

Principles of Environmental and Social Risk Management in lending at KMF Bank

**Almaty city,
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Chapter 1. General provisions

1. These Principles for Managing Environmental and Social Risks in Lending at KMF Bank JSC (the “Document”) have been developed in accordance with the legislation of the Republic of Kazakhstan (the “RK”), as well as the requirements of international standards, principles and leading practices in the field of responsible financing and environmental and social (hereinafter referred to as “E&S”) risk management.
2. The following terms and definitions are used in this Document:
 - 1) Bank – KMF Bank JSC;
 - 2) Borrower – an individual or legal entity intending to enter into or having entered into a loan (credit) agreement;
 - 3) environmental risks – risks posing a threat of pollution or degradation of the natural environment, including land, water, air, and natural habitats of animals and plants, as a result of accidental or intentional actions;
 - 4) ESG (Environmental, Social, Governance) - a set of environmental, social and governance factors used to assess the sustainability, responsibility and long-term performance of the Bank;
 - 5) ESG risks – risks related to environmental protection, social issues and corporate governance, the occurrence of which may have a significant impact on both the quantitative aspects of a company’s operations (in the form of additional costs associated with the transition to a low-carbon economy, asset insurance, asset impairment/disposal and regulatory fines) and qualitative aspects (including a decrease in the company’s attractiveness).
 - 6) This Document is publicly available and is published on the Bank’s website at www.kmf.kz.

Chapter 2. Goals and objectives

3. This Document is aimed at integrating E&S factors into the Bank’s lending processes in order to improve the quality of credit risk management, ensure the sustainability of the loan portfolio, and contribute to the sustainable development of the economy of the Republic of Kazakhstan.
4. The purpose of this Document is to establish a systematic approach to the identification, assessment and management of E&S risks at all stages of the lending process — from the preliminary review of an application to the full performance by the Borrower of its obligations. The integration of E&S factors is intended to ensure that non-financial risks are considered where such risks may affect the Borrower’s solvency, the value of collateral, the Bank’s business reputation, and its long-term financial sustainability.
5. To achieve this objective, the Bank sets the following tasks: implementation of E&S assessment procedures for Borrowers and financed projects; development of criteria and approaches for ESG screening; establishment of restrictions or enhanced requirements for certain types of activities; integration of E&S factors into credit analysis, decision-making and monitoring processes; development of an internal reporting system on sustainable finance matters; and increasing the level of awareness among the Bank’s employees in the area of ESG risk management.
6. In addressing these objectives, the Bank adheres to the following principles:
 - 1) responsibility – considering the long-term consequences of the activities of its Borrowers;
 - 2) transparency – openness in disclosing information on environmental and social impacts;
 - 3) integration – the phased incorporation of environmental and social factors into all lending decisions.
7. The implementation of this Document is aimed at minimizing potential environmental risks associated with lending, strengthening the Bank’s business reputation, ensuring compliance with the legislation of the Republic of Kazakhstan and the recommendations of the regulator, as well as gradually expanding the practice of responsible and sustainable financing.
8. In order to systematically apply the above approaches and ensure consistency in decision-making, this Document establishes a procedure for identifying, assessing and taking ESG factors into account when reviewing credit applications.

Chapter 3. E&S Risk Analysis Process

9. To manage social and environmental risks, the Bank assesses its potential Borrowers, taking into account E&S risks.

10. If material ESG risks are identified, the Bank may:

- request that the Borrower implement additional risk mitigation measures;
- include relevant obligations in the loan agreement;
- restrict or decline financing.

11. The stages of risk assessment depending on the loan amount and type of lending activity are as follows:

1) Assessment of the Borrower's business activity.

At this stage, the business activity of the potential Borrower is assessed to determine whether it falls within the list of unacceptable business activities. If the Borrower's business activity falls within this list, further consideration of the application is discontinued and financing is not provided.

2) Automated assessment of the business activity for subsequent risk-level assignment.

As part of the preliminary application review, the Bank performs an automated assessment of the potential Borrower's business activity in order to determine the level of inherent E&S and credit risk. The assessment is performed based on internal classifiers and established risk-segmentation criteria, which provide for the classification of business activities into risk levels (low, medium, high).

The results of the automated assessment are used to determine the further application review procedure and whether an additional assessment is required.

3) risk-level assignment

Based on the results of the automated assessment of the potential Borrower's business activity, as well as considering the requested loan amount, the Bank's system automatically assigns the relevant risk level. The risk level is determined based on the risk assessment matrix approved by the Bank, which provides for the comprehensive consideration of industry-specific, financial and other relevant factors.

The risk assessment matrix establishes the criteria for assigning a transaction to a specific risk category (low, medium, high) and ensures a consistent approach to the classification of applications. The assigned risk level is used to determine the further application review procedure, the scope and depth of analysis, the list of required documents, as well as the level of the authorized body responsible for making the decision on the provision of financing.

For a low risk level, the Borrower's activities have minimal or no harmful environmental and/or social impacts. No further analysis is required.

In the case of a medium risk level, the Borrower's activities may lead to environmental impacts, and few, if any, of these are irreversible. In accordance with the risk assessment matrix, the borrower is surveyed by completing a questionnaire. Based on the results of the survey, the decision to grant a loan may be submitted to the authorized body for consideration.

In cases of high risk, the borrower's activities may have a significant adverse impact on the environment or on human health and safety. In accordance with the risk assessment matrix, the borrower is surveyed, and based on the results, an action plan is developed that includes recommended risk mitigation measures and additional requirements for the borrower. The action plan is an integral part of the financial analysis and is considered when preparing the final decision on the bank loan application. The decision to approve a bank loan with the assigned risk level is submitted to the authorized body for consideration.

4) Reporting.

Reporting is prepared and maintained based on the results of the assessment and monitoring of E&S factors in the Bank's lending activities. Such reporting is used for internal control, analysis of the loan portfolio, and informing the Bank's authorized bodies.

Виды деятельности, запрещенные природоохранным законодательством РК:

- 1) Economic and other activities that conflict with the objectives of nature reserves, disrupt the natural course of ecological processes, or pose a threat of harmful impact on natural complexes and features within the territory of state nature reserves.
- 2) Any activity that poses a threat of harmful impact on protected natural complexes and other features within the territory of state national parks.
- 3) The use of toxic, non-degradable chemical substances that have a negative impact on human health and the environment.
- 4) Activities by economic or other entities involving the use of radioactive materials and toxic chemicals without the required licenses (permits).
- 5) The import and transit of biological organisms and their waste products without a quarantine certificate.
- 6) The design, construction, and renovation of enterprises, workshops, and production lines; the development and implementation of new technology; the reconstruction, design, and operation of land, water, and air transportation vehicles, as well as entertainment facilities, in violation of standards for maximum permissible levels of industrial and other sources of noise, vibration, electromagnetic fields, and other harmful physical effects on human health and the environment.
- 7) Discharge of waste and sewage into public water bodies and watercourses, as well as into underground aquifers.
- 8) The disposal of toxic waste, including waste from the nuclear industry, in and near cities and other populated areas, in forests, forest parks, resorts, health resorts, recreational areas, and other places where a danger to public health and the environment may be created.
- 9) Other activities aimed at the illegal (illegible) use of natural resources that have a detrimental effect on them and affect their existence.

List of activities prohibited by the Bank's internal policy:

- 1) production or activities involving harmful or exploitative forms of forced labor¹/ any forms of child labor²;
- 2) production or trade in any products, or activities, deemed illegal under the laws of the host country or applicable regulations, or under international conventions and treaties;
- 3) production and/or trade in weapons and ammunition;
- 4) production and/or trade in alcoholic beverages in pure form (where trade exclusively in alcoholic beverages constitutes the principal business activity), except for beer and wine;
- 5) agricultural activities that contribute to the production, marketing, or consumption of tobacco products³;
- 6) gambling, casinos, and similar businesses⁴;
- 7) trade in wild animals or wildlife products regulated under the CITES Convention. (Convention on International Trade in Endangered Species of Wild Fauna and Flora);
- 8) production or trade in radioactive materials;
- 9) production or trade in unbound asbestos fibers⁵;
- 10) manufacture of logging equipment;
- 11) production or trade in timber and other products originating from non-sustainably managed forests;
- 12) production or trade in products containing polychlorinated biphenyls⁶;
- 13) production or trade in pharmaceutical products subject to international phase-out or prohibition⁷;
- 14) production or trade in pesticides/herbicides subject to international phase-out or prohibition;
- 15) production or trade in ozone-depleting substances subject to international phase-out⁸;
- 16) production, trade, storage, or transportation of significant quantities of hazardous chemical compounds, or the use of hazardous chemical compounds on an industrial scale⁹;
- 17) driftnet fishing in marine waters using nets longer than 2.5 km;
- 18) any production or activity that would result in encroachment upon lands owned by indigenous peoples pursuant to a court decision, without the written consent of such peoples;
- 19) the production of timber and other forest products, or trade in them, if such products originate from forests where environmentally sustainable forest management is not ensured;
- 20) the collection of rare plant species in a nature reserve;

¹ Forced labor means work or services performed involuntarily, under the threat of any punishment.

² Child labor means the use of labor by persons under the age of eighteen, except in cases expressly permitted by the Labor Code of the Republic of Kazakhstan (including Articles 31–32 of the Labor Code of the Republic of Kazakhstan). This type of labor constitutes economic exploitation or may interfere with a child's education, or is harmful to the child's health, or affects their physical, mental, spiritual, moral, and social development.

³ This type of activity is prohibited only if the client is significantly involved in such activity, i.e., the activity is not considered additional to the client's primary activity.

⁴ This type of activity is prohibited only if the client is significantly involved in such activity, i.e., the activity is not considered additional to the client's primary activity.

⁵ This clause does not apply to the purchase and use of bonded asbestos-cement sheet material in which the asbestos content is less than 20%.

⁶ PCBs: Polychlorinated biphenyls (PCBs) are a group of highly toxic chemicals. PCBs can be found in electrical transformers, capacitors, and switches from 1950 to 1985.

⁷ A list of pharmaceutical products subject to elimination or bans can be found in the "Consolidated List of Products Whose Consumption and/or Sale Have Been Banned, Withdrawn, Severely Restricted or Not Approved by Governments", Issue 14 (Medicines), UN, 2009.

⁸ Ozone-Depleting Substances (ODSs): Chemical compounds that react with and deplete stratospheric ozone, resulting in the widely publicized "ozone holes". The Montreal Protocol to the Vienna Convention for the Protection of the Ozone Layer (1985), with all amendments and adjustments, contains a list of chemicals (aerosols, refrigerants, blowing agents, solvents, fire retardants) that deplete the ozone layer (ODS), their target reductions, and phase-out dates. A list of ozone-depleting substances prohibited for import into the Customs Union can be found at <http://www.tsouz.ru/db/entr/Documents/zapret11.pdf> Legal entities and individual entrepreneurs consuming ozone-depleting substances are subject to registration in accordance with the procedure established by the authorized body in the field of environmental protection.

⁹ A list of hazardous chemicals can be found in EC Directive EEC/2455/92 (<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31992R2455&from=EN>) "On the Export and Import of Certain Hazardous Chemicals: "Consolidated List of Products Whose Consumption and/or Sale Have Been Banned, Withdrawn, Severely Restricted or Not Approved by Governments", Issue 13 (Chemicals), UN, 2009; and the Rotterdam and Stockholm Conventions.

- 21) the manufacture of luxury goods (including jewelry);
- 22) activities that will result in the loss of forest land due to livestock grazing, the construction or maintenance of roads, the settlement of forest land, or the construction of dams or other structures for water resource management;
- 23) activities that may have a significant adverse impact on the environment, including any of the following activities (provided they may have a significant adverse impact on the environment):
 - a) river basin development programs;
 - b) irrigation or water resource management projects (including dams and reservoirs);
 - c) agricultural land planning;
 - d) land reclamation projects;
 - e) large-scale mechanization of agriculture;
 - f) reclamation of new lands;
 - g) resettlement projects;
 - h) projects for the construction or development of roads, power plants, industrial facilities, or projects for the supply of drinking water and the construction of sewage systems, except for small-scale projects;
 - i) destruction of areas of high conservation value.
- 24) activities that may contribute to the violation of internationally recognized employee rights;
- 25) transboundary trade in waste, except for waste that complies with the Basel Convention and applicable legislation;
- 26) construction of new and expansion of existing coal-fired thermal power plants;
- 27) pornography and/or prostitution;
- 28) racist and/or anti-democratic media;
- 29) enterprises engaged in the production, processing, or distribution of illegal drugs.