

APPROVED  
by the decision of the Board of Directors of  
“Samruk-Kazyna” JSC  
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## **Risk Management Policy of “Samruk-Kazyna” JSC**

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## **1. General Provisions and Objectives of the Corporate Risk Management System**

1. This Risk Management Policy of “Samruk-Kazyna” JSC (hereinafter – Policy) is developed in line with the Law of the Republic of Kazakhstan “On Sovereign Wealth Fund” and internal documents of “Samruk-Kazyna” JSC (hereinafter - the Fund).
2. The Fund shall be aware of the importance of risk management as a key component of the corporate governance system of the Fund on the consolidated and separate basis aimed at the timely identification and taking measures on risks mitigation that might adversely affect the value and reputation of the Fund’s Group.
3. Risk management on the consolidated basis is carried out in the Fund through the implementation of the Corporate Risk Management System (hereinafter - CRMS) at all levels of the Fund’s group. CRMS – is a set of interrelated elements combined into a single process, in which the Board of Directors, management and employees, each at their own level, are involved in the identification of potential events that may affect the activities of the Fund and of the Fund’s Group, as well as in the management of these events within the acceptable level of risk for shareholders.
4. This document shall define:
  - Organizational cart of the Fund’s CRMS;
  - General approaches to risk classification of the Fund;
  - Successive stages of the risk management process and interchange of risk information within the Fund’s Group;
  - The mechanisms for monitoring the CRMS and individual aspects of the Fund’s operations in terms of risk management;
  - The elements that bind CRMS of the Fund with the processes of planning, budgeting and motivation;
  - Recommendations on the implementation of the Fund’s risk management system on the consolidated basis, as well as performance criteria for CRMS of the Fund.
5. The Policy also includes the following Annexes which constitute the integral part of the Policy:
  - The structure and minimum requirements for the content by the risks (Annex 1).

- The list of the minimum requirements for the content of the Policies on the Subsidiaries' risk management (Annex 2).
  - Terms of the risk report submission (Annex 3).
6. The Policy is not intended to cover all possible scenarios that may arise in the practical application of the CRMS, suggesting that the risk management process being a part of the daily management should provide freedom to use different management styles and creative approach.
7. Implementation and improvement of the CRMS is a prerequisite for achieving of strategic and operational objectives of the Group of Fund and is one of the biggest challenges in the near term.
8. The main purpose of the CRMS is to improve efficiency of management of threats and opportunities, which should contribute to the process of increasing capitalization. The CRMS also sets the following goals:
- development and implementation of uniform and consistent approach to the identification, assessment and management of risk in the Fund's Group, simplification of procedures for the interchange of risk information vertically (management) and horizontally (sharing experience);
  - formation of opportunities for the Fund to set and monitor the quality of risk management in the Fund's Group on the basis of clear and understandable criteria;
  - formation of the information base for building the accounting system of assets, their market value and assessment of the share capital;
  - operational respond to risky events, tracking changes in the external and internal environment;
  - organization of focused risk management activities in order to reduce them to the acceptable level or transferring to the third parties (insurance, hedging);
  - systematization and further accumulation of information about the risks of the Fund, increase in the manageability of business;
  - ultimately - increase in the capitalization of the Fund and the Fund's Group by enhancing the efficiency and optimization of the risk management.
9. The main tasks of the Fund's Group are as follows:
- prevent the occurrence of events that threaten the achievement of the strategic and operational objectives;
  - reduce the impact of such events to the acceptable level, if they occur;

- effectively respond to unexpected situations and manage them;
- maintain a systematic risk management process, which is a part of the overall process of ensuring the effective internal control environment;
- provide reasonable assurance to stakeholders that the Fund's Group effectively manages the risks.

10. The CRMS is a tool that supports the process of decision-making and daily operations of the Fund. Therefore, the CRMS is designed to facilitate obtaining additional practical effect in the following areas of the Fund:

- *The process of strategic planning.* The CRMS is a simple and practical tool to meet the requirements of regulations of the Fund on strategic planning in part concerning identification, assessment and management of risks.
- *Budget process.* Information on risks and plans for their management can serve as a solid support of applications of the Fund and individual units for the allocation of resources, including financial resources.
- *The system of motivation and performance assessment.* Evaluating the effectiveness of risk management should be one of the criteria for assessing the performance of the Fund, its departments and individual employees.
- *Cross-functional and intra-group interaction.* Plans for the management of cross-functional and intra-group risk serve as an effective and transparent tool for distribution of responsibility and coordination of activities of various divisions and subsidiaries of the Fund in the process of management of such risks.
- *Risk monitoring at the appropriate level.* Risk assessment is a substantiation of the feasibility for review and monitoring of a substantial risk to a higher level of management of the Fund.

11. The CRMS cannot guarantee the success of the Fund's Group, but effective risk management, implemented in integrated and consistent way across the whole Fund's Group, may provide significant benefits:

- greater certainty in achieving the strategic and operational goals set by taking into account the risks and appetite for risk, by identifying and managing a multitude of risks in the complex;
- mitigation of the negative surprises, reducing volatility and increasing profits through approval of acceptable risks by the Fund's Group, appropriate to the scope of its activities;
- effective compliance with legislative and regulatory requirements and management requirements;
- the ability to monitor and respond to changes and trends in the external environment;
- improving the quality of decision-making process and increasing

transparency;

- improving the control of the damages and expenses, as well as maintaining optimal cost-controlling environment;
- improving performance indicators;
- early identification of new opportunities and markets and turning them into capital.

12. Policies and procedures for CRMS are being implemented in phases, so the date of their introduction and full compatibility will depend on the particular phase of the overall CRMS development.

13. Internal Audit Services (hereinafter - IAS) of the organizations included in the Fund's Group shall conduct periodic auditing - the analysis of gaps and weaknesses in the risk management system (also attracting external independent consultants). The annual plans to improve the CRMS are drawn up according to the recommendations of the IAS.

14. The mission of this Policy is to maintain the risk management system which allows the executive bodies and management of the organizations included in the Fund's group to manage and allocate efficiently resources on the priority areas to achieve acceptable level of risks for the Fund and to obtain the best value from such investments through risk identification, assessment, management and monitoring.

15. The objectives of the Policy are as follows:

- to build robust comprehensive system and create integrated process of risk management as an element of management of the Fund and the Fund's Group, as well as to permanently improve based on unified standard approach to methods and procedures of risk management, to ensure stability of its activities and protection of the cost of the Fund's Group against the risk;
- to ensure assumption of acceptable risks adequate to scope of its activities by the Fund and Fund's Group;
- to specify risk appetite and ensure efficient management of assumed risks.

16. The tasks of the Policy are as follows:

- to create full-fledged base for decision-making and planning processes;
- to ensure continuous agreed process of risk management based on timely identification, assessment, analysis, monitoring and control in pursuit to its goals;

- to introduce and improve management system capable of prevention and minimizing potentially negative events;
- to enhance efficiency of use and distribution of resources;
- to prevent losses and damage through enhancing efficiency of performance of the Fund's Group conducive to protection of assets of the Fund's Group and equity;
- to ensure efficiency of business-processes, reliability of internal and external reporting and assist compliance with legal rules.

17. Detailed description of risk management methods and procedures, including the procedure and form of submitting risk management reporting, tasks, functions and responsibilities of players in the process of key risk management, risk management arrangements and other elements of this process are represented in internal documents of the Fund (including present Policy) approved by the Board of Directors or the Management Board of the Fund in accordance with competence of each body.

18. The Fund's Group must take actions on implementing of risk management system based on international standards and best international practices of risk management.

19. Regulatory documents in the field of CRMS (if necessary including the current Policy) are reviewed at least once a year to ensure their compliance with the goals, scope and complexity of the Fund's activities and its risk management system, and to take into account the best practices of risk management and experience to date, as well as new regulatory requirements, experience and standards of risk management.

20. Responsibility for drafting the documents regulating risk management system is imposed on the structural units of risk management, which are liable for the functioning of risk management system as whole.

21. Risk management is exercised in the context of certain aims and objectives assigned to the Group of Fund which come from approved strategies, concepts and other internal documents. The Fund and its subsidiaries must at least once a year determine the appetite for risk, i.e. the ability to take the risks to achieve its goals.

22. Within the Group of Fund there should be a constant interchange of information to raise awareness of the risks, development of risk-culture and effective risk management. All employees receive timely assignments from the Management on risk management, clearly understand their role, the work that they should pursue and how they should interact with their colleagues. It should be ensured a constant awareness of the executive bodies and management bodies of the organization of the Fund's group about existing

risks and their management. Also, there should be effective communication with third parties such as customers, partners, regulatory and supervisory authorities and shareholders.

23. The monitoring of the CRMS is an important part of the entire risk management process and evaluates both as the existence of such a system, so as the realization of its components. Monitoring is carried out by continuous trail of the implementation of Policy, procedures and activities of risk management system, special-purpose inspection. The scale and frequency of special-purpose inspections depends on the risk assessment and the effectiveness of continuous monitoring. The management and executive bodies of the organizations of the Fund's Group should be informed of the shortcomings of risk management system.
24. Each employee of the Group of Fund, more or less, is responsible for risk management.
25. Methods and procedures for risk management peculiar to the Fund's Group (for example, risks at the production site) shall be determined by management and executive bodies of the Companies. Rules and methods of assessment of main types of financial risks common for many organizations of the Fund's Group shall be determined by Fund.
26. This Policy shall cover any business of the Fund. The Policy is binding for familiarization and application by all structural subdivisions of the Fund and all employees of the Fund. While executing functional duties and assigned objectives, the employees of the Fund shall be guided by provisions stated in the Policy.
27. In view of key objectives of the Fund as a managing holding and consolidation of financial results of Subsidiaries in financial reports of the Fund, risk management corporate system of the Fund shall have an objective to implement and improve the unified risk management system in the Fund's Group. To achieve this goal, the Fund shall supervise the process of introduction of risk management system in Subsidiaries, provide methodological, advisory assistance as well as coordinate the activities on development and improvement of the CRMS in the Fund's Group.
28. Subsidiaries of the Fund shall develop their own risk management policies. The list of minimum requirements for the content of the Risk Management Policy of Subsidiaries of the Fund is given in Annex #2. At that, the important thing is the presence of the unified approaches to the management of general risks within the Fund's Group due to which the Fund shall coordinate the activities on development and improvement of the CRMS in the Fund's Group.
29. Implementation of a corporate risk management system in the Fund's



Group implies the establishment and development of the necessary infrastructure and culture and also covers the use of logical and systematic methods of identification, analysis and assess, monitoring, risk control and management inherent in all activities, functions or processes of the Fund and (or) Subsidiaries in order to avoid losses and maximize profits.

30. In carrying out its activities under the Policy the Fund shall take into account the interests and the consequences of the risks to the Sole Shareholder of the Fund and other interested parties.
31. The Policy is publicly disclosed on the website of the Fund and its main regulations are disclosed in the annual report of the Fund. The Policy and other documents in the field of risk management shall be available to all employees and officials of the Fund through the Intranet. Changes in risk management system are communicated to all employees and officials of the Company via e-mail.

## **2. Key notions, organizational chart and accountability levels of CRMS**

### **2.1 CRMS Key Notions**

32. This paper shall make use of the following notions:

- **Risk** is a potential event (or set of circumstances) in the future, which in the case of its implementation could have a material adverse effect on the achievement of its long- and short-term objectives by the Fund's Group.
- **Risk appetite** is the level of the risk that the Fund / Fund's group considers as acceptable in pursuit of its goals. Within its risk-appetite, the Fund's group shall determine acceptable scope of risk appetite (e.g., investment limits per projects, borrowing limits and so on).
- **Key risks** – are risks that fall into the red and the orange zones of risk map.
- **Key Risk Indicator (KRI)** - are the early indicators that provide early signals of changes in risk factors in different areas of activities. The KRI enables to detect potential risks and take early measures to avoid the risk events or minimize their impact on the activities of the organization.
- **Risk tolerance** - this is an acceptable level of deviation with respect to achievement of a particular objective. Risk tolerance allows for effective monitoring and preventing excess of the risk appetite level.

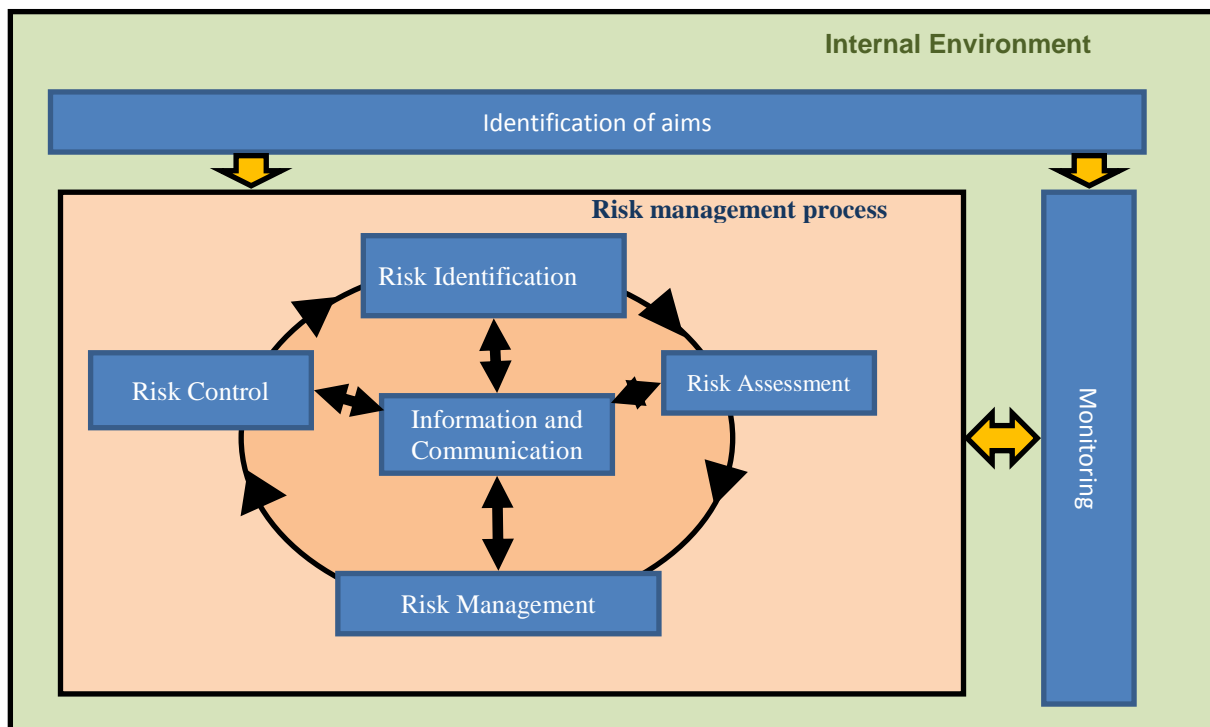
- **Risk owner / owner of the risk** – is a person (employee / structural unit / collegial body) responsible for all aspects of the definite risk management, in particular, reducing the probability of the risk implementation and / or reduction of the possible impact of the effects from risk implementation on the Fund and the Company.
- **Risk Management Department** – is a structural unit of the Fund responsible for risk management.
- **Fund's Group** – the Fund and Companies and (or) organizations at least fifty percent of shares (interest) of which directly or indirectly is owned by the Fund.
- **Subsidiary organization (hereinafter - Subsidiary)** – is a national company and/or other legal entity except for the second-tier banks of the Republic of Kazakhstan at least fifty percent of shares (interest) of which directly or indirectly is owned by the Fund on the right of property.
- **Company** – are the companies and (or) organizations at least fifty percent of shares (interest) of which directly or indirectly is owned by the Fund.
- **Sole Shareholder** – is the Sole Shareholder of the Fund
- **Risk-manager** is an employee of a structural unit in charge of risk management.
- **External persons** – are the persons that are not employees of the Fund's Group.
- **Threat (risk-factor)** – are the conditions, states, the circumstances in which the risk causes emerge that lead to the implementation of risk.
- **External risk factors** – are the threats, occurring outside the operating activities of the Fund and not dependent on the activities of the Fund.
- **Internal risk factors** – are the risk factors related to internal processes, organizational structure, human resources, assets of the Fund's Group and appearing within the operations of the Fund's Group.
- **Cross-functional interaction within the risk management** – is the process of management of inter-functional (inter-process) risks (risks affecting the objects of some functions (business processes) based on collegial decisions taken jointly on the bases of information available for different functions (business processes).
- **Event** – is an incident or a case having an internal or external source in relation to the organization that influence on the achievement of the goals.

- **System companies** – “KazMunayGas” JSC, “Kazakhstan Temir Zholy” JSC, JSC “NAC “Kazatomprom”, “Kazakhtelecom” JSC, “Samruk-Energy” JSC, “KEGOC” JSC.

## 2.2 The CRMS Structure

33. Risk management in the Fund is an on-going, dynamic and continuous process represented in ERM Concept and consisting of components according to the following chart:

**Chart 1: Risk Management Process**



34. **The internal environment** determines the overall attitude of the Fund’s group to the risks and how its employees consider and respond to the risks. Internal environment is a basis of all other components of risk management system, it includes the philosophy of risk management, risk appetite, control on part of the management bodies, ethic values, competence and responsibility of the employees, structure of the Fund, its opportunities determined by human, financial and other resources.

35. Activities of the Fund are aimed at creating of the internal environment which enhances the understanding of the risks by the employees and increasing their responsibility for risk management. The internal environment should support the following principles of the Fund’s activities:

- identification and consideration of all risks in decision making and support of complex view of risks by the managements of the Fund;

- creation and evaluation at the level of the Fund of such a risk profile that best meets the goals of the Fund as a whole;
- support of sense of ownership and responsibility for risks and risk management at the appropriate levels of the hierarchy of management (the Fund, Subsidiaries, the structural units, etc.). Whereas, risk management does not mean the transfer of responsibility to others;
- monitor of relevance of internal policy and procedures of the Fund and the state of corporate governance system;
- timely information on important (critical) risks and deficiencies in risk management system;
- understanding that the Policy and procedures for risk management are compulsory.

36. Relationship of the Fund's group with external environment (business-structures, social, regulatory and other political and financial authorities) has effect on internal environment and impact on formation of this environment. External environment is complex by its structure and includes different interconnected sectors, and creates conditions for systemic risks.

37. Fundamental principles of risk management process in the Fund are:

- **integrity** – is the consideration of elements of overall risk of the Fund's group in terms of corporate risk management system;
- **openness** – is the ban to consider CRMS as stand-alone or isolated;
- **structural properties** – a comprehensive risk management system has a clear structure;
- **awareness** – risk management is accompanied with objective, reliable and actual information;
- **continuity** – a risk management process is implemented on a regular basis;
- **periodicity** – a risk management process is an ongoing recurring aligned cycle of its key components.

38. The structure of risk management system in the Fund's Group is represented by risk management at several levels where the following bodies and subdivisions of the Fund are involved: the Boards of Directors, the Management Board, the structural units in charge of risk management, Internal Audit Service and other structural subdivisions.

39. The first level is represented by the **Boards of Directors**. The Boards of Directors play a key role in the surveillance of corporate risk management system.

40. **The Board of Directors of the Fund** performs the following key functions in the area of risk management:

- approval of Risk Management Policy of the Fund;
- approval of other policies in area of risk management of the Fund;
- approval of levels of responsibility for monitoring and control over risks of the Fund by means of approving this Policy;
- setting goals (short-term, long-term) of the Fund;
- approval of regulations and procedures of risk management of the Fund;
- analysis of findings of external auditors on improvement of internal control and risk management and outcomes of inspections performed by Internal Audit Office;
- approval of the register, risk map of the Fund and action plan for management of critical risks;
- approval of risk reports (structure and content of the report on the risks is provided in Annex # 1);
- approval of a plan of continuity of the Fund's activities in the field of information technology and recovery of critical IT resources (it is developed by the structural subdivision responsible for providing IT resources);
- approval of plans of continuity of the Fund's activities governing the ways of incident management, recovery and support the activities of the Fund to the set level in the case of violations (it is developed by responsible structural unit of the Fund);
- reviewing reports on the effectiveness of the risk management system;
- definition of forms and deadline for submission of the financial and management reporting to the Board of Directors, providing the opportunity to analyze and evaluate the financial indicators of the Fund;
- approval of the risk appetite of the Fund on the consolidated basis;
- approval of key risk indicators;
- monitoring activities through the Committees under the Board of Directors of the Fund.

41. For the purpose of efficient risk management, Committees of the Board of Directors of the Fund may assume functions and authorities to assist Board of Directors determined by respective regulatory documents.

42. Within the monitoring of the risk management system development of the Fund on the consolidated basis, the Boards of Directors (Supervisory

Boards) of the Subsidiaries submit quarter risk reports for considerations of the Management Board of the Fund.

43. The second level – **Management Board** of the Fund is responsible for organizing an effective system of risk management and the establishment of control over risks to ensure the implementation and performance of the corporate policies. The Management Board is responsible for creating a culture of “risk awareness”, which reflects the policy of risk management and philosophy of the Fund. The Management Board is also responsible for establishing effective risk management systems so that employees have clear responsibilities for risk management and are responsible for carrying out their duties. The Management Board is entitled to exercise a part of the functions in the area of risk management through the establishment of relevant committees.
44. The Management Board ensures integrity and functionality of risk management system by virtue of the following functions:
- implementation of the Risk Management Policy;
  - organization of efficient risk management system making it possible to identify and assess potential risks;
  - providing reports to the Board of Directors according to approved regulatory documents;
  - ensuring compliance of the provisions of this Policy by structural subdivisions of the Fund;
  - approval of organizational structure of the Fund responsive to the needs of and ensuring adequate control and reduction of risks;
  - review of reports on risk management of the Fund on the consolidated basis and taking appropriate measures within its competence;
  - approval of response measures and methodology of risk management in the Fund and some arrangements in the Fund’s Group in the framework of regulatory documents approved by the Board of Directors;
  - improvement of internal procedures and regulations in the area of risk management;
  - consideration of the quarter reports of the Boards of Directors (Supervisory Boards) of the Subsidiaries on key risks.
45. The Fund (at the level of the corporate center) appoints the Risk Officer of the Fund, who supervises the issues related to risk management in the Fund on the consolidated and separate basis. The Risk Officer should not be the risk owner that ensures the independence and objectivity in making decisions. To avoid conflicts of interest, the Risk Officer should not be a Member of the Audit Committee of the Fund.

46. An official supervising the issues related to risk management system in the System Company – the Risk Officer of the Company shall be appointed from among the Heads and must meet the following requirements:

- Risk Officer shall report directly to the CEO of the Company;
- Risk Officer should not combine the functions related to financial risks (budget planning, corporate finance, treasury, accounting);
- It is admitted the combination of the position of the Risk Officer with positions on corporate governance and strategic planning.
- Risk Officer, to avoid a conflict of interest, should not be a Member of the Audit Committee of the Company.

47. In other companies (including companies that are under development) it is required to comply with the following requirements:

- A structural unit (a person) responsible for risk management in the Company should not combine the functions related to financial risks (budget planning, corporate finance, treasury, accounting);
- It is admitted the combination of the position of the Risk Officer with positions on corporate governance and strategic planning.
- To avoid a conflict of interest, the Head of a structural unit (person), responsible for risk management in the Company, should not be a Member of the Audit Committee of the Company.

48. For the purpose of efficient organization of risk management, collegial bodies under the Management Board of the Fund may assume functions and authorities to support the Management Board of the Fund specified by respective internal documents of the Fund.

49. To ensure horizontal communication and effective implementation of CRMS in the Fund's Group, it is functioning the **Risk Management Board**, which is an advisory body under the Management Board of the Fund, which works out proposals in risk management and which functions include the following:

- discussion of issues on risk management in the Fund's Group submitted for consideration of the Management Board of the Fund and / or the competent authorities of Subsidiaries and affecting interests of more than one Company of the Fund;
- consideration of internal regulations on risk management of the Fund and its Subsidiaries, supposed and \ or recommended for use in more than one Company of the Fund;
- consideration of issues on risk management important to more than two Companies of the Fund;

- analysis of existing critical risks of the Fund and Subsidiaries and the methods of their management;
- consideration of new approaches to risk management and their application to the Fund and Subsidiaries;
- other functions according to the instructions of the Board of Directors and the Management Board of the Fund.

50. The work of the Risk Board is governed by the Regulations on the Risk Board to be approved by the Management Board of the Fund.

51. The third level in the risk management process is **structural subdivision of the Fund in charge of risk management** with the following key functions (including but not limited to):

- organization and coordination of the process of identification and assessment of critical risks and agrees with the owners of the risk the register and map of critical risks, key risk indicators, an action plan for managing critical risks of the Fund and also monitors the implementation of the Plan;
- informing the Management Board of the Fund and the Fund's Board of Directors on significant deviations in the process of risk management;
- introduction and improvement of the risk management process in the Fund's group through the Boards of Directors of the Subsidiaries;
- maintaining a database of realized risks, monitoring the external factors that may have a significant impact on the risks;
- preparation and providing information on the risks (including on the consolidated basis) to the Management Board and the Board of Directors of the Fund;
- participation in the organization of periodic assessment of risk management systems of the Companies by offering assessment subcomponent "Risk Management" in the diagnostics of the level of corporate governance and proposals on the methodology of performance assessment of the corporate risk management system;
- development, implementation and updating (if necessary) of a methodological framework, policies, regulations for the risk management and the procedures for monitoring risks;
- ensuring the integration of risk management into other business processes and the development of culture of risk management in the Fund;
- consideration and agreement of regular risk reports of the



Subsidiaries submitted for consideration of the Boards of Directors (Supervisory Boards) of the Subsidiaries;

- coordination of projects of strategic direction, investment projects of the Fund, Subsidiaries concerning sufficiency in disclosure and analysis of risk information;
- providing methodological and advisory support to employees of the Fund on risk management issues;
- implementation, analysis and testing regulating and working documentation of the subsidiary and dependent organizations in the sphere of risk management;
- making proposals with regard to conduct training seminars and workshops on risk management for the staff of the Fund;
- interaction with the Internal Audit Service of the Fund in forming the internal audit plan, sharing information, discussion of the results of audits, exchange of knowledge and methodologies;
- identification of possible cases of risk emerging, real or potential, negative tendencies demonstrating the risk strengthening, analysis of factors which caused the risk and evaluation of the scale of the expected loss.

52. Responsibility, authorities of employees of a structural unit of the Fund, responsible for risk management and requirements to reporting are described in this Policy, provisions on a structural subdivision in charge of risk management and job specifications of employees of a structural unit of the Fund, responsible for risk management.

53. Employees of a structural unit of the Fund, responsible for risk management must interact with other subdivisions and subsidiaries, as well as external and internal auditors of the Fund for efficient implementation of goals and objectives of risk management system.

54. Employees of a structural unit of the Fund, responsible for risk management must have access to information and documents of the Fund to enable them to execute functional duties indicated in this Policy and job specifications of these employees.

55. **The Internal Audit Service** of the Fund in the risk management process performs the following functions:

- Audit of risk management procedures and methodologies for risk assessment and development of proposals to improve risk management procedures efficiency;

- presentation of a report on the evaluation of the effectiveness of the risk management system for the Board of Directors of the Fund, including at least once in three years a report on the independent evaluation of the effectiveness of the risk management system;
- other functions in accordance with the approved regulations;
- audit procedures under the plan to improve the CRMS at least once in three years, which is being prepared by the external auditor and is updated on a regular basis.

56. One of the crucial elements in the structure of risk management is **structural units** of the Fund represented by each employee. Structural units (owners of risks) shall be aware that they play a key role in the process of risk management. Employees of the Fund work with the risks on a daily basis; manage them and monitor their potential impact in the area of their functional responsibilities. Structural units are responsible for the performance of the action plan for risk management; they are obligated for timely identification and information of significant risks in their activities and submit proposals on risk management for their inclusion in the action plan.

57. Key functions of structural units of the Fund in the process of risk management are:

- identification and assessment of risks on annual basis to be revised quarterly;
- participation in development of methodology and regulatory documentation within their competence;
- making proposals on development of action plans on risk management and risk mitigation measures;
- implementation of approved risk-response measures and risk management and providing reports on execution of measures on risk management on a regular basis;
- assistance to development of risk communication;
- providing information on realized risks;

58. For the effective organization of the risk management system in each structural unit of the Fund it is appointed risk coordinator, whose responsibilities include the organization of risk management in their departments and collaboration with the structural unit responsible for risk management in the Fund, at all stages of the CRMS procedures of the Fund.

59.To maintain and increase the risk culture within the Fund it is conducted training to familiarize new employees and periodical introduction to all employees of the Fund (at least on the annual basis) with the current CRMS of the Fund's Group. Upon completion of training, employees of subdivisions, coordinating the issues of risk management system (risk - coordinators) pass control testing to confirm the knowledge obtained.

### **2.3 Relationship of risk management process with strategic planning and operations, budgeting and motivation**

60.The objectives of the Fund's activity are determined at the strategic level and establish a basis for the development of operating goals. The Fund's Group is exposed to the action of risks from external and internal sources and the main condition for the effective identification, assessment and development of risk management is to set goals.

61.The objectives of the Fund are determined prior to identification of potential risks that may adversely affect their achievement. Corporate governance of risk management makes sure that in the Fund's Group there exists the process of determining the goals and objectives that are consistent with the mission and meet the risk appetite of the Fund's Group.

62.The Fund's Group annually or as needed establishes alternative ways of achieving their goals and determines the risks associated with these alternatives or events that may affect the achievement of objectives. This analysis provides a basis for identifying risks.

63.The process of risk management is based on the cross-functional interaction. The process of management of inter-functional (inter-process) risks (risks affecting the objectives of some functions (business processes)) is based on collegial decision taken jointly on the basis of information available for different units (participants and Heads of business processes).

64.The interrelationship of risk management process with **strategic planning** process includes the following (but may not be limited to the mentioned below):

- strategic planning process should include the identification and analysis of risks that may affect the achievement of its strategic objectives;
- strategic plans of the Fund's group should provide a set of measures aimed at minimizing the potential adverse effect of the main risks associated with the implementation of planned strategic initiatives.

65. The interrelationship of risk management process with the **operations** process include the following (but may not be limited to the mentioned below):

- action plans for risk management (as well as, where appropriate, the individual stages) should be included in the respective annual plans of the structural units of the Fund.
- Risk-owner should objectively assess the time and administrative resources required for implementation of the action plan of risk management proposed by it and reflect the estimate obtained in the corresponding risk report;
- Employees of subdivisions of the Fund should be given the necessary time and administrative resources to carry out activities, provided by the action plans for risk management;
- Employees of subdivisions of the Fund shall submit a report on the realized risk under the Regulation on recording and analysis of the realized risks of the Fund. Subsidiaries must develop and approve their own documents on accounting and analysis of realized risks according to the internal regulations of Subsidiaries and subject to available technologies to automate the documentation of realized risks;
- initiators of the issues submitted for consideration of the Management Board and the Board of Directors of the Fund include items in their materials (the Executive Summary) with a description of the risks associated with both the adoption and non-adoption of the decisions submitted.

66. The interrelationship of risk management process with the process of **investment and lending activities** (in obtaining, granting a loan, financial assistance and financial guarantees) shall include (but may not be limited to the mentioned below):

- initiators of investment projects (including projects submitted for consideration of the Credit Committee of the Fund and the Innovative and Investment Committee of the Fund or other authorized collegial body) in the process of consideration and development of investment projects must provide for the identification and analysis of risks that may affect the realization of the investment project and the achievement of the objectives of the investment project. There should be also provided a set of measures

aimed at minimizing the potential adverse effect of the main risks associated with the implementation of the project;

- initiators of the process of obtaining / granting a loan (attraction / provision of borrowings) should include the analysis of the risks for the financial stability of the Fund according to the Policy on Debt Management and Financial Stability of “Samruk –Kazyna” JSC, including, but not limited to the analysis of the effect on compliance with the standards established by the Management Board of the Fund, foreign creditors (if any).
- initiators of the process of granting a credit (loan) and financial guarantees to the counterparties should include the analysis of the credit risk according to the Regulations on setting limits on corporate counterparties of “Samruk –Kazyna” JSC, Regulations on Providing Guarantees of the Group of Joint-Stock Company “Sovereign Wealth Fund “Samruk –Kazyna”, Internal Credit Policy of the Group of Joint-Stock Company “Sovereign Wealth Fund “Samruk –Kazyna”.

67. When the execution of Action plans for risk management requires for the use of time or administrative resources of related functional units (cross-functional risks) of the Fund, Risk owner with the support of an employee of the structural unit of risk management should agree on the allocation of appropriate resources with the Heads of these units.

68. The interrelationship of risk management with the **budgeting** process:

- prior to approval of the Action Plan for risk management by the Management Board of the Fund, the Risk owners should provide the necessary financial resources for the implementation of the proposed Action plan for risk management and to work out this issue with the structural unit responsible for budgeting;
- filling table of factors and risks of the Development Plan in compliance with the Rules for development, agreement, approval, adjustment, implementation and monitoring of the implementation of the Development Plans of the Subsidiaries of the Joint-Stock Company “Sovereign Wealth Fund “Samruk –Kazyna” is performed on the basis of approved risk register.

69. The interrelationship of risk management process with the process of **staff motivation** includes the following (but may not be limited to the mentioned below):

- Responsibilities of RCMS participants to comply with all procedures provided for in the system, should be formally fixed and monitoring of the execution or non-execution of the relevant obligations during the reporting period should be conducted;
- It is also recommended to provide incentive mechanisms designed to motivate executives and employees of the Fund to act as part of the risk management system properly, in accordance with established timelines and target indicators.

### **3. RMCS Functioning Process**

#### **3.1 Calculation of risk appetite**

70. After determination of strategic targets (strategic directions of development) the Fund identifies the risks, which can obstruct the Fund to achieve the targets set. The Fund also determines the appetite for risk – amount of risk, which is acceptable for the Fund in achieving the targets set.

71. The Fund determines the risk appetite for each of strategic targets (strategic directions of activity).

72. Risk appetite determines the upper limit of the level of critical risks on consolidated level, which is acceptable for the Fund. It also affects the distribution of the resources, organization of the processes and establishing the infrastructure within the organization necessary for effective monitoring and risk response.

73. Risk appetite (application on risk appetite) of the Fund on consolidated basis is approved by the Board of Directors and has following characteristics:

- It reflects the strategy of the Fund's group, including the targets, business plans, financial limits and expectations of the concerned parties;
- It covers all key aspects (directions) of the activity;
- It takes into account the willingness and possibility of risk acceptance;
- It determines the attitude of the Fund to the risk;
- It is periodically revised given the sector and market conditions;
- It requires effective monitoring of the very risk;
- It includes both quantitative and qualitative indicators;

74. Calculating the quantitative risk appetite, the Fund adheres to the principle

of conservatism in its calculations and use financial indicators for some previous years to calculate an average weighted indicators for the period that allows mitigation of incidental fluctuations. Than average weighted indicators are multiplied by limit indicators.

75. Calculation of quantitative risk appetite is performed by structural unit (person) responsible for Fund's risk management and submitted for approval of the management body.
76. In calculating quantitative risk appetite it is determined such level of the risk-appetite that does not violates the principles of financial stability. Thus, the higher debt loads on the consolidated basis the lower risk appetite. Such approach ensures the reserve of the liquidity for loss cash coverage in case of loss from risks.
77. Calculation of quantitative risk appetite for the Fund is performed on the basis of coefficient K1.1 (in compliance with the Policy on Debt Management and Financial Stability of "Samruk-Kazyna" JSC), target value of which for the Fund is approved by the Board of Directors of the Fund, and/or based on the covenants established by the creditors on loans attracted. Thereat, the strictest of the set limits indicator is used.
78. Calculation of the quantitative risk appetite for the fund based on coefficient K1.1 on the consolidated basis is performed as follows:
  - 1) An average indicators "Total debt" and "Total capital" are calculated from the audited annual financial statements for the last three years.
  - 2) An average indicator Debt/Capital for the last three years is calculated based on an average arithmetic data.
  - 3) To calculate coefficient of free loan capacity the indicator obtained in item 2 is taken away from standard "Debt/Capital" (of K1.1 coefficient) set by the Board of Directors of the Fund.
  - 4) To calculate free loan capacity the coefficient of free loan capacity obtained in item 3 is multiplied on an average arithmetic indicator of the Capital for the last three years.
  - 5) To obtain the level of risk-appetite a free loan capacity obtained in item 4 is multiplied on 12%.
79. If the covenants on level of debt load set by the creditors are more strictly, so to calculate free loan capacity it is used marginal indicators of the covenants based on the audited financial statement for the last year.
80. To ensure quantitative risk-appetite for the Fund on the consolidated bases the Subsidiaries of the Fund should determine their own risk-appetite observing the following conditions:

- Calculation of the quantitative consolidated risk-appetite for System Company is performed based on K2.1 coefficient (in compliance with the Policy on Debt Management and Financial Stability of “Samruk-Kazyna” JSC), target value for System Companies of which is approved by the Management Board of the Fund or based on the covenants set by the creditors on attracted loans. Thereat, the stricter indicator is used.
- Calculation of the quantitative consolidated risk-appetite for other companies is performed based on K2.1 coefficient (in compliance with the Policy on Debt Management and Financial Stability of “Samruk-Kazyna” JSC), target value of which is approved by the Management Board of the Fund or based on the covenants set by the creditors on attracted loans. Thereat, the stricter indicator is used.
- The higher actual value of K2.1 coefficient, the lower financial stability, the less volume of loan capacity and the less risk the Subsidiary can accept, as well as less risk appetite.
- For Companies at the stage of development (Companies not generating income and at the investment stage), Companies with forecasted negative profitability, as well as for the Companies, which have no long-term liabilities for the considered period, the risk appetite is set at the level of 40% of increase in planned costs.

81. Control is implemented under the common control over the process of determination and assessment of the risks and provided by the Internal Audit Services of the Fund.

82. All outcomes and proposals for risk appetite of the Fund shall be agreed with interested structural units, including responsible for the strategy, planning and corporate financing.

83. Obtained indicator of risk appetite is taken as the basis for further decision making on risk management.

84. The Fund on the consolidated basis (Fund’s Group) ensures risk appetite through taking of un-budgeted losses (i.e. financing of losses if and when they occur at the expense of current cash flow or equity capital) to its balance.

85. To effectively monitor and prevent exceeding the level of risk-appetite in the Group of the Fund it is applied the risk tolerance. Risk tolerance is measured in the same units as the analogous targets.



86. By the decision of the management body it is approved the level of tolerance to key risks based on two main approaches:

- Objective approach. Here it is taken into account the requirements of the laws, regulatory acts of state supervisory bodies, internal documents. In some cases the levels of tolerance to key risks are set in compliance with the regulating documents, as well as normative document of state supervisory bodies. In amending requirements on the part of supervisory bodies, relevant limit level shall be revised.
- Subjective approach. Level of tolerance to key risks shall be determined by conducting inquiry or questionnaire survey among the experts. In this approach the experts based on the experience and knowledge shall determine the threshold level, which is the very level of tolerance to the key risk.

87. Tolerance to Key Performance Indications (hereinafter - KPI), the tolerance from KPI is specified by the owners of KPI in the Development Plans (in the table of factors and risks in column “KPI Threshold Value (tolerance to risk)”.

88. The activity within the levels of tolerance to the key risks ensures the management with a higher level of surety in the fact that the risk appetite will not be in excess. In its turn, it gives the Group of the Fund higher level of surety in achievement of the targets set.

89. After approval of the risk tolerance, it is conducted the monitoring of the levels of risk tolerance. The level of risk tolerance shall be revised in case of occurrence / detection of new risks or in case of occurrence of risk events. Structural unit responsible for the risk management monitors observation of the level of risk tolerance to the key risks on quarter basis as follows:

- Comparison of actual outcomes of deviation of the levels of tolerance against the risks from planned indicators;
- In case of deviation, the structural unit responsible for the risk management, together with the concerned structural units determines the causes and takes additional measures on mitigation of the effect, as a result of which it is aligned the actual indicators of the tolerance level within the set planned corridor for each risk or it will be revised.

## **3.2 Risk Identification**

90. The Fund identifies the potential events in compliance with the Rules of identification and assessment of the risks of “Samruk-Kazyna” JSC, which can affect activity of the Fund’s group and determines whether they present the possibilities or risks. In identifying events it is considered different internal and external factors, which can cause the risks and possibilities, within the organization.
91. Risk identification is the determination of exposure of the Fund on the consolidated and separate basis to effect of the events, the occurrence of which can have a negative effect on achievement of the planned goals and implement the objectives set. The target of the risk identification procedure is the detection of the risks and inclusion of them to the Risk Register.
92. Risk identification and presence of real objective opinion on existing risks is one of the bases of effective risk management, facilitating the achievement of the targets set by the group of the Fund.
93. Risk identification is the tool for determining direction and need in risk management process improvement.
94. Risk identification allows increase in level of surety in achievement of the goals set through review the risks and their basic characteristics, determination of the interaction of the risks with each other, ranging of the level of risks of the Group of the Fund, and the subsidiary individually, increase in awareness on risks and methods of management as well as concentration of attention on the most critical risks.
95. Risk identification is the tool of registration and declaration of possible negative events, which can have a negative effect on achievement of the targets and goals set for the group of the Fund and each of their employee, as well as determination of the direction and need in risk management process improvement.
96. Each employee of the group of the Fund identifies and assesses the risks affecting achievement of the targets and goals set for the group of the Fund and, particularly, for each employee of the Fund on regular basis.
97. CRMS of the Fund’s group is aimed at identification of wide range of risks and consideration of them as a whole that facilitates the reflection of a comprehensive picture of the existing risks and enhances quality of risk analysis.
98. In compliance with main international standards of risk management, the group of the Fund regularly identifies the risks with participation of the employees of all structural units in order to reveal maximum range of risks, better awareness about existing risks and encourage the development of risk culture in the Companies of the Fund’s group.
99. In order to identify risks, it is used the combination of various methods and

tools, such as risk identification based on set goals and objectives, sectorial and international benchmarks, workshops and discussions, interviews, databases of occurred losses and etc. described in more detail in Regulations on risk identification and assessment of “Samruk-Kazyna” JSC.

100. Identified events and risks are systemized in a risk register. **Risk Register** of the Fund is a list of risks faced by the Fund in its operations; it includes various scenarios of possible risk actualization as well. Risk owners, i.e. those units, which deal with a certain risk due to its functional responsibilities, are defined per each risk. Risk register is updated by structural units of the Fund on permanent basis whenever new risks are identified.
101. Risk identification and approval of the Risk register of the Fund and Companies of the Fund’s group should be performed prior to the approval of the Action Plan in order to ensure forehead filing the application for expenses due to implementation of the Action Plan for risk management.
102. The outcomes of risk identification and assessment are submitted to the Management Board and Board of Directors of the Fund, as well as respective Committees as a Risk Report, which includes information on critical risks, action plans for critical risk management.
103. To classify risks in the Group of the Fund it is used the following grouping of the risks by categories:
  - **strategic risk (S)** – risk of generating losses due to changes or errors (drawbacks) identifying and implementing strategy of performance and development, changes in the political environment, regional market, industry recession and other external systemic factors;
  - **financial risks (F)** – include the risks related to structure of capital and reduction of financial profitability. Financial risks include the market risks (fluctuation of interest and exchange rates, fluctuation of prices on natural resources), liquidity risks, credit risks (on corporate counterparties, second-tier banks and on demands in other countries);
  - **legal risk (L)** - risk of generating losses due to incompliance with legislation of the Republic of Kazakhstan in relations with non-residents of the Republic of Kazakhstan – legislations of other countries and internal rules and procedures;
  - **operational risk (O)** - risk of generating losses, industrial accidents due to the drawbacks or errors in internal processes made by employees (including personnel risks), functioning of information systems and technologies (technological risks), industrial safety as well as a result of external events.

### 3.3 Risk Assessment

104. Risk identification and assessment are aimed at provision general vision of the existing risks and their sizes through basic ranging to identify “the weakest” points. This process enables assessment of methods and procedures used in key risks management.
105. Assessment of probability and possible influence of risks allows development of understanding of risks, providing necessary information base for decision-making on the need to manage certain risk as well as about more suitable and economically efficient strategies of risk mitigation.
106. The process of risk assessment is performed in order to segregate the most significant (critical) risks that can negatively affect activities of the Fund’s group and the achievement of strategic goals and objectives. These risks must be submitted for the consideration of the Board of Directors, which must take decisions on the management and control over these risks.
107. In the framework of risk assessment and analysis in the group of the Fund it is used qualitative, quantitative analysis or their combination, which provide a methodological basis for risk management process.
108. Risk assessment includes consideration of sources and reasons of each risk, negative consequences in case of their realization as well as probability of implementation of certain event.
109. Initially, risk assessment is performed on a qualitative basis, and then quantitative assessment may be used for more material risks. Risks that may not go through quantitative assessment and there is no reliable statistic information for modeling and building up of such models is not advisable in terms of expenses shall be assessed only on qualitative basis. Quantitative assessment provides more accurate analytical data and is especially useful in development of risk financing methods.
110. All identified and assessed risks are put onto risk map. **Risk map** is a graphic and textual description of limited number of risks of the Fund placed on rectangular table, on one “axis” of which it is specified the leverage or the risk significance, and on the other one it is specified the probability or frequency of its occurrence. On the map the probability or frequency is pointed on vertical axis, as well as leverage or significance – on horizontal axis. In this case the probability of risk occurrence grows bottom-up in progress on vertical axis, as well as impact of the risk grows from left-to-right on horizontal axis. Risk map allows evaluation of relative significance of each risk (in comparison with other risks), as well as segregate the risks, which are critical and require development of the events on their management.
111. To determine the level of risk effect for the group of the Fund on the

consolidated basis, it is used the consolidated risk appetite of the Fund.

112. The Fund assesses certain risks by means of various quantitative methods such as VAR, gap-analysis, historic simulation, stress-testing and so on. Assessment procedure is regulated by rules of management of interest, currency, operating risks, risk of liquidity loss and other internal regulatory documents of the Fund.

### **3.4 Risk Management**

113. The Fund's group selects the methods of risk response and develops the plan for critical risk management.

114. Risk management is the process of formulating and implementing measures to reduce the negative effects and the probability of losses or gain financial compensation when losses incur associated with the risk of the Fund's group activities. To ensure the effectiveness of the process and reduce costs for its implementation, the Fund's group should focus on risks that may have the most significant impact on its financial condition and achievement of the goals and objectives. The Action Plan for critical risk management of the Fund / Companies are annually considered and approved by the management body of the Fund / Companies and are compulsory for the execution by all structural units.

115. Selection of methods of risk response and development of action plans for critical risk management in order to ensure acceptable level of residual risk includes the following response strategies:

- Mitigation and control over risks – this is an impact on risk using preventive actions and action planning in the event of risk occurrence; it includes change of the risk implementation probability towards decrease and change of reasons or consequences from risk occurrence in order to reduce possible losses;
- tolerance / acceptance of risk implies that its level is acceptable and it is accepted possibility of its manifestation, it is also possible to accept the residual risk after mitigating measures are taken;
- risk financing - transfer/allocation of risk or partial transfer of risk to another party, including use of various tools (contracts, insurance agreements, identification of a structure) in order to share responsibilities and obligations;
- withdrawal (evasion) from risk /avoidance of risk by deciding against continuation or taking measures, which may be a source of risk occurrence.
- Further impact – the strategy providing the impact on consequences of risk event implementation. Usually this strategy is applied in relation to

the risks, characterizing with low level of manageability and / or low probability of implementation. Such kind of strategy may include insurance, risk hedging as well as development of emergency action plans, plans on business continuance.

116. Proposals concerning the strategies, methods and plans on risk management are submitted by the Owners of risks and introduced to the risk management action plan.

117. Structural units of the Fund being the owners of the risks submit the reports on implementation, approved action plans in approved form in compliance with the Regulations of risk identification and assessment on quarter basis.

118. **Mitigation and Control over Risks** implies measures aimed at:

- Losses prevention – reduce probability of occurrence of a certain risk (loss);
- losses control – reduce size of losses in the event of risk occurrence;
- diversification – distribution of risk in order to reduce its potential impact.

119. Methods of mitigation and control over risks imply introduction of procedures and processes in the Fund aimed at decrease in probability of losses.

120. Methods of mitigation and control over financial risks of the Fund and the Fund's group include:

- For credit risks - setting limits on level of acceptable credit risk of corporate counterparties, second-tier banks, as well as setting the limits on the size of demands in other countries. The limits on credit risks are regulated by the Regulation of credit risk management on corporate counterparties, Rules of setting and monitoring of the limits of corporate counterparties, Rules of setting limits on direct and contingent liabilities on counterparties - banks, Rules of setting country limits, Internal credit policy, Guarantee regulations and other document approved in their development.
- For market risks – control and calculation of the level of possible losses, application of the hedging instruments and diversification. Assessment of the market risks are regulated by the Rules of currency risk management, Rules of interest risk management.
- For liquidity risks – the setting limits on the degree of debt load of the Fund and the Companies of the Fund's group. The limits on the degree of debt load and financial stability are regulated by the Policy on Debt Management and Financial Stability of the Fund.

- Risk of loss as a result of drawbacks or errors in the internal processes made by employees (including personnel risks), functioning of information systems and technologies (technological risks), as well as a result of external events.
121. The methods of mitigation and control over legal risks of the Fund are the monitoring of amendments in the legislation by authorized legal service of the Fund, which is together with interested structural subdivisions assesses the influence of amendments on the activities of the Fund and develops measures needed for these amendments to be endorsed. Any document regulating internal procedures of the Fund or in compliance with which it is incurred the liabilities of the Fund, is subject to due diligence by authorized legal service of the Fund.
122. Mitigation and control over strategic risk of the Fund is executed through monitoring of execution of approved short- and long-term plans and strategies, following the results of which it is taken the corrective measures, including for reflecting amendments in internal and external environment.
123. Mitigation and control over operational risks of the Fund is executed through analysis of established business-processes and development of appropriate action plans on their improvement, introduction of the internal control system. For operation risks on industry the mitigation and control over risks is implemented through observation of the occupational safety and health rules, rules on observation of ecological safety, rules of field experience.
124. If applied methods on mitigation and control over risks are related to the expenses, and these expenses are material, the following analysis is performed:
- how necessary these measures are and whether they can be reduced by tolerance and/or financing (transfer) of risks;
  - what is the alternative cost of expenses on measures versus cost of tolerance / transfer of risks.
125. **Risk tolerance:** the risk-appetite of the Fund is calculated in identifying and assessing key risks.
126. Risk-appetite of the Fund is financed at the expense of current income of the Fund and retained income of previous years and has no direct allocation to unbudgeted losses (i.e. losses caused by risks indirectly decrease profit of the Fund).
127. Distribution of risk-appetite of the Fund by risks is based on analysis of impact of each risk and the cost of risk transfer, i.e. the more expensive cost of risk transfer, the higher share of tolerance for such risk at the

expense of own means of the Fund.

128. **Financing (transfer) of risks** includes the following tools:

- insurance (for pure risks – risks, the occurrence of which lead to losses only and never income);
- hedging (for speculative risks – risks, the realization of which lead both to loss and income);
- risk transfer by contract (transfer of risk responsibility to counterpart for additional remuneration or appropriate increase of contract cost);
- conditional credit line – access to bank financing on agreed terms when certain events occur;
- other alternative methods of risk financing.

129. The key difference of these tools is the “fee” for risk, which requires efficient use of this tool in order to reduce expenses of the Fund.

130. **Withdrawal from risk /avoidance of risk** includes the actions aimed at termination or refusal from implementation of the operations which potentially lead to consequences negative for the Fund.

131. The selection of the most suitable option is implemented with regard to the balance of costs related to certain method, advantages, which are caused by its application, and other direct and indirect costs.

132. Application of relevant measures and methods of risk response is described in the action plan on critical risks management. The plan includes the list of necessary measures and responsible persons.

### 3.5 Control Activities

133. After identifying list of key risks and risk management activities, the key business processes subject to these risks are identified. Step-by-step analysis of business processes is conducted in order to determine need and feasibility of inclusion of relevant control actions. Besides, it is conducted the analysis of the planned activities on risk management and it is determined the control actions and (or) indicators needed to ensure effective performance of such activities (often the control actions themselves are the risk management techniques).

134. Control actions – these are the policies and procedures that help to ensure the implementation of risk management measures. Control actions are included in the business processes at all levels of the Companies, entering the Fund’s Group. Control activities include a wide range of measures, such as an endorsement, authorization, verification, coordination, analysis of operations, security of assets and assignment of responsibilities.

135. Responsibility for analyzing of business processes and determining need



and feasibility of introducing of additional control actions is assumed by the owners of the risks – the heads of the relevant structural units of the Fund.

136. Main outcomes and findings of risk management process in the Fund are stated in regular reporting on risks and response measures.
137. Based on regular risk reporting, the Fund controls current risks and execution of risk response measures.
138. The employees and officials of the Fund shall have the right to declare confidentially on violation or incorrect execution of risk management procedures or internal control or other policies, as well as cases of fraud, violations of the law to the Audit Committee of the Fund or to the Board of Directors of the Fund.

### **3.6 Information Share and Monitoring**

139. The structure of the risk management in the Fund and Companies ensures adequate information flow – on vertical and on horizontal. Thereat, the information obtained bottom-upwards provides the Board of Directors and the Management Board of the Fund with data: on current activity; on risks accepted in the course of activity, their evaluation, control, methods of response and level of their management. The information sent from top to bottom provides communication of the targets, strategies and tasks set by approval of internal documents, regulations and instructions. Communication of the information on horizontal assumes interaction of structural units within the Fund and interaction of structural units responsible for the risk management within the group of the Fund.
140. The targets of the process of regular risk information share within the group of the Fund consist of:
  - Assignment of personal responsibility for any significant risks management to the relevant managers (risk owners);
  - Timely communication of the information on any and all risks, the management of which should be implemented at relevant level of the group of the Fund, to the Board of Directors of the Fund;
  - Timely communication of the information on their personal responsibility for implementation of certain events (including expected results, terms, resources and etc.) to the executor of the events on risk management;
  - Ensure effective information share in course of cross functional risk management of the group of the Fund.
141. In implementing each component of risk management system it is provided the information share between the structural units of the Fund. All

materials and documents prepared under the risk management system are coordinated with the concerned units, which make their comments and suggestions. The followings are submitted for the consideration of the Board of Directors at least once a year: proposals for risk-appetite of the Fund, risk register, risk map and action plan for risk management.

142. Information and communication in the group of the Fund provides participants of risk management process with reliable and timely information on risks, raises awareness on risks, methods and tools of risk response. Relevant information is identified, recorded and submitted in a form and timing to enable employees efficiently executing their functions.
143. Structural units of the Fund shall keep monitoring and inform subdivision responsible for the risk management on losses incurred in compliance with the Rules of accounting and analysis of the risk realized. The causes of loss are analyzed in each such case and the measures are taken to prevent such incidents in future.
144. Subsidiaries of the Fund shall submit information on risks to the Fund for consolidation and informing Management Board and Board of Directors of the Fund as it is described in approved regulatory documents.
145. The Fund communicates information on risk management to the partners, lenders, external auditors, rating agencies and other stakeholders (including as a part of annual report) ensuring the compliance of the level of specification of disclosed information with the nature and scope of the Fund's operations.
146. The group of the Fund monitors the efficiency of risk management system (including existing methods of risk management and control) and, if necessary, the modification and improvement of the system. Monitoring is performed regularly at least once a year.
147. The fund monitors and controls over its risks in compliance with key principles, policies, rules and regulations established by the Board of Directors of the Fund.
148. One of the main tools of risk and risk factors monitoring is the key risk indicators (KRI). KRI are the indicators providing the organization with early signal of change in risk factors in different sphere of activity. KRI allow detection of potential risks and taking forehead measures to avoid the risk events or mitigation of their effect on activity of the organization.
149. Development of KRI shall be implemented, as minimum, for the risks with peculiar assessment of effect "four" and more that allows all critical risks management.
150. In order to enhance effectiveness of the risk monitoring in the group of the Fund it is applied KRI using two approaches:

- Determination of KRI based on risk factors – it is determined the risk factors on each key risk. Risk factors can be both external and internal in relation to the Fund. Risk factors are analyzed subject to the measurability. Relevant units of measures and frequency of indicators measuring, which can be expressed as coefficients, percent, figures and etc, are determined for each risk factor.
- Determination of KRI based on preventing events on risk management – structural unit responsible for the risk management together with the concerned structural units of the Fund and/or subsidiaries determines the unit of measure of the level of implementation for each preventive event on risk management, frequency of indicator measuring and source of information for calculation. KRI, developed on the basis of preventive events can be expressed in percent or in actual implementation of preventive events.

151. Determination of threshold levels of KRI is implemented using the objective and subjective approaches:

- Objective approach – is based on existing Laws of the Republic of Kazakhstan, regulatory acts of state supervisory bodies and internal requirements of the Fund and its subsidiaries;
- Subjective approach – is based on inquiry and questionnaire survey of sectorial directorates or other key employees of the Fund's group, who are the experts in relevant sphere. The experts based on the experience and knowledge determine the threshold level in relation to KRI.

152. Developed KRI are reflected in the Risk Register and approved together with the submission of the Risk Register, Risk Map and Risk Appetite for the next year. The information on KRI shall contain:

- Name of KRI;
- Calculating formula;
- Source of information;
- Unit and frequency of measure;
- Direction of KRI, signaling the possible realization of the risk;
- Threshold level.

153. Monitoring of Risk Management Corporate System is an important part of entire business-process and assesses the availability of such system and

implementation of its components. Monitoring is performed through ongoing tracking of execution of policies, procedures and measures of risk management system and special-purpose inspections. Scope and frequency of special-purpose inspections depend on assessment of risks and efficiency of ongoing monitoring. Deficiencies of risk management system must be communicated to the Board of Directors and Management Board of the Fund.

154. After the approval of the action plans for risk management by the Board of Directors of the Fund, a structural unit responsible for the risk management controls over the implementation of measures in compliance with the terms of the execution of each activity.
155. Minimum requirement to the content of the risk report are provided in Annex #1 of present Policy. Terms of submission of consolidated risk reports to the Management Board of the Fund and Board of Directors of the Fund are provide in Annex #3 of present Policy.
156. The content and terms of submission of information on risks by the Subsidiaries to the Fund are provided in Annex #1 and Annex #3, the results of information processing obtained from Subsidiaries, shall be used in preparing quarter risk reports of the Fund on the consolidated basis to the Board of Directors of the Fund.
157. Delegation of responsibilities and duties between the Internal Audit Service and the executive body in the structure of the Fund is based on principles of corporate governance for the purpose of monitoring and control over key risks related with activities of the Fund.
158. Activity of the Management Board and structural subdivisions of the Fund is inspected by Internal Audit Service of the Fund.
159. Internal audit of risk management system and check-up of execution of plans on mitigation of deficiencies in the risk management system and internal control system is performed in compliance with the Internal Audit Plan approved by the Board of Directors of the Fund. Internal audit is performed in compliance with regulatory documents ordering the process of internal audit.

#### **4. Requirements to the confidentiality of risk information**

160. Decision of access of any officials of the Companies of the Fund's group to detailed information on description, assessment or Action plans on risk management shall be taken by the Owner of risk.
161. The Members of the Board of Directors of the Fund, Members of the Management Board of the Fund, Members of the Credit Committee and employees of structural unit responsible for risk management have unlimited access to any information on the risks of the Fund.

162. External person, obtaining the access to the information on risks and on Action Plans on risk management, can be offered the access only upon signing the agreement on non-disclosure of confidential information.
163. Following documents: Risk management policy, Rules of risk identification and assessment as well as Regulation of accounting and analysis of realized risks are open document and available for acquaintance and use of general public.
164. Rules on certain kinds of risks, including the rules on certain kinds of financial risks (Liquidity loss risk, Rules for currency risk management, Rules for interest risk management), as well as reports on them (including the report on financial stability), are distributed exclusively in regime “For official use only” (hereinafter - FOUO).

## **5. Criteria of RMCS performance**

165. Performance of RMCS can be assessed based on the following quantitative and qualitative criteria:
- Risk management is implemented on regular basis; the process of risk management is connected with the processes of strategic and operational planning budgeting and staff motivation;
  - Information generated by RMCS, is actively used and considered in taking of managerial decisions, including concerning the prioritization of the tasks and effective resource distribution;
  - In long-term perspective the RMCS acts not as the subject of resource consumption, but as the tool of their more economic use;
  - The efficiency of RMCS of the Fund and the group of the Fund is certified by the results of independents audits conducted by internal and/or external auditors or independent experts, is recognized by the Members of the Board of Directors of the Fund, CEO and chiefs of the structural units, rating agencies, investors, creditors, staff of the Fund, state bodies, media.
166. Assessment of RMCS of the Fund is implemented in compliance with the Methodology of RMCS performance evaluation recommended by IAS of the Fund.

## **Annex 1. Structure and requirements to the content of the risk report**

1. Risk Map and Register:
  - a) Risk Map for forecasted year, amendments in the risk map for reporting period with representing of detailed information on amendments in the dynamics of the key risks.
  - b) Individual breaking out the critical risks specifying the causes of occurrence, action plan on mitigation of the probability / effect, qualitative / quantitative assessment of the effect.
  - c) Risk Register for forecasted year, the risk register with adjustments on quarter basis, if necessary.
  - d) Action Plan on risk management – once a year, implemented amendments to the plan on risk management – on quarter basis, if necessary.
  - e) Implementation of the action plan on risk management – on quarter basis with assessment of effectiveness of the measures taken for the reporting period.
  - f) New detected risks (threats), specifying the causes of occurrence, action plan on mitigation of the probability / effect, qualitative / quantitative assessment of the effect.
2. Risk appetite for forecasted year (once a year), adjusted risk appetite on quarter basis, if necessary.
3. KRI on key risks and their dynamics, including KRI, which can have significant effect on the risk portfolio.
4. Report on financial risks:
  - a) Financial risks in compliance with Rules for management of certain kinds of financial risks (currency, interest, country, credit risk on corporate counterparties, and credit risk on bank - counterparties).
  - b) Information on observation / violation of the limits on risks, including the limits on bank - counterparties.
  - c) Report on financial stability, including information of debt load and implementation of covenant liabilities in compliance with the Policy on Debt Management and Financial Stability of “Samruk-Kazyna” JSC.
5. Report on critical operational risks with results of their qualitative / quantitative assessment.
6. Report on risks of investment projects, including the realized risks of investment projects.
7. Information on realized risks (on quarter basis) with obligatory specification of the loss (in quantitative, if its calculation is possible, and qualitative assessment) and measures taken on response to these risks with assessment of the effectiveness of the events taken. Benchmarking of the losses and realized risks for the period (on

quarter basis) with approved risk appetite. This section shall also contain the information on industrial accidents, incidents and catastrophes (including information on amount of injured, including the amount of fatal cases).

8. Information on significant deviations from the set processes of risk management, if necessary.
9. Events conducted in order to improve risk management system in compliance with recommendations of IAS (if any).
10. Information on observation of regulating requirements in sphere of risk management;
11. Report on insurance in compliance with the Policy of organization of insurance protection in “Samruk-Kazyna” JSC and national development institutes, national companies and other legal entities, at least fifty percent of voting shares (equity interest) of which are directly or indirectly owned by “Samruk-Kazyna” JSC.
12. Application of the executive body certifying efficiency / inefficiency of the risk management system.

## **Annex 2. List of minimum requirements to the content of the Risk Management Policy of the Fund's Subsidiaries.**

Risk Management Policy of the Subsidiary organizations of the Fund shall contain following, as minimum:

- Aims and goals of the risk management system (hereinafter - RMS) of the Subsidiary organization;
- Basic notions used in the document;
- Organizational structure and level of subordination of RMS;
  - Role and responsibility of the Board of Directors / Supervisory Board in the risk management (by analogy of item 40 of present Policy);
  - Role and responsibility of the executive body in the risk management;
  - Role of structural unit (person) in the risk management and other structural units;
  - Rules of submission of the risk reports (in compliance with Annexes #1 and 3 hereto);
- Interconnection of the risk management process with the process of strategic planning, operation activity, budgeting, investment (both credit, if applicable) activity and staff motivation;
- RMS functioning process:
  - Determination and calculation of the risk appetite and risk tolerance (in compliance with item 80, 86 and 87 of present Policy);
  - Determination and calculation of KRI (in compliance with item 148-152);
  - Risk identification and assessment;
  - Risk management determining approaches to the risk management, kinds of action plans on risk management;
  - Control actions, including description of mechanisms, ensuring the implementation of the risk management methods implementation, outcomes and terms of control procedures implementation;
  - Information share and monitoring, including minimum requirements to the content and term of the risk report submission (in compliance with Annex #1 and 3 of present Policy), submitted for consideration of the Board of Directors / Supervisory Board.
- Criteria of risk management system effectiveness;
- Requirements to the confidentiality of information on risks with establishing minimum list of reports referred to the confidential information (in compliance with item 160-164).



### Annex 3. Terms of submission of the risk reports

Following reports on risk management are obligatory for the Subsidiaries:

- Form of reporting on each risk (are submitted in compliance with the approved managerial statement package);
- Report on financial stability (is submitted in compliance with the Policy on Debt Management and Financial Stability of “Samruk-Kazyna” JSC (is included in the report on financial risks);
- Risk report approved by the management body of the Subsidiary.

Terms of submission of the risk reporting forms (in compliance with the provided formed) and risk reports by the Subsidiaries:

<b>Name of the document</b>	<b>Users of the document</b>	<b>Terms of submission</b>
MIS Reporting Form (including) the risk reporting forms	Risk Management Department of the Fund	For Q1 and Q3 – the reporting date + 35 calendar days, for Q2 and Q4 – the reporting date + 45 calendar days
Risk report, including the Report on financial risks	Board of Directors of the Subsidiaries / Supervisory Board of the Subsidiaries	No later than 25 date of the second month following the reporting quarter, in compliance with the work plan of the Board of Directors

Terms of submission of the risk report on consolidated basis by the Risk Management Department of the Fund:

<b>Name of the document</b>	<b>Users of the document</b>	<b>Terms of submission</b>
Report on financial risks (consolidated)	Credit Committee of the Fund	For Q1 and Q3 – the reporting date + 45 days, for Q2 and Q4 – no later 25 day of the second month following the reporting quarter
Risk report, including the Report on financial risks (consolidated)	Management Board of the Fund	No later than 25 date of the second month following the reporting quarter
Risk report + Report on financial risks (consolidated)	Board of Directors of the Fund	No later than 10 days prior to the meeting of the Board of Directors in compliance with the work plan of the Board of Directors

Supplements to the Policy:

1. Risk appetite cannot be higher than the indicators of the covenants, they should be lower;
2. /
3. /

