



RISK MANAGEMENT POLICY

AND INTERNAL CONTROL SYSTEM

The Bank's internal control system is formed in accordance with the requirements of the legislation of the Republic of Kazakhstan, the Basel Committee on Banking Supervision, and the best international practices.

The Bank applies the concept of the «Integrated COSO Model» developed in 2013 to build its internal control system.

The Bank's Internal Control System (hereinafter referred to as the ICS) is a process integrated into the day – to-day activities carried out by the Board of Directors, collegial bodies, structural divisions and all employees of the Bank in the performance of their duties.

The Bank's Board of Directors and Risk Management

Committee monitor the Bank's activities in order to identify and eliminate internal control deficiencies, violations and errors. On a quarterly basis, the Bank's Board of Directors and the Risk Management Committee review reports on operational risks, information technology and information security risks and internal control, and make appropriate decisions on them. Meanwhile, the Board of Directors reviews and approves the main internal documents regulating the internal control system in the Bank.

The the Bank's ICS is multi-level and includes all divisions of the Bank. Participants in the internal control process are identified on the basis of three lines of defense.

The first line of defense

is provided by all structural subdivisions of the Bank and represents controls designed to ensure the correct execution of daily operations in the processes. Controls are developed by business units and are an integral part of the business processes to minimize risks and comply with the requirements of the internal documents, as well as to comply with external, regulatory requirements. Control management and monitoring are carried out by the subdivisions themselves, which implies the ability of business units to identify risks, weaknesses in business processes, possible unforeseen events and respond to them in a timely manner.

The second line of defense

is provided by the internal control subdivision that monitors, coordinates and documents the ICS, and the subdivisions that identify and assess the risks in certain areas of the Bank's activities, including: risk management subdivision, Senior Compliance Controller and compliance control subdivision, situation monitoring subdivision, personnel subdivision, legal subdivision, security subdivision, information security subdivision, and information technology risk management subdivision.

The third line of defense

is provided by the internal audit subdivision in the form of an independent assessment of the effectiveness of the Bank's ICS using the results of audits or in the form of a separate assessment of the effectiveness of the ICS.

The internal control subdivision provides consulting assistance to the Bank's employees on internal control issues in accordance with the Bank's internal regulations, the regulations of Baiterek NMH JSC, the regulations of the National Bank of the Republic of Kazakhstan and the legislation of the Republic of Kazakhstan to ensure the effective functioning of the ICS in the Bank.

The Internal Control Division provides consulting assistance to the Bank's employees on internal control issues in accordance with the Bank's internal regulatory documents, regulatory documents of Baiterek NMH JSC, regulatory documents of the National Bank of the Republic of Kazakhstan and the legislation of the Republic of Kazakhstan in order to ensure the effective functioning of the internal Control System in the Bank. Every year, the Internal control Department conducts internal training of all employees of the Bank on the Internal Control System, followed by testing.

As part of monitoring and documenting the Internal Control System, the internal control unit conducts spot

checks of the Bank's business processes in accordance with the work plan/on behalf of management, including diagnostics of the adequacy of the design of internal controls that prevent or detect identified risks in the processes. In 2022, the division performed diagnostics of 6 processes, including:

- «Currency control»;
- «Personnel management»;
- «Interaction and coordination of work with credit bureaus»;
- «Bank's software acquisition «»;
- «Remote customer service via video communication and organization of work with consulting operators»;
- «Working procedure in the module» Secondary Housing «on the Baspana Real estate Portal».

Based on the results of diagnostics, such key risks were identified in the processes as: the risk of non-compliance with the requirements of the

legislation of the Republic of Kazakhstan, internal documents of the Bank, the risk of reducing the responsibility of performers, the risk of human factors, the risk of exceeding authority, the risk of lack of interchangeability, as well as such significant problems as: the need to optimize processes, controls with partially-effective / non-effective design, the presence of a significant proportion of manual controls in processes.

In order to minimize these risks and problems, recommendations were developed for process owners on detection/controls with inefficient or partially effective design, including recommendations on how to eliminate violations and improve regulation/ automation/optimization of processes.

The Bank's Risk Committee reviewed the audit reports and approved corrective action plans to address the identified deficiencies, which contain 115 corrective actions. Responsible structural divisions of the Bank carry out work to eliminate violations, implement measures of corrective action plans.

RISK MANAGEMENT

In accordance with the Bank's Risk Management Policy, the Bank's Board of Directors ensures that a risk management system is in place that is appropriate to the selected business model, scale of operations, types and complexity of operations, and ensures an appropriate process for identifying, measuring and evaluating, monitoring, controlling and minimizing significant risks to ensure the Bank's financial stability and stable functioning.

A key factor in the Bank's high risk management culture is to regularly inform the Bank's authorized collegial bodies, including the Bank's Board of Directors, on issues related to risks, including risk management policies and procedures. The exclusive competence of the Bank's Board of Directors in terms of risk management includes the powers regulated by the Bank's Charter, internal documents of the Bank, as well as the Regulations on the Bank's Board of Directors. The Bank's Board of Directors, in order to effectively perform its assigned duties, monitors and controls risk management, internal audit, compliance with the requirements of the legislation of the Republic of Kazakhstan and internal documents of the Bank through interaction with authorized collegial bodies under the Bank's Board of Directors, the Bank's Management Board and the Head of Risk Management. The Risk Management Committee of the Bank's Board of Directors operates within the framework of the Regulations defining its powers, competence, and principles of its work. The Risk Management Committee of the Bank's Board of Directors regularly receives data and reports from risk management departments and other responsible departments on the Bank's current risk level, risk appetite levels, and risk mitigation mechanisms, if necessary.

Structural divisions-participants in all lines of defense-owners of business processes annually identify risks in their processes and self-assess the adequacy of the design of internal controls that mitigate the identified risks. The results of self-assessment are presented in the Matrix of Business Processes, Risks and Controls of the Bank (hereinafter referred to as the Matrix). The matrix for the upcoming reporting year, which contains a self-assessment of business owners/an assessment of the internal control unit, is updated by process owners with the coordination and methodological support of the internal control unit and approved annually by the Board of Directors. If necessary, business process owners develop and approve the Management Board action plans to eliminate deficiencies/inefficiencies in internal control in the processes. Further monitoring of the implementation of corrective action plans for internal control is carried out by the internal control unit on a quarterly basis, with submission of information on execution to the Risk Committee or to the Bank's Management Board.

The Bank's Board of Directors has developed and approved the Bank's Risk Appetite Strategy, which sets clear limits on the volume of accepted risks inherent in the Bank's activities within the framework of implementing the Bank's overall strategy, and also defines the Bank's risk profile in order to prevent the implementation of risks or minimize their negative impact on the Bank's financial position.

In accordance with the Risk Appetite Strategy, the Bank's Board of Directors approves the Bank's Risk Appetite Statement. As part of the Risk Appetite Statement, a set of quantitative and qualitative indicators of risk appetite levels is approved for each significant risk of the Bank, taking into account the Bank's adopted business model. Monitoring of compliance with risk appetite levels in accordance with the Bank's Risk Appetite Statement is carried out on a periodic basis, information on the results of which is sent for consideration to the Bank's authorized bodies, including the Bank's Board of Directors, as part of management risk reporting.

The main financial risks inherent in the Bank's activities include market risk (currency risk, interest rate risk), liquidity risk and credit risk.

INFORMATION ON COMPLIANCE WITH AGGREGATED RISK APPETITE LEVELS AS OF 01.01.2023

Name of the risk	Risk appetite level as of 01.01.23.	Approved risk appetite level for 2022	Sufficiency of the risk appetite level
1	2	3	4 = 3 - 2
Credit risk	23 117	78 863	55 746
loan portfolio	5 867	74 970	69 102
interbank deposits	16 233	1 231	-15 002*
non-government securities	1 016	2 662	1 646
Market risk	6 350	30 648	24 298
Interest	6 340	30 066	23 725
Currency	8	571	562
Price	2	12	10
Liquidity risk	2 593	21 766	19 173
Aggregate risk level	32 061	131 277	99 217

The current aggregate level of risk on credit, market and liquidity risk as of 01.01.2023 is 32 billion tenge and is within the approved level of risk appetite, which is 24% of the approved level of risk appetite for 2022.

For the purposes of capital adequacy assessment, the Bank has developed and implemented the Regulation on the Internal Capital Sufficiency Assessment Process (ICSAP), approved by the Bank's

Board of Directors. Within the framework of ICSAP, the Bank identifies, evaluates and controls significant types of risks inherent in the Bank's activities, as well as capital planning based on the Bank's strategy, the results of a comprehensive assessment of significant risks, stress testing of the Bank's financial stability in relation to internal and external risk factors, as well as requirements for the adequacy of the Bank's equity.

ASSESSMENT OF THE IMPACT OF THE BANK'S CURRENT RISKS² ON THE LEVEL OF EQUITY CAPITAL SUFFICIENCY

Regulator standard	Actual 01.01.23	Subject to current risk level	Deviations from actual
1			
k1-1 (min. 0,055)	0,287	0,267	-0,020
k1-2 (min. 0,065)	0,287	0,267	-0,020
k2 (min. 0,080)	0,287	0,267	-0,020

*credit, market and liquidity risk

Capital sufficiency, taking into account the current total risk level, is going to decrease by -0.020 for all coefficients, however, its value will be higher than the

minimum requirements set by the regulator due to a significant amount of equity (455 billion tenge).

Currency risk.

The Bank's exposure to currency risk is minimal given the specifics of the Bank's business model. The Bank does not conduct operations with foreign currency,

except for the acquisition of foreign currency as part of the fulfillment of obligations under the concluded business and administrative agreements

Interest rate risk.

The Bank's interest rate risk is the risk of losses due to adverse changes in interest rates and also includes:

- 1) the risk of financial losses due to a discrepancy between the terms of return and repayment of placed interest-bearing assets and attracted interest-bearing liabilities;
- 2) the risk of losses resulting from applying different types of interest rates (floating or fixed) on interest-bearing assets, on the one hand, and interest-bearing liabilities, on the other.

The main measures to minimize interest rate risk, taking into account the specifics of the Bank's business model, are:

- 1) ensuring an effective ratio of interest income and

interest expenses, taking into account profitability levels, interest rate risks and changes in the market environment;

- 2) maximizing the value of interest rate spread at an acceptable level of risk;
- 3) ensuring a balance between sensitive assets and sensitive liabilities in terms of volumes and maturities, taking into account the revaluation.

As part of interest rate risk management, the Bank analyzes sensitive assets and liabilities, the yield and value of which is determined by the interest rate. To control its exposure to interest rate risk, the Bank uses the interest rate gap analysis tool, which aims to determine the time interval over which interest rate exposure is formed due to changes in the interest rate.

Liquidity risk.

For the purposes of assessing the Bank's liquidity adequacy, the Bank has developed and implemented a Regulation on the Internal Process of Assessing the Bank's liquidity Adequacy, approved by the Bank's Board of Directors. The Bank performs an effective process of identification, assessment, monitoring and control of liquidity risk, which includes forecasting cash flows for assets, liabilities and off-balance sheet instruments at different time intervals. The Bank evaluates all balance sheet and off-balance sheet items that affect the level of liquidity risk, as well as the level of liquidity in the market, to cover the Bank's need to attract funding in order to regulate liquidity risk, if necessary.

Considering the specifics of the Bank's business model, the Bank's stable funding base largely consists of budgetary funds as part of the implementation of government programs to provide the population with affordable housing and housing construction savings for individuals.

The Bank's exposure to liquidity risk is assessed in the event of non-compliance with the maturity dates of its obligations under assets and liabilities, as well as insufficient volume of liquid assets and sources of funding, including taking into account the situation on the financial market.

The main purpose of the Bank's liquidity risk management is to determine the evaluation methods and procedures for maintaining a sufficient level of liquidity. The Bank's liquidity risk is managed by analyzing the level of liquid assets required to settle liabilities as they fall due; ensuring access to various sources of funding, plans in place in case of problems with funding and monitoring compliance with legal liquidity requirements.

The main measures to minimize liquidity risk, taking into account the specifics of the Bank's business model:

- monitoring compliance with the limits set by the regulator and the Bank's internal liquidity risk limits;
- control of the Bank's daily (intraday) liquidity position;
- conducting a time-based gap analysis of the Bank's assets and liabilities, the purpose of which is to determine at what time interval the liquidity risk exposure is formed, and to assess the impact of the current liquidity imbalance in a certain time interval on the Bank's ability to meet its obligations;
- regularly conduct stress testing on liquidity risk under various scenarios.

THE LIQUIDITY GAP AS OF 01.01.2023, MILLION TENGE

	On demand	[0-7D]	[1W - 1M]	[1M- 3M]	[3M- 6M]	[6M- 12M]	[1Y-2Y]	[2Y-3Y]	[>3Y]	Total as per balance sheet
Assets	146 922	125 234	111 472	23 425	34 323	76 059	239 635	194 377	2 488 659	3 440 105
Liabilities	155 139	5 656	45 337	10 808	10 995	40 113	292 604	250 595	2 166 598	2 977 844
Contingent liabilities			3 261	6 522	9 783	13 044				32 611
GAP	-8 217	119 578	62 874	6 095	13 545	22 902	-52 969	-56 218	322 061	429 650
Cumulative GAP	-8 217	111 361	174 235	180 330	193 875	216 777	163 808	107 590	429 650	
Cumulative GAP / Assets	-0,2%	3,2%	5,1%	5,2%	5,6%	6,3%	4,8%	3,1%	12,5%	

The following assumptions were used to calculate the liquidity gap:

- all assets and liabilities are distributed over time intervals depending on the maturity dates.
- contingent liabilities are distributed on the basis of monthly housing loans issued (excluding previously issued preliminary and interim loans).

The minimum value of the cumulative GAP to total assets ratio falls on the demand interval and is -0.2%. The Bank complies with the approved internal limits for 2022 in the amount of at least -2 % of the Bank's assets. The resulting negative gaps in the net GAP are due to an increase in accumulated customer funds on «demand» maturities of 113 billion tenge (due to subsidiaries of Baiterek NMH JSC on current accounts), «from 1 to 2 years» – 215 billion tenge and «from 2 to 3 years» – 250 billion tenge.

Credit risks

As part of the "Implementation of a decision-making system" project, the following activities were carried out:

- integration of the decision-making system with the "Pre-qualification" process was developed and implemented;
- new scoring cards for preliminary and housing loans were developed and are currently being tested.
- expanded primary reporting on the results of scoring decisions;
- implemented CPR verification for people tied with the bank by special relations.
- 20 large loans were 0.07% of the Bank's loan portfolio, which indicates that there is no risk of loan portfolio concentration. In the structure of collateral, the share of real estate amounted to 81.04% of the total collateral. The overall weighted average K/Z ratio (loan/collateral) is 40.93%, which indicates a conservative collateral policy.

In 2022, the Appraiser's Office Portal (hereinafter referred to as the portal) carried out work on:

- revision of the price zone reference book in connection with the formation of new regions;
- revision of templates for evaluation reports in connection with changes to regulatory legal acts in the field of evaluation activities, as well as on proposals from

appraisers and chambers of appraisers:

- converting the list of appraisers to a map by location for the convenience of clients,
- optimization of the mortgage examination procedure, which also includes the development of a reference book on residential complexes, replenishment of reference books on objects to be demolished, at the addresses of objects located near cemeteries that do not correspond to sanitary regulations standards and so on.

In 2022, 133 appraisers are registered in the portal, with a total of more than 500 appraisers working in the portal.

In 2022, 40,593 applications were reviewed by employees of the risk management division including: 28,197 applications were approved, 1,766 applications were rejected and 10,630 applications were returned for revision. AutoRAC approved 52,582 applications.

For comparison, at the end of 2011, the share of provisions created in accordance with IFRS was 0.50% of the loan portfolio, while the share of 20 large loans of the Bank was 0.10% of the Bank's loan portfolio, which indicates that there is no risk of loan portfolio concentration. In the structure of collateral, the share of real estate amounted to 81.04% of the total collateral. The overall weighted average K/Z ratio (loan/collateral) is 43.55%, which indicates a conservative collateral policy.

Operational risks

The operational risk management system (ORMS) in the Bank is formed in accordance with the requirements of the legislation of the Republic of Kazakhstan, the recommendations of the Basel Committee on Banking Supervision, generally accepted principles and banking risk management practices, and generally accepted international practices.

The ORMS objectives are achieved under a systematic, integrated approach, which implies the solution of the following tasks:

- improvement of operational risk management procedures and mechanisms to which the Bank is exposed;
- inadmissibility of operations and other actions leading to significant changes in the level of operational risk;
- limiting losses when the Bank settles transactions due to realization of operational risks;
- identification and analysis of operational risk arising in the course of the Bank's activities;
- obtaining operational and objective information about the state and exposure of operational risk;
- development of measures aimed at reducing and preventing the Bank's operational risk;
- improving the system of internal control over operational risk;
- development of a risk culture at all levels of the Bank's management

Infrastructure of the Bank's ORMS includes:

1) identification of operational risks: analysis of both existing and implemented internal procedures and systems, as well as products and services provided by the Bank;

2) operational risk assessment: measurement of operational risks in order to determine trends in the level of their changes;

3) strategic management of operational risks: development of principles for continuous operational risk management in the Bank;

4) continuous management of operational risks, which is carried out by all structural subdivisions of the Bank and includes a decrease in the level of exposure to operational risk and elimination of the negative effects of operational risk events in all structural subdivisions of the Bank;

5) monitoring and reporting on operational risks: the Bank regularly monitors the level of operational risk and adheres to acceptable levels of risk. To monitor operational risk, the Bank uses a management reporting system for the management and collegial bodies involved in risk management processes, regularly assesses the risks affecting the achievement of goals, changing circumstances and conditions, and gives recommendations on risk management. Information on management reporting is provided to the Board of Directors/Management Board of the Bank on a quarterly monthly basis;

6) prevention/mitigation (control): taking a set of measures aimed at preventing/reducing the likelihood of events or circumstances leading to operational losses, or at reducing the amount of potential losses.

In 2022, measures were taken to improve the database for collecting and analyzing internal data on operational risk events.

Management of Information Security Risks and Information Technology Risks

To ensure the effective functioning of information security and information technology (hereinafter – IS and IT) risk management systems, in accordance with the requirements of the legislation of the Republic of Kazakhstan, the following documents were developed and are kept updated:

- IT and IS Risk Management Policies
- IT Risk Management Rules
- IS Risk Management Methodology
- Methodology for Determining the Potential Loss under Information Security Risks

In 2022, the working group on the formation of a list of critical information assets under the leadership of the internal control subdivision took measures to classify

the Bank's information assets and approved the list of the Bank's critical information assets.

The internal control subdivision periodically submits reports on IT and IS risks to the Information Security Committee, the Management Board and the Board of Directors of the Bank.

The Internal Control Unit provides periodic reports on IT and information security risks to the Information Security Committee, the Management Board and the Board of Directors of the Bank.

Going Concern Management

The Bank's going concern management aims to ensure that the Bank is sustainable against any incidents by eliminating or minimizing downtime and quickly recovering key business processes and minimizing losses. For these purposes, the following have been developed, approved and kept up to date:

- Policy for managing a going concern of the Bank;
- Rules for managing a going concern of the Bank;
- Plans for ensuring a going concern of the Bank;

The following events are held annually in this area:

- training of the Bank's personnel on business going concern issues;
- analysis of the impact on the Bank's critical processes and activities;
- testing and analysis of the Bank's plans for ensuring a going concern;
- analysis of the risks of unforeseen circumstances for which a plan of measures to respond to risks has been drawn up.

Compliance risk

In a broad sense, compliance control is a management and control system in an organization that deals with the risks of non-compliance with the requirements of legislation, regulatory documents, rules and standards of supervisory authorities, codes of conduct, and other regulatory documentation of the organization.

Compliance control is an integral part of the internal control function, the purpose of which is to protect the interests of investors, banks and their clients by monitoring compliance of the Bank's employees with the provisions of the legislation, requirements of supervisory authorities, and internal documents of the Bank regulating the procedure for providing services by the Bank and conducting operations in the financial market.

Effective compliance risk management system and its maintenance in an appropriate state allow management to timely identify all significant risks of incomplete implementation of the Bank's business goals.

Responsibility for compliance with the established standards is based on the Bank's compliance culture, which is reflected in 3 lines of defense:

- 1) The first line of defense manages the compliance risk within its competence and in accordance with the Bank's internal documents on compliance risk management (first level control). The participants are employees of the Bank, heads of structural subdivisions of the Bank.
- 2) The second line of defense manages the compliance risk and compliance control (second level control). The participants are the Senior Compliance Controller and compliance control subdivision.
- 3) The third line of defense carries out an independent assessment of the effectiveness of the compliance risk management system (third level control). The participant is the internal audit subdivision.

All participants in the compliance risk management system, within their competence and responsibility, manage the compliance risk with strict and rigorous observance of the requirements of the legislation of the Republic of Kazakhstan, the legislation of foreign states that affects the activities of the Bank and recognized by the Republic of Kazakhstan, internal rules and procedures of the Bank, and generally accepted codes of conduct.

The main goal of compliance risk management is to minimize and/or maintain at an acceptable level of compliance risks, such as the occurrence of financial losses of the Bank and the imposition of legal sanctions on it due to non-compliance with the requirements of the legislation of the Republic of Kazakhstan, regulatory legal acts of the authorized body, internal documents and procedures of the Bank, as well as the legislation of foreign states affecting the activities of the Bank and recognized by the Republic of Kazakhstan.

To effectively manage the compliance risk, the compliance control subdivision works to identify and assess the reasons for the occurrence of the compliance risk:

- collection and analysis of compliance risk realization events are carried out on a regular basis. For this purpose, the results of audits and a single internal database of operating losses and events are used;
- internal checks of internal documents and processes of the Bank are carried out on a regular basis for compliance with the requirements of the legislation of the Republic of Kazakhstan (in 2022, the compliance control subdivision conducted 5 checks:)
- the principle "Know Your Customer" has been implemented
- a register of compliance risks is maintained with the preparation of a compliance risk map;
- as part of strengthening the compliance culture, the Bank conducts training workshops.

To ensure the compliance of the Bank's activities with the legislation of the Republic of Kazakhstan, the compliance control subdivision monitors amendments and alterations to the legislation of the Republic of Kazakhstan on an ongoing basis with further giving recommendations on the development of new internal documents, making appropriate amendments/alterations to the internal documents and procedures of the Bank.

As part of compliance with the requirements of the legislation on anti-money laundering and combating financing of terrorism (hereinafter – AML/CFT), a financial monitoring system is operated by the Bank.

The main goal of the financial monitoring system is to minimize the risks arising when settling bank transactions subject to financial monitoring and

other transactions with money or property related to money laundering, terrorism financing and financing of the proliferation of weapons of mass destruction, by ensuring compliance with the requirements of the legislation of the Republic of Kazakhstan in the field of AML/CFT, preventing the Bank's involvement in money laundering and terrorism financing and financing the proliferation of weapons of mass destruction, maintaining the effectiveness of the Bank's internal control system at a level sufficient to manage the risks.

The Bank implements the 'Know your customer' principle, when establishing business relations, due diligence procedures are performed, completeness and timeliness of submission to the authorized body in charge of financial monitoring of the information on transactions subject to financial monitoring is ensured.

