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| cid:image001.png@01D6F482.19DF78D0 | **Superior internal document** | Charter of Otbasy Bank JSC |
| **Owner of internal document** | Department of Financial and Credit Risks  *(amended according to the decision of the Board of Directors of the Bank dated 29.09.2023 (Minutes No. 12))* |
| **Developed by** | Kabyldinova G.T. - Head of Financial Risks Department, Bekzhanov A.A. – Director of the Risk Management Department |
| **Approved by** | Decision of the Board of Directors of Housing Construction Savings Bank of Kazakhstan JSC (Decision No. 9 dated 24.09.2020) |
| **Effective date** | 24.09.2020 |

**Risk Management Policy**

**of Otbasy Bank JSC**

*(The title page is amended in accordance with the decision of the Board of Directors dated 31.03.2021 (Minutes No. 3));*

*(Throughout the text of the Rules, the name of Housing Construction Savings Bank of Kazakhstan JSC was replaced with Otbasy Bank JSC in accordance with*

*the decision of the Board of Directors dated 31.03.2021*

*(Minutes No. 3)); (as amended as of 09.06.2021)*

*(in accordance with the decision of the Board of Directors dated 29.06.2021*

*(Minutes No. 7), "for internal use" restriction marking was excluded) (as amended as of 29.09.2023)*

Almaty, 2020

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| **Version number** | **Details of decision of the Bank's body on approval of amendments/additions** | **Procedure for putting the approved amendments/additions into effect** |
| 1 | Decision of the Board of Directors No. 9 dated 24.09.2020 | From the date of decision |
| 2 | Decision of the Board of Directors No. 3 dated 31.03.2021 | From the date of decision |
| 3 | Decision of the Board of Directors No. 3 dated 09.06.2021 | From the date of decision |
| 4 | Decision of the Board of Directors No. 07 dated 03.06.2022 | From the date of decision |
| 5 | Decision of the Board of Directors No. 4 dated 28.03.2023 | From the date of decision |
| 6 | Decision of the Board of Directors No. 12 dated 29.09.2023 | From the date of decision |

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**Chapter 1. General provisions**

1. This Risk Management Policy of Otbasy Bank JSC has been developed in accordance with the legislation of the Republic of Kazakhstan and internal documents of the Bank.
2. The purpose of this Policy is to formulate and describe a unified approach to risk management and to build an integrated risk management system of the Bank.
3. The risk management process is an integral part of the management of the Bank's business model. The entire risk management process should be inextricably linked to the Bank's business processes and operations, which minimize possible losses.
4. This Policy reveals the concept and types of risks, principles, organizational structure of the risk management system, reveals the concept of risk appetite and the procedure for determining the list of significant risks
5. Detailed description of the risk management system for certain types of risks is indicated in the relevant internal documents of the Bank.

# Chapter 2. Terms and definitions

1. For the purposes of this Policy, the following terms and definitions are used:
2. **Bank** **-** Otbasy Bank JSC;
3. **Internal Capital Adequacy Assessment Process (ICAAP) -** set of processes for managing significant risks, taking into account the volume of assets, the nature and level of complexity of activities, organizational structure, strategic plans, the Bank's risk profile, regulatory framework, assessment and aggregation of such risks in order to determine the target level of capital adequacy of the Bank to maintain a stable financial position and solvency;
4. **Internal Liquidity Adequacy Assessment Process (ILAAP) -** set of liquidity risk management processes in order for the Bank to maintain an appropriate level of liquidity and implement an appropriate liquidity risk management system at various time intervals depending on the types of activities, currency;
5. **Head of Risk Management -**employee of the Bank in charge of Risk Management Division;
6. **Risk appetite statement** - document approved by the Board of Directors of the Bank describing the aggregated level (levels) of significant risks (limits of the permissible amount of risk), which the Bank is ready to accept or intends to exclude when implementing the strategy. The risk appetite statement contains a statement of qualitative nature, as well as a quantitative one, including indicators regarding profitability, capital, liquidity, risks, and other applicable indicators;
7. **RICC of the Bank** – the Risk and Internal Control Committee of the Board of Directors of the Bank; *(subparagraph 6) of paragraph 6 was amended in accordance with the decision of the Board of Directors of the Bank dated 29.09.2023 (Minutes No. 12))*
8. **ALMC of the Bank** – Asset and Liability Management Committee of the Bank;
9. **Compliance risk -** the probability of losses due to non-compliance by the Bank and its employees with the requirements of civil, tax, banking legislation of the Republic of Kazakhstan, legislation of the Republic of Kazakhstan on state regulation, control and supervision of the financial market and financial organizations, legislation of the Republic of Kazakhstan on currency regulation and currency control, on payments and payment systems, on pension benefits, on securities market, on accounting and financial reporting, on credit bureaus and formation of credit records, on collection activities, on mandatory deposit guarantee, on anti-money laundering and counter-terrorism financing, on joint-stock companies, internal documents of the bank regulating the procedure for provision of services and operations by the bank in the financial market, as well as legislation of foreign countries that affect the Bank's activities;
10. **Credit risk -** probability of losses arising as a result of borrower's or counterparty's failure to fulfill its obligations in accordance with the terms of the bank loan agreement;
11. **NBK** - National Bank of the Republic of Kazakhstan;
12. **Operational risk -** probability of losses arising as a result of inadequate and insufficient internal processes, human resources and systems, or influence of external events, with the exception of strategic risk and reputational risk;
13. **Organizational structure -** an internal document and (or) set of internal documents establishing the quantitative composition and system of management bodies, executives and structural divisions of the Bank, reflecting the structure of subordination and accountability.
14. **Management Board** **-** the Management Board of the Bank;
15. **Risk management division** – division that manages financial and credit risks, division that manages operational risks. *(subparagraph 14 of paragraph 6 was amended in accordance with the decision of the Board of Directors of the Bank dated 29.09.2023 (Minutes No. 12))*
16. **The divisions that manage risks in relevant the areas of activity**- compliance control division, the legal division, the internal control division, the planning and strategic analysis division, the advertising and public relations division, the accounting and reporting division, the security division, the HR department;
17. **Internal Audit Department** - the Internal Audit Department of the Bank (in case of a change in the structure of the Bank, the division performing the functions of internal audit of the Bank);
18. **AMLCTF** – the Law of the Republic of Kazakhstan "anti-money laundering and counter-terrorism financing";
19. **Liquidity risk -** the probability of financial losses as a result of the Bank's inability to meet its obligations on time without significant losses;
20. **Market risk -** the probability of financial losses on balance sheet and off–balance sheet items due to adverse changes in the market situation, such as changes in market interest rates, foreign exchange rates, the market value of financial instruments, goods;
21. **Information technology risk –** the probability of damage due to failure (malfunction) of information and communication technologies operated by the bank;
22. **Information security risk –** probability of damage due to breach of confidentiality, deliberate violation of the integrity or accessibility of the Bank's information assets**;**
23. **Reputational risk** - probability of losses, non-receipt of planned revenues as a result of a narrowing of the customer base, decrease in other development indicators due to the formation of negative public perception of the reliability of the Bank, the quality of its services or the nature of the Bank's activities as a whole;
24. **Risk -** the probability that expected or unforeseen events will have a negative impact on the financial stability of the bank, its capital and (or) income;
25. **Risk culture –** processes, procedures, internal rules of the Bank aimed at understanding, accepting, managing and controlling risks in order to minimize their impact on the financial condition of the Bank, as well as ethical norms and standards of professional activity of all participants in the organizational structure. The risk culture complements the existing approved procedures, processes and mechanisms of the Bank's activities and is an integral component of the risk management system;
26. **Risk profile -**set of types of risk and other information characterizing the degree of the Bank's exposure to risks inherent in all types of the Bank's activities in order to identify weaknesses and prioritize subsequent actions within the framework of the risk management system;
27. **Risk register** - structured list of risks containing the criteria and causes of risks, the probability of their occurrence, impact (damage), priority and methods of risk treatment;
28. **BD of the Bank** **-** the Board of Directors of the Bank;
29. **Significant risk -**risk, the realization of which will lead to deterioration in the financial stability of the Bank;
30. **Strategic risk -** the probability of losses as a result of mistakes (shortcomings) made when making decisions that determine the strategic development of the Bank and are expressed in insufficient consideration of possible dangers inherent in the Bank's activities, incorrect or insufficiently justified identification of promising areas of activity in which the bank will achieve an advantage over competitors, the absence or incomplete provision of necessary resources and organizational measures to ensure the achievement of the Bank's strategic objectives;
31. **Stress testing -** method of assessing the potential impact of exceptional but possible events on the financial condition of the Bank;
32. **Authorized collegial bodies of the Bank (ACB of the Bank) –** Committees under the Board of Directors of the Bank, Committees under the Management Board of the Bank;
33. **authorized body -** state body that carries out state regulation, control and supervision of the financial market and financial organizations;
34. **Legal risk -** the probability of losses due to Bank's or counterparty's failure to comply with the requirements of civil, tax, banking legislation of the Republic of Kazakhstan, legislation of the Republic of Kazakhstan on state regulation, control and supervision of the financial market and financial organizations, legislation of the Republic of Kazakhstan on currency regulation and currency control, on payments and payment systems, on pension benefits, on the securities market, on accounting and financial reporting, on credit bureaus and the formation of credit records, on collection activities, on mandatory deposit guarantee, on anti-money laundering and counter-terrorism financing, on joint–stock companies, and in relations with non-residents of the Republic of Kazakhstan - the legislation of the country of origin, and also the terms of the concluded contracts;
35. Risk appetite - aggregated level (levels) of significant risks (limits of the acceptable amount of risk), which the Bank is ready to accept or intends to exclude in the implementation of the strategy;
36. **Supervisory stress testing**- tool of the authorized body aimed at assessing the financial stability of banks to hypothetical (stressful) scenarios of development of events. Banks, based on a methodology and scenarios that are common to all participants in supervisory stress testing, perform calculations using internal models and provide the results of stress testing to the authorized body. At the same time, the Bank is responsible for proper quality of the calculations performed and the results of stress testing*. (paragraph 7 is supplemented by sub-paragraphs 34), 35)* *according to the decision of the Board of Directors dated 28.03.2023 (Minutes No. 4)*

# Chapter 3. Basic principles and standards of risk management

1. In the process of building a risk management system, the Bank is guided by the following principles:
2. Principle of engagement. This principle provides the involvement of all structural divisions of the Bank, including the Bank's management, in the risk management process;
3. Principle of timeliness. The shortcomings of the risk management system and cases of their realization should be promptly brought to the attention of the heads of the Bank's structural divisions, the Bank's Board of Directors and the Management Board and effectively eliminated;
4. Principle of separation of powers. The Bank's risk management system provides a clear separation of powers of employees and the exclusion of situations where the employee's area of responsibility allows for a conflict of interest;
5. Principle of independence. This principle is based on the fact that the identification, assessment and selection of control measures for risk management for all areas of the Bank's activities is carried out by the Bank's divisions independently, but the certification of these control measures for their completeness and sufficiency is carried out by a responsible division independent of the operational activities of the Bank's structural divisions;
6. Principle of economic expediency. Cost of operational risk control measures should be less than the amount of possible losses of the Bank from this risk, while assuming additional operational risk does not directly entail any additional costs. Identification of priority risk control measures should be implemented cost-effectively when assessing the ratio of the cost of implementing control procedures to the amount of possible losses.
7. Principles of operational risk management are implemented by implementing the provisions of the Bank's internal documents defining:
8. organizational structure of the Bank, the division and delegation of powers, functional responsibilities, the order of interaction of departments, employees of the Bank and the exchange of information;
9. Procedures, order, deadlines, and mechanism of interaction in each area of the Bank's activities.
10. Risk management standards specified in Appendix No. 1 to this Policy are regulated in the relevant internal documents of the Bank.

# Chapter 4. Organization of the risk management system

1. The Bank's Management Board ensures the availability of risk management system 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 of the Bank in order for the Bank to determine the amount of equity and liquidity required to cover significant risks inherent in the Bank's activities.
2. The Bank's risk management system is a set of components that provides a mechanism for interaction between internal procedures, processes, policies, and structural divisions of the Bank developed and regulated by the Bank in order to timely identify, measure, control and monitor the Bank's risks, as well as minimize them to ensure its financial stability and stable functioning.
3. Risk management system provides:

1) the optimal ratio between the profitability of the Bank's main activities and the level of risks taken, based on the choice of viable and sustainable business model, an effective strategy and budget planning process taking into account the risk appetite strategy;

2) objective assessment of the size of the Bank's risks, completeness and documentation of risk management processes, their preventive identification, measurement and assessment, monitoring and control, minimization of significant types of risks at each level of the organizational structure with optimal use of financial resources, personnel and information systems in order to maintain sufficient Bank equity and liquidity;

3) coverage of all types of the Bank's activities subject to significant risks at all levels of the organizational structure, the completeness of assessment of individual significant types of risks, their mutual impact in order to determine the Bank's risk profile and build a risk appetite strategy;

4) the availability of risk appetite levels for all types of significant risks and the algorithm of actions in cases of violation of established levels, including responsibility for taking risks, the level of which is determined to be high, procedures for informing the Bank's Board of Directors, the Bank's Management Committee and the Management Board within the framework of the risk appetite strategy; *(subparagraph 4) of paragraph 12 was amended according to the decision of the Board of Directors of the Bank dated 29.09.2023 (Minutes No. 12))*

5) awareness of the Bank's ACB, making decisions that carry risks, through the construction of an effective corporate governance system, availability of complete, reliable and timely management information on the significant risks inherent in the Bank's activities;

6) rational decision-making and action in the interests of the Bank based on a comprehensive assessment of the information provided in good faith, with due diligence and care (duty of care). The obligation to exercise prudence and care does not apply to errors in the business decision-making process, unless employees and officials of the bank have shown gross negligence in doing so;

7) making decisions by employees and officials of the Bank and acting in good faith in the interests of the Bank, without taking into account personal benefits, interests of persons having special relations with the bank, to the detriment of the interests of the bank (duty of loyalty);

8) clear distribution of functions, responsibilities and powers of risk management between all structural divisions and employees of the Bank, and their responsibilities, taking into account the minimization of conflicts of interest;

9) separation of the risk management and internal control functions from the Bank's operational activities by building a system of three lines of protection;

10) availability of documents designed to regulate the Bank's activities, create and operate effective risk management and internal control systems in the Bank and comply with the strategy, organizational structure, risk profile of the Bank and the requirements of civil, tax, banking legislation of the Republic of Kazakhstan, legislation of the Republic of Kazakhstan on state regulation, control and supervision of the financial market and financial organizations, legislation of the Republic of Kazakhstan on currency regulation and currency control, on payments and payment systems, on pension benefits, on the securities market, on accounting and financial reporting, on credit bureaus and the formation of credit histories, on collection activities, on mandatory deposit guarantees, on anti-money laundering and counter-terrorism financing, on joint-stock companies, as well as their periodic review and updating;

11) compliance with the requirements of civil, tax, banking legislation of the Republic of Kazakhstan, legislation of the Republic of Kazakhstan on state regulation, control and supervision of the financial market and financial organizations, legislation of the Republic of Kazakhstan on currency regulation and currency control, on payments and payment systems, on pension benefits, on the securities market, on accounting and financial reporting, on credit bureaus and the formation of credit records, on collection activities, on mandatory deposit guarantees, on anti-money laundering and counter-terrorism financing, on joint-stock companies;

12) compliance with existing procedures, processes, policies and other internal documents of the Bank on risk management by building an effective internal control system.

1. Main directions of the Bank's risk management activities:
   1. identification, assessment, control and tracking of all types of risks to which the Bank is or may be exposed;
   2. building an adequate organizational structure of the Bank's risk management system with a clear indication of the areas of authority, reporting and ensuring an adequate flow of information;
   3. establishment and approval of the Bank's risk appetite indicators;
   4. control and monitoring of risks through management reporting on the Bank's risks.
2. The Bank excludes the creation of closed groups within individual divisions that impede the effective exchange of information about risks and lead to decision-making by the authorized bodies of the Bank without taking into account the opinion (expertise) of the involved divisions of the Bank.
3. To overcome the problems associated with the exchange of information, the Board of Directors of the Bank, the Management Board and the Bank's control units ensure the effectiveness of the internal communications system and, if necessary, make appropriate changes to the information exchange procedures.
4. Key factor in the Bank's high risk management culture is the regular informing of the responsible departments of the Bank, the Management Board, the Bank's Management Committee, the Bank's Board of Directors on issues related to risks, including risk management policies and procedures. *(paragraph 16 was amended in accordance with the decision of the Board of Directors of the Bank dated 29.09.2023 (Minutes No. 12))*
5. Risk management culture promotes a full exchange of information about risks and calls for an open discussion and critical assessment of issues related to risk-taking by employees, the Management Board and the Board of Directors of the Bank.
6. Significant information on risk-related issues requiring immediate decision-making or urgent measures is urgently brought to the attention of the Bank's Board of Directors, the Bank's Management Board, responsible officials and heads of departments exercising control in order to take preventive measures. *(paragraph 18 was amended in accordance with the decision of the Bank's Board of Directors dated 29.09.2023 (Minutes No. 12))*

# Chapter 5. Organizational structure of the Bank in the field of risk management

1. The organization of the Bank's risk management includes the performance of the functions of the Bank's Board of Directors, the Bank's Management Board, the Bank's Management Committee and independent risk assessment, control and monitoring units and the distribution of powers and responsibilities between them. *(paragraph 19 was amended in accordance with the decision of the Board of Directors of the Bank dated 29.09.2023 (Minutes No. 12))*
2. The organizational structure of the Bank within the framework of risk management system corresponds to the selected business model, the scale of activities, types and complexity of operations, minimizes conflicts of interest and distributes risk management powers between collegial bodies and structural divisions, and includes:
   1. BD of the Bank;
   2. RICC of the Bank; *(amended according to the decision of the Board of Directors of the Bank dated 29.09.2023 (Minutes No. 12))*
   3. Strategic Planning Committee of the Board of Directors of the Bank;
   4. Audit Committee of the Board of Directors of the Bank;
   5. HR, Remuneration and Social Affairs Committee of the Board of Directors of the Bank;
   6. The Management Board of the Bank;
   7. Compliance Control Department;
   8. Internal Audit Department;
   9. Structural divisions of the Bank that provide a second line of defense.
   10. The structural divisions of the Bank that provide the first line of defense.
3. Three lines of defense have been formed in the Bank, while:

1) the first line of defense is ensured by the structural divisions of the Bank responsible for timely identification, assessment of risks, communication of information about them to the divisions of the second line of defense, as well as risk management. The first line of defense performs operations within the approved levels of the Bank's risk appetite and operates within the framework of accepted risk management policies. Basic principles, responsibilities and the procedure for interaction of the responsible departments of the Bank, which belong to the first line of defense within the framework of the Bank's risk management system, are reflected in the relevant internal documents. of the Bank containing the basic principles, policies, methodologies and procedures of the Bank's risk management. At the same time, the heads of structural divisions are responsible for identifying, measuring, monitoring and controlling the risks inherent in their activities, including those related to personnel, products, processes and systems;

2) the second line of defense is ensured by independent risk management departments, compliance control department, and risk management department in the areas of activity.

At the same time, as part of the second line of defense:

a) Risk management divisions carry out a comprehensive risk analysis in the Bank's activities, form the necessary reports of the Bank's Board of Directors and the Bank's RICC and contribute to the critical assessment and identification of risks by members of the Management Board and business units of the Bank; *(amended according to the decision of the Board of Directors of the Bank dated 29.09.2023 (Minutes No. 12)*

b) The Compliance Control Department organizes procedures for compliance with the requirements of civil, tax, banking legislation of the Republic of Kazakhstan, legislation of the Republic of Kazakhstan on state regulation, control and supervision of the financial market and financial organizations, legislation of the Republic of Kazakhstan on currency regulation and currency control, on payments and payment systems, on pension benefits, on the securities market, on accounting and financial reporting, on credit bureaus and the formation of credit records, on collection activities, on mandatory deposit guarantees, on anti-money laundering and counter-terrorism financing, on joint-stock companies, legislation of foreign countries that affect the activities of the bank, as well as internal documents of the Bank, regulating the procedure for provision of services by the bank and conducting operations in the financial market, and provides complete and reliable information to the Bank's Board of Directors on the existence of compliance risks;

c) Divisions performing control functions (including, within their competence, units performing security, financial control, personnel support, legal risk management) and risk management in the areas of activity specified in Appendix No. 1 to this Policy, ensure risk management within their competence;

3) the third line of defense is ensured by an independent Internal Audit Department responsible for evaluating the quality and effectiveness of the risk management and internal control system, the first and second lines of defense.

## §1. The main functions of the Bank's Board of Directors within the framework of the risk management system

1. The Board of Directors of the Bank provides general management of the Bank's activities. 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, and the Regulations on the Bank's Board of Directors.
2. Basic principles, responsibilities and procedures for interaction between the Bank's Board of Directors, the Management Board, the Bank's ACB and independent structural divisions of the Bank within the framework of the Bank's risk management system are reflected in the relevant internal documents of the Bank on risk management.
3. The main responsibilities of the Bank's Board of Directors within the framework of the risk management system include:

1) rational decision-making and action in the interests of the Bank based on a comprehensive assessment of the information provided in good faith, with due diligence and care (duty of care). The obligation to exercise prudence and care does not apply to errors in the business decision-making process, unless members of BD have shown gross negligence in doing so;

2) making decisions and acting in good faith in the interests of the Bank, without taking into account personal benefits, the interests of persons having special relations with the Bank, to the detriment of the interests of the Bank (duty of loyalty);

3) active involvement in the Bank's activities and awareness of significant changes in the Bank's activities and external conditions, as well as making timely decisions aimed at protecting the Bank's interests in the long term;

4) preliminary consideration of the draft Corporate Governance Code and (or) amendments thereto;

5) ensuring compliance of the Bank's corporate governance system with the scale and nature of the Bank's activities, its structure, risk profile, and the Bank's business model, ensuring timely and reliable disclosure of information in accordance with the current legislation of the Republic of Kazakhstan;

6) approval of the following internal documents and control of their execution:

a) organizational structure of the Bank;

b) development strategies of the Bank;

c) the Bank's profitability management policies;

d) stress testing procedures and scenarios;

e) contingency financing plan;

(e) Business continuity management policies;

g) internal procedure for payment of remuneration to senior officials of the Bank and employees of the Bank directly accountable to the Board of Directors of the Bank;

h) personnel policy;

i) remuneration policies;

k) accounting policy;

l) tariff policy;

m) credit policy;

h) policies on distressed assets;

o) document regulating the main approaches and principles of the internal capital adequacy assessment process (ICAAP);

p) document regulating the main approaches and principles of the internal liquidity adequacy assessment process (ILAAP);

p) The Bank's information technology and information security risk management policy(s);

(c) Internal control policies;

t) credit risk management policies;

y) market risk management policies;

f) operational risk management policies;

x) compliance risk management policies;

c) policies for managing the risk of money laundering and financing of terrorism (ML/FT);

h) collateral policy;

w) liquidity management policies;

h) internal audit policy, internal auditor's code of ethics, regulations on internal audit department, internal audit procedures, annual internal audit plan;

e) policies (procedures) for involvement of an external auditor.

7) approval of the Bank's risk appetite strategy and risk appetite levels;

8) monitoring compliance with the risk appetite strategy, risk appetite levels and risk management policies;

9) ensuring the availability of financial service responsible for accounting and high-quality preparation of financial statements;

10) preliminary approval of annual financial statements certified by the auditing organization, as well as sending a request for periodic independent audits, if necessary;

11) elect members of the Management Board, appoint the head of risk management, the head and employees of internal audit, the chief compliance controller and the corporate secretary;

12) consideration of reports sent by the audit committee, followed by control over the elimination of identified violations;

13) control over effective compliance with the Bank's procedures, through which Bank employees confidentially report violations related to the Bank's activities and civil, tax, banking legislation of the Republic of Kazakhstan, legislation of the Republic of Kazakhstan on state regulation, control and supervision of the financial market and financial organizations, legislation of the Republic of Kazakhstan on currency regulation and currency control, payments and on payment systems, on pension benefits, on the securities market, on accounting and financial reporting, on credit bureaus and the formation of credit records, on collection activities, on mandatory deposit guarantee, on anti-money laundering and counter-terrorism financing, on joint-stock companies, as well as on abuse;

14) formation of three lines of defense in the Bank;

15) exercising control over the activities of the Management Board through:

a) monitoring the implementation by the Management Board of the Bank of the strategy and policies approved by the Board of Directors of the Bank, decisions of the general meeting of the Sole Shareholder;

b) approval of internal documents regulating the activities of the Bank's Management Board;

c) ensuring the implementation of the internal control system;

d) holding regular meetings with members of the Management Board;

e) conducting an analysis and critical assessment of the information provided by the Management Board;

f) establishing the necessary performance standards and remuneration systems for members of the Management Board, which correspond to the long-term goals defined by the Bank's strategy and aimed at financial stability;

16) interaction and control of the work of the head of risk management;

17) periodic (at least once a year) assessment of the activities of each member of the Board of Directors of the Bank;

18) ensuring that records of decisions taken are kept (minutes of meetings, brief information on issues considered, recommendations, if any, as well as special opinions of members of the bank's board of Directors). Such documents and (or) materials are provided to the authorized body upon request in accordance with the legislation of the Republic of Kazakhstan on state regulation, control and supervision of the financial market and financial organizations;

19) providing a well-developed information technology infrastructure in order to collect and analyze complete, reliable, timely information for risk management purposes. Awareness of limitations of the information technology infrastructure to determine the levels of risk appetite;

20) making a decision on granting a loan, the amount of which exceeds 5 (five) percent of the Bank's equity capital based on an analysis and assessment of the feasibility of issuing a loan;

21) making a decision on the issuance of an unsecured consumer loan, the amount of which exceeds 20,000,000 (twenty million) tenge based on an analysis and assessment of the feasibility of issuing a bank loan. This item does not include cases of unsecured consumer loans when refinancing mortgage loans.

1. The Board of Directors of the Bank establishes authorized committees under the Board of Directors of the Bank for certain areas of the Bank's activities and based on the chosen business model, the scope of activities, types and complexity of operations, and the risk profile of the Bank.
2. In order to effectively fulfill its responsibilities, the Board of Directors of the Bank 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 the Management Committee of the Board of Directors of the Bank, the Management Board and the Head of Risk Management.

**§2. The main functions of the Bank***'s RICC (amended according to the decision of the Board of Directors of the Bank dated 29.09.2023 (Minutes No. 12))*

1. The Bank's Management Committee carries out its activities within the framework of the Regulations defining its powers, competence, as well as the principles of work, the internal procedure for submitting reports to the Board of Directors of the Bank, the tasks facing the members of the Committee and the time limits for the members of the Board of Directors of the Bank in the committee. The Board of Directors of the Bank provides for periodic rotation of members (with the exception of experts) of such committees in order to avoid concentration of powers and promote new views. *(paragraph 27 was amended in accordance with the decision of the Board of Directors of the Bank dated 29.09.2023 (Minutes No. 12))*
2. The following basic requirements for composition of the committee must be observed when forming the Bank's RICC: *(paragraph 28 was amended according to the decision of the Bank's Board of Directors dated 29.09.2023 (Minutes No. 12))*

1) the chairman of the risk management Committee is an independent director of the Bank, or the Chairman of the Board of Directors;

2) the composition includes at least one member of the Bank's committee who has experience in the field of risk management or internal control.

1. The Bank's RICC is responsible for: *(Paragraph 29 was* *amended in accordance with the decision of the Bank's Board of Directors dated 29.09.2023 (Minutes No. 12))*

1) ensuring the development of risk appetite strategy, determining the Bank's risk profile;

2) determining the size of the aggregated level (levels) of the Bank's risk appetite and the levels of the Bank's risk appetite for each significant type of risk for further submission to the approval of the Bank's Board of Directors;

3) ensuring the development of document regulating the main approaches and principles of ICAAP for further submission to the Bank's Board of Directors for approval and for monitoring the Bank's compliance with the approved document;

4) ensuring the development of document regulating the main approaches and principles of ILAAP for further submission to the Bank's Board of Directors for approval and for monitoring the Bank's compliance with the approved document;

5) ensuring the development of stress testing procedures and stress testing scenarios for further submission to the Bank's Board of Directors for approval;

6) ensuring the development of the Bank's business continuity management policy for further submission to the Bank's Board of Directors for approval and for monitoring the Bank's compliance with the approved document;

7) ensuring the development of Financing Plan in case of unforeseen situations for further submission to the Bank's Board of Directors for approval and for monitoring the Bank's compliance with the approved document;

8) ensuring the development of the Bank's Information Technology and Information Security Risk Management Policy for further submission to the Bank's Board of Directors for approval and for monitoring the Bank's compliance with the approved document;

9) ensuring the development of compliance risk management policy for further submission to the Bank's Board of Directors for approval and for monitoring the Bank's compliance with the approved document;

10) ensuring the development of internal procedure that determines the functioning of the management information system, ensuring that the Bank's Board of Directors provides complete, reliable and timely information on the level of risks taken on a regular basis, indicating the structural divisions, bodies of the Bank responsible for timely preparation and communication of information to the Bank's Board of Directors;

      11) monitoring compliance by the Bank's Management Board with risk appetite levels by obtaining information in management reports;

      12) availability of internal models and information systems for the Bank's risk management, as well as in order to ensure complete, reliable and timely financial, regulatory and management information;

      13) consideration of results of the assessment of the quality and effectiveness of functioning of the risk management and internal control system, corporate governance in general, aimed at ensuring the protection of the Bank and its reputation for further submission to the approval of the Bank's Board of Directors.

1. The Bank's RICC regularly receives data and reports from the Risk Management Department and other responsible departments on the Bank's current risk level, violations of risk appetite levels and risk mitigation mechanisms. *(paragraph 30 was amended in accordance with the decision of the Board of Directors of the Bank dated 29.09.2023 (Minutes No. 12)*

## §3. The main functions of the Management Board within the framework of the risk management system

1. The Management Board of the Bank manages the current activities of the Bank in accordance with the selected business model, the scale of activities, types and complexity of operations, risk profile, and internal documents approved by the Board of Directors of the Bank.
2. The Management Board of the Bank is responsible for:

1) development of Risk Management Policy for further submission to the Bank's Board of Directors for approval and monitor the Bank's compliance with the approved document;

2) proper performance of duties delegated to collegial bodies or employees of the Bank within the framework of the approved organizational structure of the Bank.

## §4. Powers of the Head of Risk Management

1. The qualifications and professional experience of the Head of Risk Management correspond to the selected business model, the scale of activities, types and complexity of operations, and the risk profile of the Bank.
2. The Head of Risk Management has sufficient authority, independence and resources, interacts with the Bank's Board of Directors and oversees the Bank's Risk Management Departments.
3. The independence of the Head of Risk management is determined by the following:

1) regardless of subordination, the Head of risk management is appointed and dismissed by the Board of Directors of the Bank;

2) the Head has unhindered access to the Bank's BD, without the participation of the Management Board;

3) the Head has access to any information necessary for performance of his duties;

4) the Head does not combine the position of Chief Operating Officer, Financial Director, other similar functions of the Bank's operational activities (except for underwriting, collateral service), head of the internal audit department.

1. Interaction between the Head of Risk Management and the Bank's Board of Directors and (or) the Bank's RICC is carried out on a regular basis. *(paragraph 30 was amended in accordance with the decision of the Board of Directors of the Bank dated 29.09.2023 (Minutes No. 12)*
2. Information on decision to dismiss the Head of risk management from his/her position is brought to the attention of the authorized body. At the request of the authorized body, the Bank's Board of Directors provides a justification for the reason for making such a decision.
3. In cases where a decision is made to accept a risk exceeding the established risk appetite levels, the Head of Risk Management submits a report on such exclusion to the Bank's Board of Directors with a proper analysis of reasons for the excess and further monitors the reduction of the level of accepted risk within the risk management system and the level set for it.
4. The Head of Risk Management informs the Board of Directors of the Bank about the existence of significant discrepancies between the opinion of the Risk Management Department and the decision of the Bank's Management Board regarding the level of risks taken by the Bank.

## §5. The main functions of the Bank's Divisions within the framework of risk management

1. The functions of Risk management department include but not limited to the following:

1) development of risk management system, including risk management policies and procedures, risk appetite strategy and determination of risk appetite levels;

2) identification of significant current and potential risks inherent in the Bank's activities, including through supervisory stress testing for banks included in the perimeter of supervisory stress testing and internal stress testing; *(subparagraph 2) of paragraph 40 is set out in accordance with the decision of the Board of Directors of the Bank dated 28.03.2023 (Minutes No. 4)*

3) risk assessment and determination of the aggregated level(s) of risk appetite;

4) development of risk appetite levels for subsequent submission to the Bank's RICC and approval of the Bank's Board of Directors, monitoring compliance with risk appetite levels; *(subparagraph 4) of paragraph 40 was amended according to the decision of the Bank's Board of Directors dated 29.09.2023 (Minutes No. 12))*

5) development of early warning systems and triggers aimed at detecting violations of risk appetite levels;

6) provision of management reports to the Management Board, the Bank's RICC, the Bank's Board of Directors, and ACB under Management Board. *(subparagraph 6) of paragraph 40 was amended in accordance with the decision of the Board of Directors of the Bank dated 29.09.2023 (Minutes No. 12))*

1. The Bank's divisions that manage risks in areas of activity, if necessary, develop internal documents describing risk management procedures in the area of activity, including a risk appetite statement, to provide information within the framework of management reporting on areas of activity.
2. The basic principles, responsibilities and procedures for interaction of the risk management department are reflected in the framework of the Bank's risk management system and in the relevant internal regulatory documents of the Bank on the Bank's risk management in the field of activity.

# Chapter 6. Restrictions on conducting high-risk operations

1. The Bank is a participant in the housing construction savings system, and therefore the Bank does not conduct transactions that are high-risk and that can lead to significant losses.
2. The Bank determines the following operations as high-risk operations:
   1. making transactions with foreign currency on the FOREX market at the expense and on behalf of the Bank in speculative transactions in order to generate income without having limits established in accordance with the Bank's internal documents, including limits on performers;
   2. making transactions with securities at the expense and on behalf of the Bank in speculative transactions in order to generate income without the limits established in accordance with the internal documents of the Bank, including limits on performers;
   3. making transactions with the Bank's counterparties without the limits on counterparties established in accordance with the Bank's internal documents, including limits on performers;
   4. provision of loans in foreign currency, regardless of the amount;
   5. making transactions with quantities created and accounted for in a decentralized information system using cryptography and (or) computer computing tools that are not financial instruments or financial assets in accordance with the civil legislation of the Republic of Kazakhstan, and do not contain the right to claim against anyone;
   6. making transactions with the Bank's clients that have not been verified in terms of AMLCTF in accordance with the Bank's internal documents.

# Chapter 7. Determining the Bank's risk appetite

1. In order to build an effective risk management system, the Bank's Board of Directors approves the risk appetite strategy, which defines clear boundaries of the volume of accepted risks in which the Bank's activities are carried out as part of the implementation of the Bank's overall strategy, taking into account the risk profile of the Bank's activities in order to prevent the realization of risks or minimize their negative impact on the Bank's financial position.
2. Risk appetite strategy is taken into account:
3. in strategic and budgetary planning;
4. in internal capital and liquidity adequacy assessment processes;
5. when forming the organizational structure of the Bank and the remuneration policy.
6. Effective risk appetite strategy:
7. contains a description of the Bank's risk profile;
8. contains the process of distributing the strategy to all structural divisions and is brought to the attention of the Bank's employees;
9. is aimed at introducing a risk culture at all levels of the Bank's organizational structure, as well as at spreading the practice of observing risk appetite levels within the framework of a risk culture;
10. provides protection against the Bank taking excessive risks when making decisions;
11. is the basis for formation of risk appetite statement;
12. changes in case of significant changes in market conditions and (or) the level of financial stability of the Bank.
13. As part of risk appetite strategy, the Bank's Board of Directors forms a risk appetite statement, which contains an aggregated level (levels) of significant risks (limits of the permissible amount of risk), which the Bank is ready to accept or intends to exclude when implementing the strategy.
14. Effective risk appetite statement:
15. is formed taking into account the Bank's strategy;
16. determines aggregated level (levels) of risk appetite for each significant type of risk, which the Bank assumes in its activities taking into account the risk profile;
17. includes quantitative indicators that are used to determine the aggregated level (levels) of risk appetite for each significant type of risk;
18. includes a qualitative statement that describes the reasons for the Bank's acceptance of risks or their exclusion, including reputational and (or) other risks for which quantitative assessment is not feasible, as well as establishes approaches that allow controlling them;
19. implies a predictive approach, takes into account the results of stress testing in order to identify potential events leading to a violation of risk appetite levels.
20. The risk appetite statement contains a statement of qualitative nature, as well as a quantitative one, including indicators regarding profitability, capital, liquidity, risks, and other applicable indicators;
21. In order to determine the risk appetite, the Bank's Board of Directors establishes an aggregated level (levels) of risk appetite and risk appetite levels for each type of significant risk.
22. The Bank determines the applicable levels of risk appetite for significant types of risk, taking into account the following requirements for the levels:
    1. have a clear definition;
    2. are relevant;
    3. measurable;
    4. calculated on a periodic basis;
    5. information on the actual values of risk appetite levels and their execution is provided by the Bank's Board of Directors and the Bank's RICC; *(subparagraph 5) of paragraph 52 was amended in accordance with the decision of the Bank's Board of Directors dated 29.09.2023 (Minutes No. 12))*
    6. designed taking into account the predictive approach.
23. Effective risk appetite levels:
24. are set at a level that contributes to the Bank's compliance with the aggregated risk appetite level(s);
25. take into account the available capital, liquidity, profitability, and development strategy;
26. take into account all significant concentration risks (concentration on the client, on currency, on country risk, on market segments and other types of concentration);
27. are based not only on the application of best practices and (or) the requirements of the authorized body, but also take into account the significant risks inherent in the Bank;
28. are developed using objective and understandable assessments, not ambiguous;
29. are regularly reviewed for relevance;
30. take into account reasonable assumptions supported by the results of stress testing.
31. The procedure for determining risk appetite levels contains, but is not limited to, the following components:
32. internal procedure for calculating and determining quantitative and qualitative parameters characterizing the Bank's risk appetite levels;
33. information and materials, methods and tools used to calculate and determine risk appetite levels;
34. responsible persons and (or) divisions of the Bank involved in calculating and determining the levels of risk appetite of the Bank and persons responsible for monitoring and monitoring the established levels of risk appetite;
35. conditions under which adjustments are made to the approved risk appetite levels.
36. Quantitative methods used in determining risk appetite levels ensure a high degree of reliability in assessing the level of risks.
37. Risk appetite levels include the following risk level limits:
38. level that does not require the application of corrective measures;
39. level defined as acceptable, but requiring separate corrective measures in the current procedures of the risk management system in order to reduce the level of risk;
40. level defined as high, requiring the application of appropriate measures in order to prevent deterioration of the financial stability of the Bank and its solvency.
41. When determining risk appetite, the Bank evaluates the acceptability of the established risk appetite in the current period and how acceptable it will be in the future through stress testing (scenario analysis and sensitivity analysis).
42. If significant risks are identified that are not described in the risk profile, the Bank assesses the level of risk, finalizes appropriate procedures for including such risks in the risk profile, determines the level of risk appetite and develops measures to prevent and (or) minimize the identified risk.
43. The aggregated risk appetite level(s) is established and reviewed on a periodic basis. Risk appetite levels for certain types of risk are reviewed during the year when the market situation changes and (or) the requirements of the authorized body change, but within the framework of the aggregated risk appetite level.
44. Quantitative statements are inherent in, but not limited to, risks such as credit, market, liquidity, and operational risks.
45. Qualitative statements are inherent in all types of risks specified in Appendix No. 1 to this Policy.
46. The aggregated risk appetite level(s) and risk appetite levels for each type of significant risk are determined in accordance with the Bank's current internal documents and approved by the Bank's Board of Directors.
47. Risk management departments submit information on monitoring and control of established risk appetite levels to the Management Board, the Bank's RICC and the Bank's Board of Directors on a periodic basis in accordance with the Bank's current internal documents. *(paragraph 63 was amended in accordance with the decision of the Board of Directors of the Bank dated 29.09.2023 (Minutes No. 12))*

# Chapter 8. Significant risks of the Bank

1. The Bank continuously identifies, measures, monitors and controls risks at all levels of the Bank's management. At the same time, the improvement of the risk management and internal control system is carried out in accordance with the change in the Bank's risk profile, as well as taking into account changes in the external environment.
2. In addition to identifying and measuring risk exposure, responsible risk management units at all levels of protection evaluate possible ways to reduce risks and indicate the need to reduce the level of risk.
3. In order to effectively manage significant risks, the Bank's Board of Directors, the Bank's RICC and the Head of Risk Management regularly assess the risks inherent in the Bank's activities, as well as in order to maintain the relevance of the Bank's risk profile. *(paragraph 66 was amended in accordance with the decision of the Board of Directors of the Bank dated 29.09.2023 (Minutes No. 12))*
4. The Bank's risk assessment procedure includes continuous analysis of current risks, as well as the identification of new and potential risks, taking into account the degree of concentration of significant risks.
5. The Bank determines significant risks based on an assessment of the risks inherent in the Bank's activities (including risks related to balance sheet and off-balance sheet transactions, by groups, portfolios and certain types of business unit activities), which are identified and measured using both quantitative and qualitative parameters.
6. The criteria for determining the materiality of risks, the realization of which will lead to a deterioration in the financial stability of the Bank, are the impact of risks on:

a) the Bank's capital;

b) the profitability of the Bank;

c) the liquidity of the Bank;

d) the reputation of the Bank;

e) compliance with regulatory requirements

1. The procedure for determining the importance of risks:
2. The Risk Management Department sends a List of risks to business owners specified in Appendix No. 1 to this Policy;
3. Business owners, within the framework of their areas of activity, assess risks, including on the criteria of significance;
4. The risk management department evaluates the data received from business owners on the significance of risks, and, if necessary, provides its assessment according to the criterion of significance of risks;
5. The Risk Management Department submits the issue to the ACB for consideration by the Management Board to determine the assessment of significance of risks;
6. When determining the risk as significant, the business owner develops an internal document on the development of quantitative and qualitative parameters, as well as statements of risk appetite for this significant risk;
7. Information on the risk appetite statement within the framework of periodic reporting will be provided by the risk management department, according to the terms and frequency specified in the Bank's Reporting List.
8. Risk management departments carry out an assessment of the risks inherent in the Bank's activities, as set out in Appendix No. 1 to this Policy.
9. The risk management departments send a list of certain significant risks of the Bank, taking into account quantitative and qualitative indicators, for consideration by the Management Board and the Bank's RICC for preliminary approval. *(paragraph 72 was amended in accordance with the decision of the Board of Directors of the Bank dated 29.09.2023 (Minutes No. 12))*
10. Based on the results of the review, the Bank's RICC sends a list of certain significant risks of the Bank for consideration by the Bank's Board of Directors, taking into account quantitative and qualitative indicators for approval*. (paragraph 73 was amended in accordance with the decision of the Board of Directors of the Bank dated 29.09.2023 (Minutes No. 12))*

# Chapter 8-1. Outsourcing

73-1. In the case of involvement of external contractors to perform certain operations and (or) implement business processes, the Bank's Board of Directors ensures the availability of effective principles and practices for managing risks arising from the involvement of external contractors. Activities to attract external contractors include:

* 1. procedures for determining which functions are outsourced and how;
  2. processes of verifying the reliability of the company's financial condition when selecting potential counterparties;
  3. reliable principles for concluding contracts with external contractors, taking into account the structure of their ownership, confidentiality conditions and providing for the right to terminate contracts;
  4. programs for managing and monitoring the risks associated with the conclusion of such contracts, taking into account the financial situation of the source of services;
  5. creating conditions for effective control in the Bank and in the organization providing services;
  6. developing effective contingency plans;
  7. execution of complex contracts and (or) service agreements with a clear division of responsibilities between the organization providing services and the bank.

*(Paragraph 73-1 was supplemented by the decision of the Board of Directors of the Bank dated 31.03.2021 (Minutes No. 3)*

73-2. The process of outsourcing in the Bank is regulated by an internal document approved by the Bank's Management Board. *(Paragraph 73-2 was supplemented by the decision of the Board of Directors of Banks dated 31.03.2021 (Minutes No. 3)*

# Chapter 9. Final provisions

1. Procedures and provisions not regulated by this Policy shall be implemented in accordance with the legislative and regulatory legal acts of the Republic of Kazakhstan and internal documents of the Bank.
2. When carrying out actions within the framework of this Policy, the involved departments are obliged to comply with confidentiality requirements in accordance with the legislation of the Republic of Kazakhstan, as well as internal documents of the Bank.
3. Risk Management Department shall be responsible for monitoring and updating this Policy.

# Appendix No. 1

to the Risk Management Policy of Otbasy Bank JSC,

approved by the decision of the Board of Directors of

Housing Construction Savings Bank of Kazakhstan JSC

(Minutes No. 9 dated 24.09.2020)

**List of inherent and significant risks of Otbasy Bank JSC**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Types of risk** | **Responsible department** | **Internal documents** | **Approval authority** | **Evaluation of importance/insignificance[[1]](#footnote-1)** | **Quantitative parameters[[2]](#footnote-2)** | **Quality parameters[[3]](#footnote-3)** |
| 1 | Operational risks (OR) |  |  |  |  |  |  |
| 2 | Information Security Risk (IS) |  |  |  |  |  |  |
| 3 | Information Technology (IT) risk |  |  |  |  |  |  |
| 4 | Legal risk (LE) |  |  |  |  |  |  |
| 5 | Compliance Risk (CO) |  |  |  |  |  |  |
| 6 | Liquidity Risk (LQ) |  |  |  |  |  |  |
| 7 | Credit Risk (CR) |  |  |  |  |  |  |
| 8 | Market Risk (MK) |  |  |  |  |  |  |
| 9 | Tax risk (TA) |  |  |  |  |  |  |
| 10 | Strategic Risks (ST) |  |  |  |  |  |  |
| 11 | Reputational Risk (RE) |  |  |  |  |  |  |
| 12 | Corporate Governance Risks (CG) |  |  |  |  |  |  |
| 13 | Risks of corruption and fraud (CF) |  |  |  |  |  |  |
| 14 | Internal Control Risks (IC) |  |  |  |  |  |  |
| 15 | Risks of human resources management (HR) |  |  |  |  |  |  |
| 16 | Audit risks (AU) |  |  |  |  |  |  |

1. Carried out by business owners by risks [↑](#footnote-ref-1)
2. Criteria for quantitative parameters are defined in the internal documents of the responsible department [↑](#footnote-ref-2)
3. Criteria for quality parameters are defined in the internal documents of the responsible department [↑](#footnote-ref-3)