

A decorative graphic consisting of seven horizontal bars of varying lengths, stacked vertically. The bars are a dark olive green color. The top bar is the longest, followed by a shorter one, then a bar that is shorter still, then a bar that is slightly longer than the one above it, then a bar that is the same length as the one above it, then a bar that is slightly shorter, and finally a bar that is the same length as the one above it.

# **RISK MANAGEMENT POLICY**



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## KEY TERMS AND DEFINITIONS

**Agreement (Contract)** means an agreement of two or more parties to establish, change or terminate their rights and obligations.

**Business Relations** mean relations between the Counterparty and the SCM Business that arise under the Contract or Agreement.

**Conflict of Interest** means a conflict between a person's private interests and their professional duties, which affects or may affect objectivity or impartiality when they make business decisions, as well as perform or do not perform certain actions when discharging their professional duties.



## KEY TERMS AND DEFINITIONS

**Counterparty** is a party to the Contract/ Agreement with an SCM Business, other than an SCM Business company.

**Designated Staff Member** means an employee of the SCM Business who is personally authorised by the director (general director/ CEO) for structuring the risk management processes.

**Meeting of Participants** is the highest governing body of an SCM Business company (the general meeting of participants (shareholders) or the sole participant (shareholder) who owns 100% of the statutory capital of the SCM Business company.



## KEY TERMS AND DEFINITIONS

**Risk** means probability of deviation from expected performance due to internal and/or external influence, events, actions or inactions of employees and/or third parties. It is usually manifested in risk sources, potential events, their consequences (effects), and their probability.

**Risk Appetite** is a level of risk that SCM and the SCM Business are ready to accept to achieve their goals.

**Risk Owner** means a company manager whose powers provide for managing the operational process and the risks of this process for ensuring the achievement of the approved target indicators of its activity, bears personal responsibility for the identification and management of process risks.



## KEY TERMS AND DEFINITIONS

**Risk Register** is a list of identified risks grouped by categories, which contains risk assessment results based on their effects and probability of adverse events, as well risk management methods and action plan.

**SCM** means SCM (System Capital Management) Limited.

**SCM Business** means enterprises and companies that are subsidiaries/investees of SCM (System Capital Management) Limited and/or SCM Holdings Limited and/or Limited Liability Company "System Capital Management", and are under common control. For the purpose of this Policy, "SCM Business" includes The Rinat Akhmetov Foundation.





# **1. PURPOSE AND SCOPE**



## PURPOSE AND SCOPE

**1.1.** This Risk Management Policy (hereinafter the Policy) aims to define the Risk management system at SCM as a tool of strategic planning and management of opportunities and losses to facilitate decision-making.

**1.2.** The purpose of this Policy is to establish a comprehensive understanding of the Risks in managerial decision-making, set minimum requirements for the Risk management and mitigation process, articulate the unified and efficient approaches to identification, assessment, and periodic re-assessment of the Risks, definition of the Risk Appetite, decision-making as to the Risk management methods.



## PURPOSE AND SCOPE

**1.3.** The Policy establishes minimum requirements for organisation of the Risk management process. The SCM Business companies may extend the list of the Risks and establish additional procedures for identification and assessment thereof.

**1.4.** The requirements and principles of the Policy shall apply to the entirety of SCM Business.





## **2. REQUIREMENTS TO RISK MANAGEMENT PROCESS**



# REQUIREMENTS TO RISK MANAGEMENT PROCESS

## 2.1. Principles of the Risk management process organisation:

- The Risk management process shall be clear to all participants of business processes;
- Understanding and communication of the Risks – decisions shall be made after assessment of the Risks arising out of actions/operations;
- Risk management responsibilities shall be divided according to distribution of powers among business process participants, both in terms of the Risk assessment and decision-making unaffected by any Conflict of Interest;
- Risk management procedures and mechanisms shall be continuous and evolving.



## REQUIREMENTS TO RISK MANAGEMENT PROCESS

**2.2.** For the purpose of risk management, the Risks are divided into two groups:

- The Risks managed at SCM level;
- The Risks managed at SCM Business level.

**2.3.** SCM directors own the Risk management process at SCM level, while the director (general director/CEO) of a relevant SCM Business company owns the Risk management process at the level of SCM Business.

**2.4.** Risk management process starts with identification of the Risks by the Risk Owner, the Designated Staff Member, and/or during an independent auditor assessment.



## REQUIREMENTS TO RISK MANAGEMENT PROCESS

The result of the Risk management process is the Risk Register that must be regularly reviewed and updated by the Risk Owner, the Designated Staff Member, and/or in accordance with independent auditor assessment, in particular with every change in organisational structure and subordination, operational processes, regulatory requirements, external circumstances, etc.



## REQUIREMENTS TO RISK MANAGEMENT PROCESS

Risk management process is integral to and shall be carried out within the following processes:

- Annual budgeting
- Creating/updating strategies
- Initiating and implementing projects
- Making organisational changes
- Establishing of the Business Relations
- Making changes to operational processes
- During other processes that affect achievement of company's business goals.



## REQUIREMENTS TO RISK MANAGEMENT PROCESS

**2.5.** Key stages of the Risk management, which must be implemented at SCM Business:

**I. RISK IDENTIFICATION** – determining of the Risks, finding causes that have led or may lead to losses or other adverse effects.

**II. RISK ASSESSMENT / RE-ASSESSMENT** – establishing the Risk level with:

- **The Risk level self-assessment** (annually) is performed by the Risk Owner based on the Risk Register. Assessment of probability and effects of materialisation of the Risks, potential costs/losses, and effectiveness of existing controls;



## REQUIREMENTS TO RISK MANAGEMENT PROCESS

- **Independent assessment** (from time to time) is performed by internal audit team of SCM or SCM Business and aims to verify completeness of the Risk Register, adequacy of management methods and internal control systems, in order to assess the final Risks of impact and probability of the Risk materialisation.

### III. MANAGEMENT:

- **Establishing/reviewing the Risk Appetite** (annually) – done by the Risk Owner and approved by the supervisory board (or in the absence thereof, by the Meeting of Participants) of SCM Business;



## REQUIREMENTS TO RISK MANAGEMENT PROCESS

- **Selecting the Risk management** method (at the time of the Risk identification / based on assessments) – done by the Risk Owner, approved by the supervisory board (or in the absence thereof, by the Meeting of Participants). Developing and implementing measures to mitigate or avoid, or accept, or transfer the Risks (management methods described in section 2.6).



## REQUIREMENTS TO RISK MANAGEMENT PROCESS

**IV. MONITORING** of compliance with the established Risk management procedures and accepted Risk level limitations, as well as implementation of the Risk mitigation measures:

- **Monitoring by the management** (on an ongoing basis) is done by the Risk Owner as part of operating activities pertaining to controls;
- **Testing by internal audit** (selectively): according to the approved plan of audit projects, special audit tasks, incident analysis.



## REQUIREMENTS TO RISK MANAGEMENT PROCESS

**2.6.** Risk management provides for the following management methods:

- Risk mitigation (implementing controls, establishing limits of competencies/powers);
- Risk acceptance (when cost of the Risk under the Risk Appetite or cost of the Risk management measures exceeds losses in the event of the Risk materialisation);
- Risk avoidance (when cost of the Risk exceeds future benefits, a risk-bearing area of business is abandoned for the security of the entire business, or a process is re-engineered);



## REQUIREMENTS TO RISK MANAGEMENT PROCESS

- Risk transfer – outsourcing, insurance (when the Risk is outside of company's core competencies, or when cost of the Risk management measures exceeds the cost of the Risk).

**2.7.** Director (general director/CEO) of SCM Business company shall regularly submit the Risk assessment results to members of the supervisory board/Meeting of Participants of that SCM Business company.

**2.8.** During audits, internal audit teams of SCM Business companies inspect organisation and operation of the Risk management process, as well as adequacy of internal control system, among other audited items.





# **3. RISK IDENTIFICATION**



## RISK IDENTIFICATION

**3.1.** SCM Business companies are exposed to the following Risks:

**FINANCIAL RISKS** refer to probability of occurrence of any adverse financial effects (reduced profitability, lower liquidity, losses in financial market, tax risks, reporting risks, etc.), which may lead to the loss of income or capital:

- Market risk is a risk of decreasing asset value due to adverse change in market factors (cost of financial instruments, foreign currency exchange rates, etc.)



## RISK IDENTIFICATION

- Credit risk is associated with probability of the Counterparty's failure to perform its financial obligations before the company when the company grants a trade (commercial) loan to the Counterparty, and/or probability of the company's failure to perform its financial obligations to an investor;
- Liquidity risk is a risk of loss arising from a mismatch between maturity of assets and liabilities.

**BUSINESS RISKS** refer to probability of losses due to degraded business reputation and adverse changes in the company's organisation and management, uncertainty of strategies and goals, which may affect the company's or its Counterparty's ability to perform its obligations.



## RISK IDENTIFICATION

- Strategic risks are risks of losses due to errors (flaws) in decision-making that defines the business and development strategy of the company (wrong assessment and identification of promising areas of operation, wrong estimate of resources required for achievement of strategic goals, etc.);
- Management risks are risks of losses due to approval and implementation of managerial decisions amid uncertainty and/or wrong risk assessment;
- Business environment risks are risks arising from changes in economic condition of the industry and depending on the degree of such changes in relation to the industry and versus other industries.



## RISK IDENTIFICATION

- Commercial risks are risks arising in the process of selling goods / performing works / providing services. The causes may be an increase of costs due to changes in the cost of materials, components, raw materials; increase in tariffs, decrease in demand due to inefficiency of marketing and sales processes, saturation of the competitive environment. The consequence of the commercial risks is usually the underachievement of planned revenues;



## RISK IDENTIFICATION

**OPERATIONAL RISKS** refer to the likelihood of experiencing losses due to flaws or errors in a company's internal processes, the actions of employees and other individuals, the functioning of information systems, or the impact of external factors:

- Legal risks are the risks of incurring losses because of the failure to meet obligations under existing laws or due to inadequately prepared documents;
- Process risks are the risks of losses due to inefficient design, lack of control, and ineffective management of business processes;
- IT risks are the risks of losses that occur from the company's use of information technologies to create, transmit, and store information through electronic media and other communication devices;



## RISK IDENTIFICATION

- Personnel risks relate to risks associated with significant changes in the company's workforce, the loss of key staff, reliance on certain specialists, insufficient employee competency, and instances of unauthorised behaviour such as fraud, discrimination, unauthorised actions, etc.

**BUSINESS CONTINUITY RISKS** refer to the probability that a company may fail to maintain continuous and uninterrupted operations under all circumstances, including emergencies, as well as the company's inability to resume activities after an operational halt:

- Political risks involve risks that emerge from state /municipal policies;



## RISK IDENTIFICATION

- Force-majeure risks occur due to inevitable events that objectively prevent the fulfilment of obligations or the achievement of business objectives. This includes threats of war, armed conflicts, or the serious threat of such conflicts, including but not limited to hostile attacks, blockades, military embargoes, foreign enemy actions, general military mobilisation, military operations, both declared and undeclared wars, acts of terrorism, sabotage, piracy, civil disorder, invasion, rioting, uprising, widespread disturbances, enforcement of curfews, quarantines, expropriation/compulsory acquisition, enterprise seizures, requisitioning, strikes, accidents, fires, explosions, and extended transport disruptions caused, among other factors, by exceptional weather conditions and natural disasters;



## RISK IDENTIFICATION

- Environmental risks are risks related to the negative impact of the company on the environment;
- asset integrity risks involve the risk of diminished operational performance, safety, profitability, and the violation of an asset's physical integrity, which can lead to the partial or complete depreciation of the asset.

**FRAUD RISKS** entail the probability of harming business interests in various ways (such as sanctions, fines, distorted reporting, unexpected losses, illegal transfer or acquisition of assets, and loss of reputation) due to fraudulent activities by either internal or external parties:



## RISK IDENTIFICATION

- Risks of internal fraud stem from fraudulent activities involving at least one of the parties being a company employee, a group of employees, or their associates;
- Risks of external fraud include the risks of unforeseen financial, material, or reputational damages caused by fraudulent actions of individuals unaffiliated with the company, including third parties and the Counterparties, etc.

Fraudulent activities encompass the evasion of regulations, laws, procedures, or policies, abuse of official positions, collusion, and corrupt practices intended to gain unlawful advantages, among others.



## RISK IDENTIFICATION

**COUNTERPARTY RELIABILITY RISKS** means the probability of any form of damage that may be inflicted to the interests of business (sanctions, fines, damages, loss of reputation, etc.) through the establishment or maintenance of the Business Relations with the Counterparty:

- Regulatory risks include the risk of engaging with entities involved in laundering criminal proceeds/financing terrorism, the risk of dealing with entities subjected to economic sanctions, and the risk of interactions with potential perpetrators of corruption;
- Risk of the Counterparty's negative reputation (the risk of public opinion change about the SCM / Business SCM in a negative direction due to cooperation with the Counterparty);



## RISK IDENTIFICATION

- risk of fraud, financial risks, commercial risks associated with the Counterparty (risks descriptions are given above).

The approach to managing Counterparty Reliability Risks is comprehensively outlined in the “Counterparty Reliability Risk Management Policy”.

**CORRUPTION RISKS** refers to the well-founded likelihood of an occurrence involving corruption or related offences, or breaches of The Anti-Corruption Policy. Corruption risks categorised as:

- Internal risks, identified in organisational, management, financial, personnel, and legal procedures of SCM/SCM Business;



## RISK IDENTIFICATION

- External risks, found in the operations of the Counterparty, including state and local self-government authorities engaged in business relationships with SCM/ SCM Business.

The approach to managing Corruption Risk is comprehensively outlined in the “The Anti-Corruption Policy”.

**3.2.** The Risk inventory mentioned in section 3.1 is not exhaustive. The SCM Business companies are permitted to extend this list in compliance with established classification criteria.





## **4. AUTHORITY AND RESPONSIBILITIES OF THE PARTICIPANTS**



## **AUTHORITY AND RESPONSIBILITIES OF THE PARTICIPANTS**

### **4.1. Directors of the SCM have the right to:**

**4.1.1.** Establish the general Risk management rules fixed in the Policy.

**4.1.2.** Put forward motions to the supervisory boards / Meetings of Participants of SCM Business for approval of the provisions of this Policy by the SCM Business companies.

**4.1.3.** Facilitate the regular review and approval of the Policy.



## **AUTHORITY AND RESPONSIBILITIES OF THE PARTICIPANTS**

**4.1.4.** Examine the outcomes of the Risk assessment.

**4.1.5.** Determine the Risk Appetite on the basis of SCM Risks.

**4.1.6.** Set the Risk Appetite for regulatory Risks across SCM Business companies.



## **AUTHORITY AND RESPONSIBILITIES OF THE PARTICIPANTS**

### **4.2. Directors of the SCM shall be responsible for:**

**4.2.1.** Setting up the Risk management processes at the level of SCM.

**4.2.2.** Compliance with provisions of the Policy, as well as its related procedures.

**4.2.3.** Guaranteeing the Risk Owner's autonomy from managerial interference or unjustified limitations on their Risk management and internal control functions by any Risk management process participant.



## **AUTHORITY AND RESPONSIBILITIES OF THE PARTICIPANTS**

**4.3.** The supervisory board/Meeting of Participants of the SCM Business company shall have the right to:

**4.3.1.** Approve the provisions of the Policy in a document binding on a relevant SCM Business company in the respective SCM Business company.

**4.3.2.** Consider the Risk assessment results regularly submitted by SCM Directors and the director (general director/CEO) of an SCM Business company.

**4.3.3.** Approve the Risk Appetite on a per-risk basis.



## **AUTHORITY AND RESPONSIBILITIES OF THE PARTICIPANTS**

### **4.4. The supervisory board/ Meeting of Participants of the SCM Business company are responsible for:**

**4.4.1.** Ensuring implementation of the Policy by SCM Business company.

**4.4.2.** Monitoring the effectiveness of the Risk management systems and internal control in accordance with applicable international standards, best practices, and the provisions of the Policy, as well as the adequacy of the Risk management action plan.

**4.4.3.** Ensuring independence from managerial interference or unjustified restrictions on the Risk management and internal control functions.



## **AUTHORITY AND RESPONSIBILITIES OF THE PARTICIPANTS**

**4.5. The director (general director/CEO) of the SCM Business company is authorised to:**

**4.5.1.** Determine the Risk Appetite level for risks at the SCM Business company management level.

**4.5.2.** Appoint the employee of SCM Business company as the Designated Staff Member.



## **AUTHORITY AND RESPONSIBILITIES OF THE PARTICIPANTS**

**4.6. The director (general director/CEO) of the SCM Business company is responsible for:**

**4.6.1.** Implementation and compliance with the Policy at the SCM Business company level.

**4.6.2.** Setting up and introducing the Risk management processes at the level of SCM Business company.

**4.6.3.** Carrying out an unbiased assessment and timely re-assessment of the Risks.



## **AUTHORITY AND RESPONSIBILITIES OF THE PARTICIPANTS**

**4.6.4.** Consistently providing the Risk assessment results to the supervisory board/ Meeting of Participants and proposing the Risk Appetite for approval.

**4.7. The Risk Owner at the SCM Business company is entitled to:**

Initiate a re-assessment of the Risks and an extraordinary revision of the SCM Business company's Risk Register due to procedural or organisational changes or the emergence of new threats that require assessment for potential Risk.



## **AUTHORITY AND RESPONSIBILITIES OF THE PARTICIPANTS**

**4.8. The Risk Owner at the SCM Business company is responsible for:**

**4.8.1.** Ensuring adherence to the Policy's requirements within their SCM Business company.

**4.8.2.** The identification, unbiased assessment, timely re-assessment, and monitoring of the company's Risk management processes.



## **AUTHORITY AND RESPONSIBILITIES OF THE PARTICIPANTS**

**4.9. The Designated Staff Member of the SCM Business company shall have the right to:**

Initiate approval of the provisions of the Policy in the form of a document binding on a relevant SCM Business by the supervisory board / Meeting of Participants of the SCM Business company.

**4.10. The Designated Staff Member of the SCM Business company shall be responsible for:**

**4.10.1.** Ensuring adherence to the Policy's requirements within their SCM Business company.



## **AUTHORITY AND RESPONSIBILITIES OF THE PARTICIPANTS**

**4.10.2.** Setting up and introducing the Risk management processes at the level of SCM Business company.

**4.10.3.** Carrying out an unbiased assessment and timely re-assessment of the Risks.

**4.11.** Comprehensive overview of the roles and responsibilities of the Risk management process participants:



# AUTHORITY AND RESPONSIBILITIES OF THE PARTICIPANTS

SCM

Учасник процесу Етап процесу	Власник Ризику	Директор (генеральний директор/ виконавчий директор) компанії Бізнесу SCM	Директори SCM	Внутрішній аудит	Наглядова рада/ Збори учасників/ компанії Бізнесу SCM
Ідентифікація та оцінка Ризиків	<ul style="list-style-type: none"><li>виявлення Ризиків</li><li>визначення причин Ризиків</li><li>доповнення Реєстру ризиків (при формуванні річних бюджетів, формуванні/актуалізації стратегій, ініціюванні проектів та в ході їх реалізації, організаційних змінах, встановленні Ділових відносин, змінах в операційних процесах, та під час інших процесів, що впливають на досягнення цілей діяльності компанії)*.</li></ul>	<ul style="list-style-type: none"><li>узгодження результатів оцінки/переоцінки Ризиків</li><li>інформування про результати оцінки/ переоцінки Наглядову раду/ Збори учасників компанії Бізнесу SCM</li></ul>	<ul style="list-style-type: none"><li>розгляд результатів оцінки/переоцінки</li></ul>		<ul style="list-style-type: none"><li>розгляд результатів оцінки/переоцінки</li></ul>
Переоцінка Ризиків	<ul style="list-style-type: none"><li>самооцінка рівня Ризиків (щорічно)</li><li>актуалізація Реєстру ризиків</li></ul>			незалежна оцінка (час від часу)	<ul style="list-style-type: none"><li>затвердження Ризик-апетиту</li></ul>
Управління	<ul style="list-style-type: none"><li>встановлення/ перегляд Ризик-апетиту (щорічно)</li><li>вибір методу управління Ризиками - розробка і проведення заходів по зниженню/ уникненню/ прийняттю/ передачі Ризиків</li></ul>	<ul style="list-style-type: none"><li>узгодження Ризик-апетиту</li><li>узгодження методу управління Ризиками</li></ul>	<ul style="list-style-type: none"><li>встановлення Ризик-апетиту за Ризиками Компанії SCM</li><li>встановлення Ризик-апетиту для регуляторних Ризиків Бізнесу SCM</li><li>узгодження методу управління Ризиками</li></ul>		<ul style="list-style-type: none"><li>затвердження методу управління Ризиками</li></ul>
Моніторинг	<ul style="list-style-type: none"><li>проведення в рамках операційної діяльності при виконанні контрольних заходів (на постійній основі)</li></ul>	<ul style="list-style-type: none"><li>реалізація управління Ризиками відповідно узгодженого методу</li><li>забезпечення організації контрольних заходів</li></ul>	-	тестування (вибірково)	-



# AUTHORITY AND RESPONSIBILITIES OF THE PARTICIPANTS

Stage of the process	Process participant	Risk Owner	Director (general director/CEO) of an SCM Business company	SCM Directors	Internal audit	Supervisory board/ Meeting of Participants/ SCM Business companies
<b>Risk identification and assessment</b>		<ul style="list-style-type: none"> <li>- Risk identification</li> <li>- determining Risk causes</li> <li>- updating the Risk Register (during the annual budgeting process, strategy formulation/update, project)</li> </ul>	<ul style="list-style-type: none"> <li>- finalising and approving the outcomes of the Risk assessment and re-assessment</li> <li>- reporting the results of the Risk assessment/re-assessment to the supervisory board/ Meeting of Participants of SCM Business company</li> </ul>	<ul style="list-style-type: none"> <li>- reviewing the results of the assessment/re-assessment</li> </ul>		<ul style="list-style-type: none"> <li>- reviewing the results of the assessment/re-assessment</li> </ul>
<b>Risk re-assessment</b>		<ul style="list-style-type: none"> <li>- Risk level self-assessment (annually)</li> <li>- Risk Register update</li> </ul>				
<b>Management</b>		<ul style="list-style-type: none"> <li>- Establishing/reviewing Risk Appetite (annually)</li> </ul>	<ul style="list-style-type: none"> <li>- Finalising and approving the Risk Appetite</li> </ul>	<ul style="list-style-type: none"> <li>- Establishing the Risk Appetite in relation to SCM Risks</li> <li>- Establishing the Risk Appetite in relation to regulatory Risks of SCM Business</li> </ul>	<ul style="list-style-type: none"> <li>- independent assessment (from time to time)</li> </ul>	<ul style="list-style-type: none"> <li>- Approving the Risk Appetite</li> </ul>
		<ul style="list-style-type: none"> <li>- Selecting the Risk management approach - developing and</li> </ul>	<ul style="list-style-type: none"> <li>- Finalising and approving the Risk management approach</li> </ul>	<ul style="list-style-type: none"> <li>- Finalising and approving the Risk management approach</li> </ul>		<ul style="list-style-type: none"> <li>- Approving the Risk management approach</li> </ul>
<b>Monitoring</b>		<ul style="list-style-type: none"> <li>- Continuously executing control measures as part of operational activities</li> </ul>	<ul style="list-style-type: none"> <li>- Applying Risk management practices in line with the agreed-upon approach</li> <li>- Facilitating the organisation of control measures</li> </ul>	-	<ul style="list-style-type: none"> <li>- Performing selective testing</li> </ul>	-





## **5. FINAL PROVISIONS**



## **FINAL PROVISIONS**

**5.1.** The Policy is a permanent document of SCM, subject to regular reviews and updates aimed at aligning the Policy with legislative requirements and refining the Risk management and internal control systems.

**5.2.** All those involved in SCM Business company's operational processes are entitled to suggest enhancements to the Risk management process, the internal control system, and updates to the Policy.

**5.3.** The Policy becomes effective upon approval through established procedures.