

Approved
by minutes to of the meeting of the Board of Directors
of JSC Halyk Bank by absent voting
No. 28 dated 26 june 2023

Halyk Bank JSC Responsible Finance Policy

Almaty
2023

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1. Terms and Definitions

Term	Definition
Bank	Halyk Bank JSC
Customer	A legal entity, corporate, medium and small business customer applying to the Bank for a loan product and/or acting as a borrower (under loan, credit line, overdraft agreement, etc.), principal (provision of guarantee), applicant/ordering party (opening of uncovered letter of credit), bill issuer (purchase of bills of a third party), debtor (purchase of claims), issuer (purchase of bonds, CLN, etc.), lessee (leasing operations), customer and debtor (under financing transactions against assignment of money claims (factoring), etc., depending on the type, form and structure of the credit transaction.
Carbon footprint	The amount of greenhouse gas emissions generated by a particular human or business activity.
ES	Environmental and social aspects.
ES risks	Risks related to environmental protection and community issues the occurrence whereof may have a significant impact on both quantitative characteristics of the company's performance (in the form of additional costs for transition to a low-carbon economy, asset insurance, asset retirement, and regulatory fines) and qualitative characteristics (reduction of the company's attractiveness).
ESG	Environmental, Social and Corporate Governance
ESG risks	Risks associated with environmental protection, community issues, and corporate governance, the occurrence whereof may have a significant impact on both quantitative (in the form of additional costs for transition to a low-carbon economy, asset insurance, asset disposal, and regulatory fines), and qualitative (reduction of the company's attractiveness) characteristics of the company's operations.
ESG segmentation	Industry-specific assessment of ESG risk exposure, taking into account country specifics, the potential impact of new requirements (e.g., regulatory) and market preferences, due to the impact of the global ESG agenda on Kazakh companies based on risk factor analysis.
ESG score	Assessment of the Customer's ESG risk exposure, taking into account the minimization measures implemented by the Customer and the Customer's adaptation initiatives in ESG.
ESG factors	Environmental, social and management events that may lead to risk occurrence.

2. Goals and Objectives of the Policy

The Bank's special role and position as the largest and most significant financial institution in Kazakhstan's economy, and its global desire to cope with the effects of climate change and large-scale misuse of natural resources, have prompted the Bank to act proactively by implementing responsible financing principles in its operations.

Following the principles of responsible finance, the Bank integrates sustainability goals into its business strategy through active management of the social and environmental risks associated with its operations. At the same time:

- By reducing its own risks, the Bank contributes to other external positive changes while supporting Customers who seek continuous improvement in environmental and social risk management practices.

- The Bank seeks to avoid entering into business commitments that do not comply with the requirements of this Halyk Bank JSC Responsible Finance Policy (the "Policy"). When extending loans to Customers, the Bank strives to consider all factors and risks associated with social and environmental impacts, thereby contributing to the promotion of sustainability principles in the financial sector.

This Policy has been developed to facilitate reasoned decisions consistent with the principles of responsible finance. The Bank shall apply this Policy to all new business commitments.

In implementing the Policy, the Bank shall analyze all emerging risk factors at the country or sector level, and specific issues that may affect society and the environment.

3. ESG Risk Analysis Process

To implement this Policy, the Bank has developed and introduced an ESG risk of lending to Customers. The Bank strives not to enter into business relationship that is inconsistent with the Bank's principles of responsible financing.

To manage social and environmental risks, the Bank conducts ESG scoring of its potential borrowers. Depending on the amount and purpose of the loan, the Bank conducts scoring using the tools listed below.

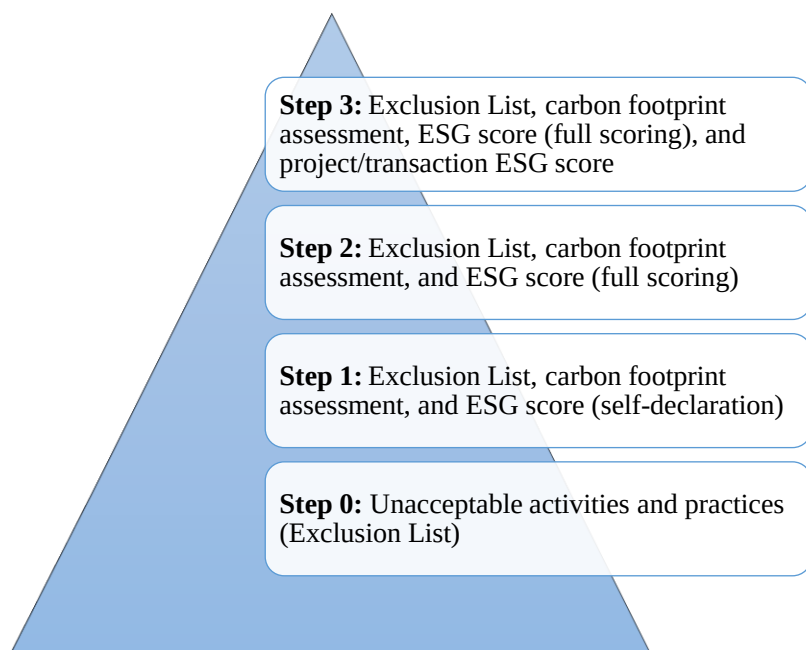


Figure 1 ESG risk assessment tools

4. Unacceptable Activities and Practices (Exclusion List)

The Bank complies with human rights, and recognizes climate change as one of the greatest global challenges of our time. One of the tools of responsible finance is the verification of the Customer's activities and business practices against the exclusion list.

Listed below are activities that conflict with the Bank's sustainable development policy approaches:

- production of or trade in any product/activity considered illegal under the laws or regulations of the host country or international conventions and agreements;
- trade in wild animals or wildlife products regulated under CITES;
- production or trade in any type of weapons prohibited by the legislation of the Republic of Kazakhstan or international treaties ratified by the Republic of Kazakhstan;
- fishing by poaching, or without complying with regulatory requirements;
- gambling activities established by the legislation of the Republic of Kazakhstan;
- human cloning for reproductive purposes;
- pornography/prostitution;
- investments in new projects that do not meet the requirements of the Environmental Code of the Republic of Kazakhstan;
- coal mining, if mine-type fields are not equipped with a methane utilization system, or supply the market with high-ash (unenriched) coal (according to standard exchange positions/characteristics) (to be introduced from 01.01.2025);
- oil and gas production, if the fields have a share of routine flaring of associated petroleum gas in excess of the thresholds established by the legislation of the Republic of Kazakhstan;
- slavery, forced and child labor;
- other discriminatory practices at the workplace.

5. Carbon Footprint Assessment

When processing a loan application for a different transaction amount, the Bank may apply 3 levels of carbon footprint accounting:

- Level 3 – Industry ratios, or
- Level 2 – Individual ratios, or
- Level 1 – Questionnaire (Draft)

To select the proper level, the Bank needs to determine the type of financing, and the availability and accessibility of non-financial customer data.

Based on the selected level, the Bank applies the appropriate methods to account for carbon footprint of the transaction.

6. Customer ESG Scoring

Customer ESG scoring is aimed to confirm the compliance of the Customer's business with the Bank's ESG principles.

7. Self-declaration

Within the self-declaration, the Customer accepts the statements listed in the self-declaration, thereby confirming that it properly manages the environmental and social risks inherent in its operations.

As a result of the self-declaration, the Customer is assigned a medium, high, or critical ESG score.

Self-declaration results	
Low risk	Doesn't work in ES sensitive sector/industry.
Medium risk	Did not accept 1 to 3 statements

High risk	The Customer accepted at least 1 statement, and did not accept more than 3 statements
Critical risk	Hasn't accepted any of the statements, and there is no certainty that the Customer will be able to manage the substantial ES risks.

Table 1. Self-declaration results

8. Full-fledged ESG Scoring of the Customer

The full-fledged scoring includes the following:

- 1) ESG segmentation.
- 2) assessment of the potential industry risk minimization level and generation of the Customer's target profile.
- 3) assessment of the level of risk minimization measures and adaptation initiatives of the customer.
- 4) calculation of customer's ESG score.

Step 1. ESG segmentation.

The inherent risk by industry shall be assessed based on an expert assessment of a particular industry's exposure to ESG components, including:

- potential impact on a company's financial performance through capital expenditures;
- potential impact on a company's financial performance through operating expenses;
- potential impact on Customer tax deductions;
- changes in market preferences and demand for the Customer's products/services;
- other factors that have been assessed by Bank experts as significant.

Step 2. Assessment of the potential industry risk minimization level and generation of the Customer's target profile.

Potential industry risk minimization level reflects the best practices of companies in this industry in managing ESG risks, and reducing exposure to ESG factors.

Step 3. Assessment of the level of risk minimization measures and adaptation initiatives of the Customer.

The level of the Customer's minimization measures and adaptation mechanisms by significant factors shall be assessed by means of ESG questionnaire. Based on the results of the questionnaire, the company is assigned a score/rating for the assessment of minimization measures and adaptation initiatives in terms of ESG risk management.

Step 4. Calculation of Customer's ESG score.

The ESG score is calculated against the industry target profile to determine the minimization level and adaptation initiatives in terms of ESG risk management, and the possibility of lending to the Customer (new financing requests or requests for increased financing).

Full-fledged Customer scoring results	
Low risk	No further analysis is required, Lending to the Customer is permitted
Medium risk	No further analysis is required, Lending to the Customer is permitted
High risk	Lending is permitted subject to additional analysis of ESG factors generating high risk
Critical risk	Lending depends on further analysis of Customer transactions

Table 2. ESG scoring results

9. Project/Transaction Scoring

Project/transaction scoring is applicable in cases where debt is issued for the purpose of capital investment, and the loan amount exceeds KZT 25 billion. Project/transaction is scored to assess risks and positive effects of the project. Information on risks and positive effects of the project is provided by the Customer in the form of completed questionnaire.

Project scoring includes:

- project risk assessment. Analysis of the project risks depending on the location and specifics of the project and measures to reduce the negative impacts of the project;
- availability of environmental and social effects of the project.

Depending on the risks and positive effects of the project, the project is classified as having:

- low risk,
- high risk,
- critical risk,

The Bank shall not finance projects with a critical risk level. The financing of projects with a high risk level depends on the further steps taken by the Bank's Customer to minimize the risks.

10. Overall ESG Risk Score and Subsequent Actions

Depending on the customer's ESG scoring and transaction scoring (if applicable), the Bank shall determine the aggregate ESG rating and the possibility of lending to the Customer (new financing requests or requests for increased financing).

AAA to AA	Lending to this Customer is permitted.
A to BBB	Lending to this Customer is permitted subject to analysis and measures to minimize project risks.
BB to B	Lending to this Customer is permitted subject to in-depth analysis: – introduction of additional covenants, – additional stress testing and sensitivity analysis, if necessary, – measures to minimize project risks.
CCC	Lending to this Customer is permitted subject to in-depth analysis: – introduction of additional covenants; – additional stress test and sensitivity analysis, if necessary; – measures to minimize project risks; – development of a roadmap to minimize the level of risks together with the Customer

Table 3. Results of ESG rating assessment