-based market.

The monetary segment of the exchange-based market kept the lead in terms of volume.

Money market rates in 2014



The repo market whose volume made up KZT11,230.6 bn (-5.7 %) in the year under review, accounted for 24.1 % of the total volume of exchange-based trades. From the indicated amount KZT10,999.5 bn, or 97.9 %, fell on auto repo transactions in GS. Exchange-based repo transactions' terms were still limited to 30 days on the auto repo market and 90 days on the nego repo market. Also, the most volume of transactions falls on "overnight" repo transactions with GS serving as collateral. The portion of "overnight" repo transactions in the exchange-based repo

structure made up 60.1 % in the year under review. Money market indicators representing the weighted average yield on "overnight" repo (TONIA) and one-week repo (TWINA) in GS, showed a high volatility in March and October–December of the year under review.

On the currency market the trades volume almost doubled compared with 2013 and reached an equivalent of KZT33,770.2 bn. Also, the volume of swap transactions increased by 97.2 % to KZT17,744.2 bn; the volume of spot market increased by 70.9 % to KZT16,026.0 bn. The currency market's share made up 83.8 % of the total volume of exchange-based market in 2014.

Listing, the official list over time

There were 560 securities issues in KASE lists in 2014. This number increased by 2.2 % compared with the beginning of the year.

10 new listings were made in the shares sector, with 9 securities issues brought to the market by companies earlier not listed. Only one securities issue was included in the first category of the official list – shares of KEGOC JSC under the People's IPO Program, the other 9 listings took place in the third category.

During the year under review 16 shares issues were removed from KASE official list, of which 15 were removed from the third category of the shares sector and one issue – from the investment funds' securities sector. Almost half of securities issues delisted during the year were shares of pension funds. None of the shares issues delisted was involved in brisk trade on KASE. As a consequence, the said delisting didn't affect the volumes of exchange-based trades in shares.

The shares sector's market capitalization made up USD24.9 bn in 2014, decreasing by 11.7 % compared with the beginning of the year.



53 corporate debt securities issues were listed in the corporate bonds sector, all of them – in the "rated debt securities" category. At the same time, 28 bond issues were excluded from the "debt securities" of KASE official list, with 24 issues having been redeemed.

As of December 31, 2014 the corporate bond sector's capitalization made up USD36.6 bn increasing by 4.0 % compared with the beginning of the year.

In the sector of securities of international financial organizations two new bond issues of Eurasian Development Bank were included in the listing and one securities issue of the same issuer was de-listed due to redemption. As of the beginning of 2015 this sector was represented in KASE lists by four bond issues of Eurasian Development Bank to a total registered amount of KZT100.0 bn.

The number of GS issues circulating on KASE decreased during 2014 from 196 to 188, with the combined face value of government bonds quoted in KASE lists increasing by 11.0 % to USD26.2 bn.

KASE membership

As of December 31, 2014 KASE had 58 members, among them 34 banks – members of currency category, 51 member of stock market category and 17 members of derivatives category.

During 2014 three pension funds were stripped of KASE stock market membership, Subsidiary Organization VTB Bank (Kazakhstan) JSC (earlier a member of KASE currency category) and Investment portfolio management company "Compass" JSC became members of that category.

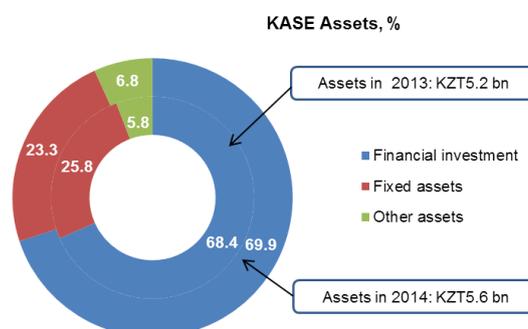
Thus, compared with the previous year, the total number of KASE members decreased by two companies. At the same time, the number of currency category members and members of derivatives category did not change, the number of stock market members decreased by one company.

Financial results

Assets

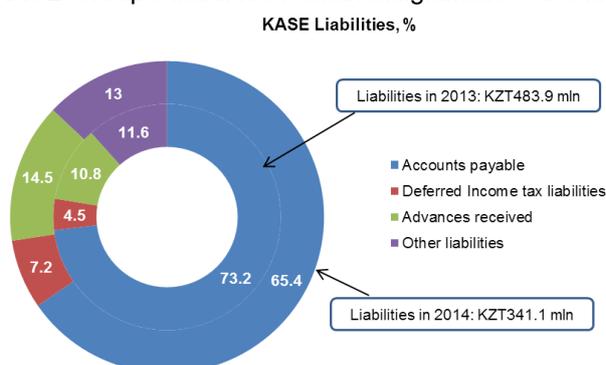
Total assets of the exchange group as of January 1, 2015 increased by 7.8 % (KZT406.9 mln) making up KZT5,631.7 mln. The assets grew mainly due to the increase of the Exchange's investment portfolio, in particular, there was an increase in investments available for sale by KZT497,895 thousands. The increase in the Exchange's investment portfolio was based on net inflows from operating and investing activities.

The current value of the exchange group's deposits in second-tier banks as of January 1, 2015 reached KZT3,028.9 mln. This indicator did not almost change versus the similar indicator of the previous year. The current deposits value relative to KASE equity capital at the beginning of 2015 was estimated at 57.3 %.



Liabilities and equity

KASE Group's liabilities remain insignificant – the financial leverage indicator was at 0.06 in 2014. Actually, KASE has no debt liabilities, including interest liabilities. As of December 31, 2014 KASE's total liabilities decreased by 29.5 % to 341.1 mln. At the same time around 65.4 % (KZT223.0 mln) of all liabilities are funds whose use is restricted – proceeds of Exchange members placed on KASE's correspondent accounts. This indicator is also reflected in the assets part of the balance sheet.



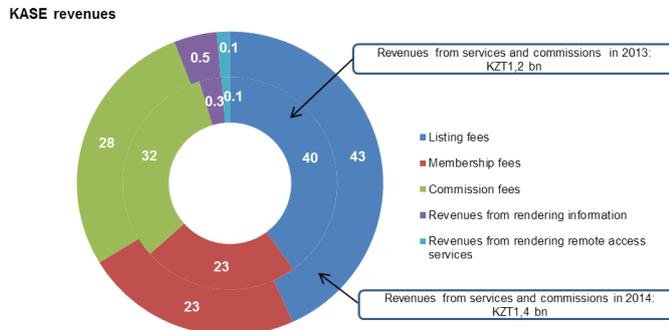
The exchange group's equity did not change substantially in the year under review – the

equity increased by 11.6 % to KZT5,290.6 mln due to the increase in retained earnings.

Operating activities

The reporting year was characterized by growth in KASE group's operating income while maintaining operating expenses at a low level. The variously directed dynamics of these key indicators of the profit or loss led to the formation in 2014 of net profit of 583.5 million tenge, which is by KZT230.6 mln, or 65.3%, more than in 2013.

KASE's revenues from main activities in 2014 made up KZT1.7 bn, which is by 9.64 %, or KZT128.98 mln, more than in the previous year. The total revenues based on results of the year under review made up KZT1.7 bn having increased by KZT288.6 mln, or 20.1 %, upon last year's figure. The most portions in KASE group's revenues structure fall on membership fees, listing and commission fees. In the recent years the share of revenues from rendering information services and investing own assets has been also increasing.



Revenues from membership fees increased by 7.6 %, or KZT21.9 mln, to KZT311.7 mln, during the year. The portion of this item in KASE revenues from services and fees made up 21 %.

The Exchange collected 20.4 % (KZT99.7) more listing fees in 2014 which amounted to KZT588.2 mln. Entrance listing fees rose, the amount of annual listing fees didn't change significantly. The share of revenues from listing fees in KASE revenues from services and commission fees made up 40 %.

The combined amount of commission fees collected in 2014 made up KZT377.1 mln, remaining on virtually same level of last year (a decrease by 3.4 %). Also, the structure of commission fees underwent some changes. In particular, fees for conducting securities offering trades increased and fees from "nego" transactions on the secondary market decreased. Overall, the portion of commission fees in KASE revenues from services and commissions made up 26 %.

KASE group's revenues from rendering information services made up KZT167.1 mln, increasing by 9.6 %, or KZT14.7 mln in 2014.

Revenues from investing own assets made up KZT252.4 mln in the year under review, showing an increase of KZT164.85 mln, or 188.4 %.

Operating expenses of the exchange group decreased slightly during the year under review – by 0.9 million tenge, or 0.1%, to 992.02 million tenge.

Budget execution

The Exchange's budget for 2014 was approved by a decision of the Exchange's Board of Directors (minutes No. 30 of a meeting on December 26, 2013), with estimated indicators as follows: revenues – KZT1.3 bn, expenses – KZT1.0 bn, corporate income tax – KZT134.8 mln, net income – KZT153.9 mln.

As a matter of fact, the Exchange's 2014 budget was executed* with the following indicators (in brackets – in comparison with the estimated indicators for the period under review):

- revenues KZT1.6 bn (KZT+318.9 mln; +24.4 %);
- expenses KZT896.1 mln (KZT-123 mln; -12.1 %);
- corporate income tax KZT149.3 mln (KZT+14.5 mln; +10.8 %);
- net income KZT581 mln (KZT+427.5 mln; +277.4 %).

* The report on execution of the Exchange's budget is a managerial account. Amounts on revenues and expenses items are reflected as a difference between similar items of the budget in its expenditures side and revenues side ("amounts are collapsed").

Below is the calculation of ratios between indicators of revenues and expenses of the Exchange for the period under review:

- 1) the rate of increase in the Exchange's expenses compared with the rate of increase in its revenues – 0.007/0.221;
- 2) the portion of the Exchange's revenues from main activities in the total amount of its revenues – 84 %;
- 3) the value of ratio C/I (Cost-to-Income) – 0.55;
- 4) the value of ratio NPM (Net Profit Margin) – 0.36.

Procurement plan execution

The procurement plan for 2014 provided for 548 purchases worth KZT340.9 mln, including:

- by tender 47 purchases to the amount of KZT83.9 mln;
- from one source 19 purchases to the amount of KZT69.0 mln;
- by price offers 382 purchases to the amount of KZT117.5 mln;
- without applying legislative norms on procurement 100 purchases to the amount of KZT70.5 mln.

Based on 2014 results, 197 agreements were concluded to the amount of KZT317.6 mln, including:

- by tender, to the amount of KZT77.1 mln;
- from one source, to the amount of KZT67.5 mln;
- by price offers, to the amount of KZT104.9 mln;
- without applying legislative norms on procurement, to the amount of KZT68.1 mln.

Performance indicators of key operations, execution of the annual plan

At the beginning of 2014 the Exchange's Board of Directors approved the main directions of KASE's development and schedule of activities for 2014.

According to approved documents, KASE's mission provides for rendering high-quality service to clients, providing securities issuers with a possibility to raise funds on the open market and other participants – with convenient, uninterrupted trade, clearing, settlement and information services. KASE strives to meet international standards of exchange operations, ensure the balance of interests of KASE shareholders and all market participants. Main directions of KASE development are as follows:

- 1) bringing KASE operations in compliance with international standards;
- 2) improvement of the exchange-based market's infrastructure for purposes of increasing its efficiency;
- 3) cooperation with the regulator to improve the legislation;
- 4) integration of KASE into the international exchange community.

The mentioned schedule of activities for 2014 included particular measures as part of indicated main directions of development. The schedule included 32 activities, of which 31 activity was completed, execution of one activity (introduction of DMA on the currency market) was postponed, 5 activities were executed with a slight delay. Information on execution of main scheduled activities is given below.

Projects of development and liquidity improvement

In the year under review KASE worked at a few projects whose purpose is improvement of the exchange-based market's liquidity, attracting new investors and market development.

In particular, in 2014 KASE in association with the National Bank of Republic of Kazakhstan carried out a reform of the official list of securities and requirements for their admittance initiators. In fact, the principles of listing were changed – with introduction of new rules, it can no longer be seen as a quasi-rating or indicator of investment quality of instruments. The new structure of KASE official list is aimed at liquidity

indicators. In particular, two categories were allocated – the category of liquid securities and category of information listing. Thus, KASE provides benchmarks of tradability and ensures maximum disclosure of information on issuers and their securities. At the same time investors must on their own evaluate the quality of securities to take investment decisions.

In September 2014 KASE launched trades in currency pair Chinese yuan / Kazakh tenge. Preparation for the launch of trade in this instrument was conducted based on recommendations of the Sub-committee on financial co-operation between Kazakhstan and China and in close co-operation with the National Bank. In the year under review more than 30 transactions were concluded in this instrument, to a total amount of KZT131.0 mln. Improvement of liquidity on this currency pair as an instrument of direct conversion yuan–tenge is supposed to be linked to the growth of commodity exchange between the two countries.

As part of development of the range of currency market instruments in the year under review KASE began implementing the project of introducing of "long" currency swaps on the market. This project provides for opening of trades in swap-instruments involving currency pair USD/KZT with settlement terms of 7 to 60 days. The work on the project will be associated with revision of the risk management system on the currency market. The work is supposed to be completed in 2015.

The range of exchange indicators was updated and extended during 2014. In particular, corporate bonds indexes were changed in terms of the algorithm of their calculation and criteria for generation of the representative list. In addition, upon request of the National Bank indicators of yield of currency swap transactions and MM Index (money market index) – indicator of the exchange-based short money market representing the weighted average value of interest rates (yield) on currency swap transactions USD/KZT and auto repo "overnight" transactions in GS were launched.

In the year under review KASE completed the project "Remote membership". Under this project requirements and conditions were determined for receipt by foreign professional participants of KASE membership, the procedure of obtaining of the KASE member status for foreign companies was determined, as well as requirements for existing remote members and procedure of their operation on KASE were defined.

During 2014 KASE worked on implementation of project T+n – internationally accepted standard of settlements on exchange-based transactions. During the year main conditions of T+n operation on the Exchange stock market were determined and appropriate internal documents prepared. More details on the project are available in section "Project T+n".

As part of work on changing the existing transactions confirmation system the Exchange in 2014 studied foreign experience of custodian operations on confirmation of transactions concluded on account of assets being in custodial storage. As a result, KASE prepared proposals on introduction in the legislation of Republic of Kazakhstan of amendments necessary for reforming KASE's existing transactions confirmation system, as well as discussed these proposals with market participants and the National Bank. These proposals were approved by the regulator and, according to information at KASE's disposal, are supposed for inclusion in one of draft laws in 2015.

Improvement of KASE internal infrastructure

In the year under review KASE took part in developing the Action Plan on implementing recommendations on observing the Principles for infrastructures of financial market which was approved by an order of a deputy Chairman of Management Board of National Bank dated July 28, 2014. Currently, KASE carries out activities in accordance with the said plan which, in particular, includes measures on ensuring the completeness of settlements on transactions, improvement of risk management systems in all segments of the financial market.

In the year under review KASE also implemented a series of measures on optimization of its cooperation with Exchange members and other participants of the market. In particular, an updated system of certification of trading system users was implemented, an appropriate document was approved by a decision of the Exchange's Board of Directors in August 2014.

During the year the system of KASE members and listed companies reporting towards the Exchange was optimized, the "one window" principle was implemented, which substantially simplifies disclosure of information for companies being listed companies, KASE members and/or its clearing participants at the same time. A new method of evaluation of KASE members' financial position was introduced, monitoring functions were centralized.

Improvement of IT-systems in use

As part of improvement of IT-systems in use the Exchange in 2014 continued to develop the trading system on new platform NEXT and its integration with other information systems enabling pre- and post-trading procedures, as well as to introduce to the trading system a module of interaction with the manager of EDS certificates.

During the year under review a new mobile version of the Exchange's website was developed which was launched at the beginning of 2015.

In 2014 the automated system of the exchange market surveillance, back-office of the Exchange and system of information exchange with listed companies and Exchange members were substantially improved. All systems adopted new functions and modules which substantially increased their efficiency and allowed an optimization of business-processes supported by these systems.

Popularization of KASE and the exchange-based market

As part of measures aimed at popularization of the exchange-based market in the year under review KASE conducted a series of events for broad public. Those events included the Day of open doors of the stock market. This event was supported by all market participants, more than 350 people took part.

In the middle of the year KASE launched an updated version of the educational portal (edu.kase.kz) in Kazakh and Russian, and currently maintains a permanently operational simulator of the trading system and simulator of trade terminal "STrade", which is now available also in Kazakh.

In the second half of the year under review competitions were held among retail investors on the shares market and derivatives market.

As part of promotion of Kazakhstan's stock market through international index and rating agencies KASE in the year under review conducted activities on collection and analysis of information regarding the procedure of inclusion in Frontier Markets FTSE, as well as discussed this issue with FTSE representatives and foreign investors from the commission on inclusion in the index. Currently, KASE complies with four out of five requirements for stock exchanges seeking the Frontier status. The remaining one criterion relates to applying of clearing and T+n settlements to securities transactions, whose introduction is facilitated under the Project T+n, information about which is given below.

Participation in work groups, commissions, committees

I. Committees and commissions of KASE with participation of representatives of the National bank of Republic of Kazakhstan

(except for committees of the Board of Directors, whose availability is provided for by the legislation on joint-stock companies)

Expert Committee – issues of acknowledging transactions as suspicious on the subject of their execution for purposes of manipulation on the securities market or execution using insider information; particular issues of securities valuation

Listing Commission – issues of listing, de-listing of securities, change of categories of the official list, issue of consent to listing of securities supposed for issue

Committee on financial statements and issuers auditing – issues of composing the list of auditing organizations which are allowed to audit listed companies

Committee on the foreign currencies market – issues of payment discipline on the exchange-based foreign currencies market; issues of defining payment modes for KASE members of currency category

II. KASE's participation in work groups, commissions, committees in the Republic of Kazakhstan	KASE work group on attracting companies onto the country's regulated stock market
	Work group of the National Bank on bringing operations in compliance with principles of the financial market's infrastructure (PFMI)
	Work group of the National Bank on implementation of the T+2 scheme on execution of transactions in securities on the stock market
	Work group of the National Bank on restriction of currency speculations in derivative financial instruments (DFI)
	Work group of the National Bank "On development of the securities market"
	Work group of the Ministry of investments and development of Republic of Kazakhstan (MID RK), responsible for developing the Mining Code
III. KASE's participation in foreign work groups, commissions, committees	Work Group of the EBRD on Corporate governance (participation in the Technical and Managing committees)
	Chairmanship in the work committee of the Federation of Euro-Asian Stock Exchanges бирж (FEAS)
	FEAS work group on issues of regulation of exchanges – FEAS members
	WFE work group on emerging markets
	Work council on preparation of the Agreement on mutual admission (accreditation) of brokers and dealers from countries-participants of the EAEC to national stock exchanges

HR management

Human resources management

During 2014 KASE organizational structure was being optimized. So, if at the beginning of 2014 the staff totaled to 148 persons, as of December 31, 2014 it equaled to 128 persons. The organizational structure was optimized on account of improvement of some business processes and rational distribution of responsibilities and functions between units and employees.

Structure of KASE personnel as of December 31, 2014:

Employees on payroll	128 persons
Education/qualification of employees	Those with higher education – 107 persons, masters – 13 persons, those with foreign education – 19 persons
Gender structure	males – 57, females – 71
Average age	34 years

Implementation of the personnel policy

In the period under review vacancies on KASE were filled in accordance with the Procedure of personnel hire approved by the Exchange's Management Board. Internal candidates were considered for filling vacant positions in the first place. 11 KASE employees were promoted in the year under review.

Employees' performance is evaluated according to the appropriate internal regulation which allows determining the quality of work done by KASE personnel. In 2014 the employee performance was evaluated on a monthly basis by the heads of structural units and was approved quarterly by the Exchange's Management Board. In doing so, in order to motivate employees and keep salaries close to the market average, salaries of key employees and other specialists of the Exchange were increased within limits specified in the Exchange payroll. Hence, salaries of 43 employees of the Exchange were revised during 2014. The average rate of increase in the salaries made up 25.3 % during the period under review.

According to the Training plan in 2014 15 specialists took training courses at local providers' facilities with regard to information technologies, risk management, IFRS, procurement. One employee took a course in "Certified Clearing Specialist 2014" at Deutsche Boerse (London). Leading specialists of the Exchange conduct in-house trainings for the Exchange staff regarding the company operation, as well as teach the national language.

In 2014 employees of the Exchange held introductory lessons on the Exchange operation for students of universities and other higher educational institutions (KIMEP, KazNTU, KazSU).

Business trips, participation in events

During 2014 KASE employees went on 47 business trips, 34 of them – abroad. The Exchange employees took part in activities of the World Exchange Congress, meetings of the World Federation of Exchanges (WFE), General Assembly of Federation of Euro-Asian Stock Exchanges (FEAS), International Association of Exchanges of CIS countries, conducted meetings and negotiations with representatives of Hong-Kong Stock Exchange (HKeX), Istanbul Exchange, Shanghai Stock Exchange, Korea Financial Investment Association (KOFIA) etc.

International cooperation allows KASE to take active part and influence development processes of business interaction between exchanges of Eurasian region – FEAS members, to be updated on new global trends, ideas, opinions and approaches to stock exchange operations. Based on results of meetings and consultations, business processes of the Exchange were optimized, new financial instruments were introduced, activities on attracting new issuers and investors gained momentum. In October 2014 KASE President Maksat Kabashev was elected the Chairman of FEAS Work Committee. A framework agreement on strategic cooperation was signed with Borsa İstanbul (BIST).

Under the annual Day of Open Doors of the Stock Market conducted by the Exchange in June 2014 for purposes of attracting retail investors to Kazakhstan's securities market more than 30 presentations were held with participation of representatives of professional market participants and National Bank of Republic of Kazakhstan. In November 2014 a show-around lecture was conducted for pupils as part of a program of the National Bank of Republic of Kazakhstan.

Operation of the Exchange's Board of Directors

13 in-person meetings of the Exchange's Board of Directors and 30 absentee voting sessions involving its members were held in 2014. During the period under review the Exchange's Board of Directors considered strategic and current issues of operations within its competence. The list of issues and decisions thereon are reflected in respective minutes of meetings of the Exchange's Board of Directors and decisions taken during absentee voting by its members. In-person meetings of the Exchange's Board of Directors were held regularly in accordance with the approved schedule.

During the period under review the Exchange's Board of Directors in accordance with acts of the Republic of Kazakhstan on the securities market, joint-stock companies and the Plan of main activities of the

Exchange for 2014 considered 187 issues and took 186 decisions, 54 documents of the Exchange regulating its internal activities were considered and approved.

For purposes of increasing the operating efficiency of the Exchange's Board of Directors, preparing recommendations to the Exchange's Board of Directors and improving the structure of the Exchange's corporate governance as a whole, committees of the Exchange's Board of Directors considered the most important issues of operations being part of their competence in accordance with the Regulations on committees of the Exchange's Board of Directors. In 2014 there were held: 12 meetings of the Committee on budget and strategic planning; 8 meetings of the Committee on personnel and remunerations; 8 meetings of the Auditing committee; 20 meetings of the Listing commission (including absentee voting); 10 meetings of the Expert committee of the Exchange's Board of Directors; 3 meetings of the Committee on financial statements and issuer auditing.

In 2014 the Exchange's Board of Directors completely fulfilled goals and objectives and functional duties specified by the Exchange's Corporate Governance Code, the charter, regulations on the Exchange's Board of Directors.

Plans, strategic projects

Schedule of activities for 2015

KASE has been developing a strategy which will determine the key directions of the Exchange development as a company and as an operator of the financial instruments market in the mid run. Before the Exchange's Board of Directors adopts the new KASE development strategy, its tactical plans are formed based on main lines of development adopted at the beginning of 2014.

The annual plan of KASE activities for the current year was approved by the Exchange's Board of directors in December of 2014. This plan focuses on the most important projects in terms of tactical and strategic development of the Exchange. Below is the information on these projects.

Strategic partnership and projects with Istanbul Exchange

At the current stage of development and in the mid run KASE considers attracting a strategic partner out of the fastest growing exchanges and international financial institutions as important. KASE has been negotiating with several foreign stock exchanges and, as was mentioned above, on September 15, 2014 in Istanbul a framework agreement on strategic partnership was signed between Borsa İstanbul (BIST) and KASE, whose purpose is development of joint operations. This agreement is aimed at equity holdings and joint operation in all areas of stock exchange activities, including activities on development of markets, products and listing procedures, as well as technologies. Concurrently, the issue of EBRD's becoming a shareholder of KASE is being considered.

Specialists from BIST made an estimate of KASE's shareholding value during their visit to Almaty in December 2014. According to preliminary results of that assessment obtained on January 30, 2015, BIST expressed an opinion on the values of KASE shares, meaning that BIST is ready to acquire a 10% share in KASE equity. Upon a request of KASE company "Halyk Finance" also carried out an analysis of actual and forecasted financial indicators of KASE and expressed an opinion on the lowest price of KASE shares acceptable for possible sale to a strategic investor. On the background of the recent changes in the BIST management following a February 2015 decision of BIST President Ibragim Turgan to run for a seat in Turkey's parliament, a decision regarding BIST's becoming a KASE shareholder is still awaited.

At the same time, KASE conducts preparation activities on joint projects with BIST, in particular, on the issue of mutual admission of trades participants to administrated markets. Currently, experience of cross-trading projects implemented by other exchanges is being studied; a concept of this project is being developed. As a first step along the way of mutual admission of trades participants to exchange floors of KASE and BIST a possibility of launch of ETFs consisting of shares traded on floors of both exchanges is being considered.

Development of the trading system

Currently, as part of modernization of IT-technologies in use KASE is developing the trading system on a new platform. These activities provide for putting into trial operation of KASE trading system on new platform NEXT in the first half of the current year with regard to the currency market. Implementation of this task has included the following activities so far:

- development of the core of the NEXT was completed;
- a single FIX-specification and FIX-gateways were developed for the existing trading system and NEXT used for connecting the NEXT-terminal and information systems of Exchange members;
- broadcasting of trades from the existing trading system into the NEXT and exchange of information with linked systems of the Exchange were organized.

Currently, internal testing of the NEXT and related systems is conducted, as well as Exchange members are involved in cooperation with regard to integration of their information systems with the NEXT by way of a FIX-gateway.

In March 2015 the following is planned:

- connection of market data vendors in the fully operational mode over a FIX-gateway Market Data v5;
- putting into operation of gateway systems based on the transactional FIX v5.

Project T+n

Currently, settlements on transactions in securities concluded on KASE are carried out on the day of conclusion of transactions, whereas the system of settlements on exchange-based transactions according to scheme T+n, where $n > 0$, is an international settlements standard. The indicated scheme provides for use of a set of accompanying pre- and post-trading procedures, availability of an appropriate risk management system, clearing and default settlement procedures.

KASE has for the past two years worked at development and implementation of the above-mentioned systems and procedures to ensure the possibility of settlements according to scheme T+2.

By now a KASE internal document named "Procedure of executing transactions on the stock market according to scheme T+2" has been developed. Norms of this document, as well as those of accompanying documents, including documents on clearing regulating the settlement process according to the indicated scheme, use of necessary pre- and post-trading procedures, operation of an appropriate risk management system, clearing and defaults settlement procedure.

The mentioned document was agreed upon with the Central Securities Depository JSC, as well as was discussed with representatives of BIST. In January 2015 the Exchange prepared draft amendments to the mentioned document taking into account comments made by the Central Securities Depository JSC, as well as proposals made by representatives of BIST regarding securing selling orders from securities trades participants. This project was approved by a decision of the Exchange's Board of Directors in February this year.

For purposes of provision of stock market participants with a convenient securities lending mechanism a project on implementation of a new type of financial instruments "repo with netting" was developed. Subjects of repo transactions on the market of repo with netting will be represented by securities to which the T+2 procedure is applied. The mentioned project was approved by the Exchange's Board of Directors and currently undergoes the procedure of agreeing with the Central Securities Depository JSC and trades participants.

Activities involving development of a technical task describing the mechanism of trade according to scheme T+2, and on an appropriate modernization of the Exchange's information system, continue.

Implementation of a settlement system on exchange-based transactions is proposed for 2015.

Accompanying projects

As was mentioned above, the schedule of the Exchange's activities for 2015 includes only the most important measures supposed to be implemented this year. Apart from measures included in the mentioned plan, the Exchange plans to carry out the following activities in 2015:

- regarding bringing its activities in compliance with requirements of the legislation on countering terrorism funding and money laundering (taking into account the newly adopted amendments);
- regarding implementation of new listing requirements and related to the changed structure of the official list;
- regarding development of automated information system "Module for interaction with automated information system "e-Minfin";
- regarding development of an automated system for generating reports to the National Bank of Republic of Kazakhstan;
- regarding reaching the Principles of financial market infrastructures.

The above-mentioned activities are important in terms of the Exchange achieving a compliance with the current legislation and best global practices, and they are supposed to be carried out as part of the work for optimization of the Exchange's operations for efficiency purposes.