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UMP JSC

Risk Management

POLICY

DEVELOPED BY

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# Purpose

UMP JSC Risk Management Policy (hereinafter – the Policy) sets forth tasks and objectives of the risk management system, defines organizational structure of the risk management system as well as functions of its participants and describes the main processes of the UMP JSC risk management.

# Scope

The Policy covers any types of UMP JSC (hereinafter – the Company) activities and it is mandatory for application by all structural divisions and employees of the Company involved into the risk management system. When carrying out functional duties and implementing the assigned tasks, the employees of the Company shall be guided by the provisions set forth herein.

Based on this Policy, subsidiaries and affiliates (hereinafter - Affiliates) of the Company are recommended to develop their own Risk Management Policy.

# Basic Terms and Definitions

* **COSO –** The Committee of Sponsoring Organizations of the Treadway Commission;
* **Sole Shareholder –** Joint Stock Company NAC Kazatomprom;
* **Company** - Ulba Metallurgical Plant Joint Stock Company;
* **Risk Management System (RMS) -** a number of interrelated elements, integrated into a single process, where the Board of Directors, the Executive Board, heads of structural divisions and employees, each on their own level, participate in finding potential events that may affect the Company’s business, as well as managing these events within the risk level acceptable for the shareholders.
* Risk Owner - a person (employee/structural division/collegial body) in charge for all aspects of a certain risk management, in particular elimination of potential risk and/or mitigation of possible risk consequences for the Company;
* Investment Risk - estimated deterioration of the final indicators of a project effectiveness caused by both external and internal factors;
* Risk Map - a graphic representation of the Company risks with regards to the scope of their potential impact and possible occurrence;
* Qualitative Assessment - determination of scope of risk impact on the Company’s business in accordance with the internal criteria, and risk possibility based on overall and expert assessment;
* Risk Classifier - a list of risk categories defined by certain strategic objectives;
* Key Risk Indicators (KRI) - early indicators presenting early signals of change in risk factors in different activity areas. The KRI allow for revealing potential risks and taking advance measures to avoid risks occurrence or minimize their impact on the Company’s business;
* **Key Risks of the Company -** risks defined in accordance with the assessment results to be in the red area of the Risk Map of the Company as well as risks from other areas that, based on the opinion of the Risk Owner/Risk Manager, may severely affect achievement of the short-term and long-term objectives of the Company;
* **Quantitative Assessment -** a mathematical forecast and calculation of risk occurrence possibility as well as potential material damage from risk;
* **Bank Limit** - the amount of credit risk for the counterparty bank taking into account the results of analysis of its financial condition and the influence of risk factors;
* **Operational Risk -** a risk of losses, production accidents due to disadvantages or mistakes, in the course of internal processes realization, made by employees, functioning of information systems and technologies, production safety as well as due to external events;
* **Legal Risk -** a risk of losses resulting from non-compliance with the requirements of the laws of the Republic of Kazakhstan, in respect to non-residents of the Republic of Kazakhstan - laws of other states as well as internal regulations and procedures;
* **Preventive Measures -** routine actions of risk/measure owners taken prior to risk occurrence for timely influence on the risk causes;
* **Response Measures -** planned actions of risk/measure owners that will be taken upon risk occurrence for timely response and mitigation of negative consequences resulting from risk occurrence;
* **Risk Register -** a list of risks the Company may face during its operation;
* **Risk -** a potential event(or a set of circumstances) in future that, if occurred, may significantly and negatively affect achievement of the long-term and short-term objectives of the Company;
* **Risk Appetite -** a level of risk that the Company considers to be acceptable when achieving its objectives;
* Risk Manager – a head of the division, responsible for the issues relating to risk management of the Company. He/she shall be appointed based on the internal document of the Company;
* Risk Coordinator - an employee of a structural division of the Company whose duties include organizing risk management activity in his/her structural division;
* Risk & Compliance Officer - an employee of the Company reporting directly to the Board of Directors, who ensures the organization the compliance risk system functioning and conducting an independent and professional assessment of the RMS and the internal control system (ICS) efficiency, including compliance with mandatory regulatory anti-corruption requirements of the Republic of Kazakhstan, and performance of functions in accordance with the legislation of the Republic of Kazakhstan, constituent documents, this Policy and internal documents of the Company;
* **Strategic Risk -** a risk of losses resulting from a change or mistakes (disadvantages) in identification and implementation of operational and development strategy, a change in political environment, regional business environment, industrial decline and other external systematic factors;
* **Tolerance Level (Risk Tolerance) -** an acceptable level of deviation in terms of achievement of a certain objective. Tolerance level allows effective monitoring and prevention of excessive Risk Appetite;
* **Financial Risk -** a risk related to the capital structure and decrease of financial profitability. Financial risks include market risks (fluctuations of interest and currency rates, fluctuation of prices for natural resources), liquidity risks, credit risks (with regard to corporate counterparts, second-tier banks and regulations in other countries).

Other terms used herein have meanings set forth in ST 20.0007.

# General Provisions

* 1. This Policy is developed in accordance with the Risk Management Policy of JSC NAC Kazatomprom.
	2. The mission of this Policy is to maintain the RMS that allows the Company efficiently managing and distributing resources between the priority areas to ensure a risk level acceptable for the Company and gaining maximum return from such investments due to risk identification, assessment, management and monitoring. Officials and employees of the Company shall be obliged to follow the Policy during fulfilment of their duties and the assigned tasks.
	3. Consolidated risk management shall be ensured by the RMS introduction in the Affiliates.
	4. The Company shall provide systematic and advising support and coordinate activities aimed at the RMS development and improvement when introducing the RMS in the Affiliates.
	5. Regulatory documents relating to the RMS (including this Policy) shall be revised when needed to ensure their compliance with the objectives, scope and operation profile of the Company, with consideration for the best practice of risk management and accumulated experience as well as new regulatory requirements, experience and risk management standards.
	6. The Policy shall be published at both corporate and official websites of the Company. Other documents in the area of risk management shall be available to all employees and officers of the Company at the corporate website of the Company within their access rights. Amendments of the RMS shall be brought to the information of all employees and officers of the Company by means of publishing the up-to-date information at the corporate website of the Company.

# RMS Tasks and Objectives

* 1. The main objective of the RMS is improved efficiency of threat and opportunity management that will contribute to the process of the Company capitalization increase. In accordance with the development strategy, the RMS shall set the following objectives:
	+ Protection interests of the Sole Shareholder of the Company;
	+ Ensure strategic and operational stability of the Company;
	+ Decrease the Company losses in case of unfavorable risk occurrence;
	+ Develop and use uniform and consistent approaches to identification, assessment and management of the Company risks, and facilitate the risk information exchange procedures both vertically (management) and horizontally (peer leaning).
	1. The main tasks of the RMS are as follows:
	+ Prevent events posing risk on achievement of strategic and operational objectives, and decrease effect of the risk, if occurred, to an acceptable level;
	+ Improve the risk culture and integrate risk management and internal control into all aspects of the Company's business;
	+ Effectively response to the unexpected situations and their management;
	+ Maintain systematic risk management process that is a part of the process ensuring effective internal monitoring environment;
	+ Provide reasonable guarantees of the Company’s effective risk management to the concerned parties.

# Basic Principles of Risk Management

The Company shall define the following basic principles of risk management:

* + **Integrity** – consideration of the Company combined risk and its enterprises in view of RMS;
	+ **Transparence** – prohibition to consider RMS as autonomous or solitary;
	+ **Structure** – integrated risk management system has clear and exact structure;
	+ **Awareness –** risk managementis assured by the available objective, true and actualized information;
	+ **Continuity** – risk management process is a continuous process;
	+ **Cyclicity** – risk management process is a continuously repeated cycle of its basic components;
	+ **Continuous improvement** – improvement of risk management activity, including information systems, procedures and technologies with the consideration of strategic tasks, change of environment, innovation in the world best practice of risk management.

#

# Definition of the Risk Culture

7.1. The culture of risk management (risk culture) is the basis of risk management. These are the beliefs, understanding and knowledge in the field of risk management shared and applied by all officials and employees in the performance of their duties.

The risk culture is a part of the corporate culture of the Company. The level of risk culture shall determine how risks are identified, assessed and managed from the moment the strategy is developed to its implementation and performance monitoring.

7.2. Risk culture shall be based on four principles:

* 1. Tone at the highest level: The Board of Directors and the Executive Board of the Company shall set the tone from above and when making decisions proceed from the optimal balance between long-term value, profitability and risks associated with both making and not making decisions, and encourage risk oriented behavior in subordinates. Each issue on the agenda of meetings of the Company's bodies shall be accompanied by an analysis of risks and compliance with the established Risk Appetite.
	2. Corporate governance: The activities of the Company shall be aimed at creating such a control environment that ensures employees understand that the Policy and all internal regulations are mandatory for compliance. All officials and employees of the Company shall be clearly aware of their area of ​​responsibility and authority for risk management and internal control. Risk Owners within their competence shall understand risks, manage them and properly inform about risks in accordance with the internal regulations of the Company.
	3. Decision-making: The internal environment shall be characterized by open communications and transparency of information about risks that promote an open and constructive discussion of associated risks and potential opportunities between employees and officials of the Company and allow jointly making effective decisions in response to external challenges.

The remuneration system at all levels shall use financial and non-financial incentives for employees to form the right attitude to risk in the process of making managerial decisions. With a developed risk culture, decisions shall be clearly defined by Risk Appetite.

* 1. Competence: The organizational structure of the Company shall be based on the “three lines of defense” model.
* The first line of defense (business functions) shall be represented by structural units represented by each employee within their competence. The Company's employees (Risk Owners), when performing their official duties, shall directly manage risks and perform control procedures within their competence.
* The second line of defense shall be represented by the structural unit responsible for organizing risk management activities and the Risk & Compliance Officer. The second line of defense shall be responsible for monitoring the implementation by structural divisions (business functions) of effective risk management and internal control practices, compliance with legislation and internal regulations of the Company, alleged violations of the Code of Corporate Ethics and Compliance, internal documents of the Company and/or legislation on anti-corruption and other regulatory requirements applicable to the Company.
* The third line of defense (independent guarantee) shall be represented by the Internal Audit Office of the Company (hereinafter - IAO) which shall conduct an independent assessment of efficiency and contribute to the improvement of risk management and internal control, provide support to the Audit Committee and the Board of Directors of the Company, and provide them with an independent assessment of the effectiveness of the RMS and internal control.
* The structural division responsible for organizing risk management activities (risk division) shall effectively fulfill the role of the second line of defense, thereby increasing the confidence of the Executive Board of the Company in achieving the goals of the Company. The risk division shall support the course for the continuous development of the risk culture in the Company, including through the use of adaptation mechanisms for newly hired employees of the Company, the provision of documents on risks as part of the induction of members of the Board of Directors of the Company, mandatory and functional certification, SCRUM meetings and others. The risk division, if necessary, can initiate anonymous risk polls among the Company's employees.

7.3. Sources of information on the level of risk culture for the Executive Board and the Board of Directors of the Company may be documents on assessing the effectiveness of the RMS and internal control in the Company, reports on diagnostics of corporate governance in companies, etc.

7.4. The Company has developed a Confidential Information Policy to establish the procedure for reporting violations of the Code of Corporate Ethics and Compliance.

# RMS Organizational Structure

8.1. The RMS organizational structure in the Company shall provide for information flow in both vertical and horizontal directions.

8.2. Information received by vertical from bottom to top shall be provided by a Sole Shareholder, the Board of Directors, and the Executive Board of the Company as about: current activities, risks during the activities, their assessment, control, methods of response and management level.

8.3. Decisions which come from top to bottom shall provide the information to the Company and its Affiliates about goals, strategies and tasks as set through making decisions by a Sole Shareholder, the Board of Directors and the Executive Board of the Company, as well as through approval of the documentation on the Company risk management.

8.4. Horizontal provision of information seems as interaction between structural divisions of the Company and its responsible persons for the risk management activity arrangement.

8.5. The RMS organizational structure in the Company is demonstrated at several levels with the engagement of the following departments and divisions of the Company (Fig.1):

Sole Shareholder

Board of Directors

Risk Management Committee at the Executive Board of the Company

Internal Audit Office

Executive Board

Structural Division 1

Structural Division 2

Structural Division n

Structural Division Responsible for Risk Management

Risk Manager

Risk & Compliance Officer

*Fig. 1. RMS organizational structure*

# RMS Participants Functions

9.1. The **Sole Shareholder** based on the information provided by the Board of Directors and the Executive Board of the Company shall make strategic decisions in order to manage the risks of the Company.

9.2. **The Board of Directors** is a key player in the surveillance of RMS and has the following functions of the risk management:

* + Approve the Company’s risk management policy;
	+ Approve the strategy of the Company’s RMS development;
	+ Approve the other internal documents on the Company’s RMS and its structure (as defined in the Company’s Charter);
	+ Define forms and terms of the risk management reporting paperwork;
	+ Approve the quarterly reports on risk management;
	+ Review the reports on RMS and internal control efficiency made up by the IAO of the Company which holds annual sessions dedicated to RMS and internal control efficiency assessment;
	+ Review the external auditors summary on the improvement of internal control and risk management and results of inspection by the IAO;
	+ Approve Bank Limits which are not within the competence of the Executive Board of the Company in accordance with the Rules “Establishment of the Bank Limits and Determination of the List of Banks at UMP JSC”;
	+ Approve the Company’s Risk Appetite level at the consolidated level;
	+ Approve KRIs;
	+ Approve levels of tolerance on Key Risks;
	+ Approve the Company’s Risk Map and Risk Register;
	+ Approve the action plan to minimize risks (within the Risk Register and the Risk Map of the Company).

9.3. The Risk Management Committee of the Board of Directors of the Company shall perform the following functions:

* Analyze reports of external and internal auditors on the RMS status;
* Analyze the effectiveness of the means of the Company's RMS, and also make suggestions on these related issues;
* Monitor the implementation of the recommendations of the internal and external auditors of the Company in relation to the RMS;
* Hold regular meetings with the Executive Board of the Company to consider Key Risks and control problems and the corresponding plans of the Company in risk management;
* Pre-approve the strategy for the development of the Company’s RMS;
* Pre-approve the Policy and other internal documents in the field of risk management of the Company;
* Pre-approve the procedures for risk management of the Company;
* Pre-approve quarterly risk management reports;
* Pre-approve reports on the effectiveness of the RMS and internal control efficiency prepared by the IAO of the Company and hold annual meetings dedicated to the assessment of the RMS efficiency;
* Pre-review the conclusions of external auditors on improving internal control and risk management and the results of audits by the IAO;
* Pre-approve KRIs;
* Pre-approve levels of tolerance on Key Risks;
* Pre-approve the Risk Register and the Risk Map of the Company;
* Pre-approve the Risk Appetite of the Company at the consolidated level;
	+ Pre-approve Bank Limits that do not fall within the competence of the Executive Board of the Company in accordance with the Rules “Establishment of the Bank Limits and Determination of the List of Banks at UMP JSC”.

9.4. The Executive Board of the Companyshallbear the responsibility for the arrangement of the effective RMS and have the following functions:

* + Follow the provisions of this Policy and other internal documents on the risk management;
	+ Submit the reports on risk management for consideration by the Board of Directors on a quarterly basis;
	+ Review and approve the quarterly reports on the Company risk management on the consolidated basis and appropriately response within its competency;
	+ Arrange functioning of the effective RMS to allow identifying and assessing potential risks;
	+ Review the reports on the RMS and internal control efficiency and provide the Board of Directors with the RMS efficiency confirmation;
	+ Approve the Response Measures and methods for risk management in the Company and some measures for Affiliates within the framework of regulatory documents approved by the Board of Directors;
	+ Approve the documents on the Company risk management which do not relate to the competence of the Company’s Board of Directors;
	+ Approve the Bank Limits and the list of banks to deposit the Company’s funds as temporarily free, which refer to the competence of the Executive Board of the Company in accordance with the Rules “Establishment of the Bank Limits and Determination of the List of Banks at UMP JSC”;
	+ Improve the internal procedures and regulations on the risk management;
	+ Review the quarterly reports on risk management of the management bodies of the Affiliates.

9.5. Risk Management Committee at the Executive Board of the Company shall have the following functions:

* + Review and approve the RMS action plan on an annual basis;
	+ Review and pre-approve the draft internal (including Risk Management Policy and Regulation) and other documents of the Company on the risk management;
	+ Monitor regular update and improvement of the approved documents on the risk management, as well as the arrangement of systematical training of the Company management and employees in the requirements and aspects of the mentioned documents;
	+ Review classification and assessment of risks proposed by the structural divisions on the basis of the results of identification of risk management methods from the list of risk management methods existing in the internal documents on risk management;
	+ Review and make up proposals based on the results of the risk status control and monitoring, observance by the Company of the maximum permissible limits for risks and compliance of the Company divisions with the internal documents on the risk management;
	+ Review the functional requirements to the automated information system on the risk management;
	+ Review and make up proposals on the improvement action for unfavorable influence (including on the environment, change of market conditions, force majeure occurrence, etc.);
	+ Coordinate the interaction of the structural divisions of the Company during risk management process;
	+ Submit the risk management report to the Executive Board of the Company;
	+ Review and approve the Risk Appetite;
	+ Review and approve the Bank Limits and the list of the second level banks where temporarily free funds could be deposited (if required);
	+ Review and approve the Risk Register, including risk minimization action and Risk Map thereto;
	+ Review and approve the KRIs;
	+ Make up proposals on the effective RMS arrangement and maintenance;
	+ Review the recommendations by external auditors, advisors and IAO on the risk management, review the effective measures taken by the Company divisions to solve the issues revealed by external auditors, advisors and IAO;
	+ Provide the Executive Board with the Committee performance results.

9.6. Structural division responsible for risk management shall have the following functions:

* + Develop the Company’s RMS development strategy;
	+ Coordinate and improve the risk management process in the Company and the Affiliates;
	+ Provide the risk management integration into other business processes and risk culture development in the Company and the Affiliates;
	+ Draft the RMS action plan on an annual basis;
	+ Monitor the compliance of the Company structural divisions with the internal documents on RMS;
	+ Draft the proposals on the designation of Risk Owners and Risk Coordinators;
	+ Arrange and coordinate the Key Risk assessment and identification process;
	+ Initiate the development of the action plan to minimize risks by Risk Owners (within the framework of the Risk Register) and coordinate its implementation;
	+ Draft the Company’s Risk Map and Risk Register together with Risk Owners;
	+ Review and approve the regular reports on risk management of the Affiliates submitted for consideration by the management bodies of the Affiliates;
	+ Draft and provide the consolidated reports on the risk management to the Company Executive Board and the Board of Directors on a quarterly basis;
	+ Participate in the arrangement of the regular assessment of the Company’s Affiliates RMS, make proposals on the assessment of the “Risk Management” sub-component for the diagnostics of the corporate management and proposals on the procedure of diagnosing the level of RMS development in the Company and the Affiliates;
	+ Discuss strategic investment projects in part of the adequacy of the risk information analysis and transparency;
	+ Develop, implement and update the internal documents on the Company’s risk management;
	+ Inform the Company’s Executive Board and the Board of Directors about sufficient diversion in the risk management process;
	+ Making up and maintain the data base on the implemented risks;
	+ Provide the systematic and advising support to the employees of the Company/Affiliates structural divisions;
	+ Develop the recommendations by the Affiliates based on RMS analysis results;
	+ Interact with the IAO in part of making up an internal audit schedule, information exchange, discussion of the audit results, knowledge and procedure exchange;
	+ Make up proposals on the training courses and workshops for the Company employees;
	+ Arrange and hold sessions and working meetings with the heads of the Company’s structural divisions on the issues of identification and assessment of the revealed and assessed risks of the Company, as well on the risk management methods;
	+ Review and analyze the reports on the implemented risks of the Company/Affiliates structural divisions;
	+ Participate in the meetings of the Risk Management Committee at the Company’s Executive Board, draft the Minutes on the decisions made and communicate them to the required Company’s managers and employees;
	+ Arrange the process of systematic training of managers and employees of the Company in practical aspects of risk management at least once every 2 years;
	+ Draft proposals for the Risk Management Committee at the Company’s Executive Board in relation to the Risk Appetite value and levels of tolerance on Key Risks;
	+ Make comparative analysis with the experience of leading international and Kazakhstani risk management companies;
	+ Arrange the Key Risk factor development and Key Risk factor formation;
	+ Submit the reports on the risk minimization action plan (within Risk Register) to the Risk Management Committee at the Company’s Executive Board;
	+ Monitor the Key Risk factor current status and based on the above information make up reports for the Risk Management Committee at the Company’s Executive Board.

9.7. Heads of the Company’s divisions (Risk Owners) shall play a key role in the process of risk management. Risk Owners shall be personally liable for:

* Timely detection and informing about significant risks in the sphere of own activity;
* Submission of proposals on risk management for integration into the action plan;
* Implementation of the approved measures on risk minimization and coordination of the participants actions;
* Timely providing of information about all implemented risks to the structural division, which is responsible for arrangement of activities on risk management of the Company.
	+ Main functions of the Risk Owners during the process of risk management shall be as follows:
	+ Identify and assess risks on the annual basis with revision (if needed) on the quarterly basis;
	+ Timely prepare the reports concerning risk management, progress and results of the measures implementation on risk minimization and provide these reports for consolidation to the structural division of the Company, which is responsible for arrangement of activities on risk management;
	+ Participate in the development of methodical and regulatory documentation and make proposals concerning the methods and procedures of risk management within their competence;
	+ Develop measures on risk minimization with precise indication of main phases of implementation and responsible persons on the basis of efficiency assessment of the current measures on risk minimization or in case of absence of the current measures;
	+ Timely communicate the content of action plans for risk minimization to the Risk Owners and other concerned persons;
	+ Implement the approved measures for risk minimization and monitor fulfillment;
	+ Timely response to the implemented risks, manage the process for implementation of the applicable measures, and subsequent effect on the risk event and communicate the information to the Company’s Executive Board;
	+ Control external/internal factors, which potentially may result in change of the previous results of risk assessment, communicate the relevant information to the structural division of the Company, which is responsible for arrangement of activities on risk management;
	+ Promote the process of development of the Company’s risk culture.

# 9.8. The main functions and responsibilities of the Risk & Compliance Officer shall be as follows:

# Develop and improve the methodological framework for risk management and internal control, including issues on anti-corruption;

# Assess the effectiveness of measures and control procedures to minimize risks, including compliance risks;

# Analyze quarterly reports on risk management of the Company submitted to the Board of Directors of the Company;

# Make regular assessment of compliance risks;

# Formalize compliance risk assessment results;

# Determine the exposure of the Company's activities and processes to compliance risk;

# Systematically analyze information received through confidential information channels, affecting the degree of the Company's exposure to compliance risk or the risk of the reputation loss.

# The Process of RMS Functioning

10.1. Risk management is a constant, dynamic, uninterrupted and cyclic process, within which frame information exchange and communication between RMS participants shall be carried out. The process of RMD functioning shall consist of phases according to Fig. 2:

**Risks identification**

**Risk control**

**Risk management**

**Risk assessment**

**Determination of the objectives**

**Internal environment**

**Moni**

**t**

**o**

**r**

**i**

**n**

**g**

**External environment**

*Fig. 2. Risk management process*

10.2. Identification of the Company’s objectives shall be a key element within the framework of RMS. Objectives shall be determined before the moment when the Company starts to identify the events, which potentially may have negative influence on achievement of the objectives. Objectives shall be achieved by means of correct strategic planning of the Company’s activities for short-term, medium-term and long-term periods. For these purposes the Company shall develop business plans, development plans, strategic directions of development and long-term strategy.

# Internal and External Environment

11.1. Internal environment shall determine the general relation of the Company to the risks, and how employees consider and response to risks. Internal environment shall be the basis for any other RMS components which include the philosophy of risk management, Risk Appetite, control by the management bodies, ethical values, competence and responsibility of employees, structure of the Company, its capabilities determined by the human, financial and other resources.

11.2. Company’s activities shall be oriented to creation of the internal environment, which increases the understanding of risks by the employees and their responsibility for risk management. Internal environment shall support the following principles of the Company’s business:

* Identify and consider any forms of risks during decision-making as well as support of the comprehensive approach to the risks vision by the Company;
* Support the feeling of ownership and responsibility for risks and risk management at the corresponding levels of the management hierarchy (Company, structural divisions, etc.);
* Control the employees’ activities compliance with the internal policy and procedures of the Company;
* Timely inform about significant risks and drawbacks of the RMS;
* Realize that policy and procedures related to the risk management are obligatory.

11.3. Relationship of the Company with an external environment (business structures, social, regulatory, other state and financial authorities) shall be reflected in the internal environment and influence on its formation. External environment of the Company is sophisticated by its structure and include different aspects of the industry, which are interconnected between each other.

# Determination of Risk Appetite and Levels of Tolerance on the Key Risks

# of the Company

12.1. The Company shall determine Risk Appetite which it is ready to accept for achievement of the strategic objectives (strategic directions of the activities). Risk Appetite influence on allocation of resources, arrangement of processes and infrastructure inside the Company needed for the effective monitoring and response to the risks.

12.2. The Company’s Risk Appetite on the consolidated basis shall be determined by the structural division, which is responsible for arrangement of activities on risk management and then submitted for consideration by the Company’s Board of Directors.

12.3. The levels of tolerance on the Key Risks shall be used for the effective monitoring and non-admission of the exceeded Risk Appetite level in the Company.

12.4. The process of determination of Risk Appetite and levels of tolerance on the Key Risks with the description of approaches shall be regulated by the Instruction “Determination and Monitoring of Risk Appetite and Levels of Tolerance on the Key Risks of UMP JSC, and Key Risk Indicators of UMP JSC”.

# Risk Identification

13.1. Risk identification is determination of the Company’s susceptibility on the consolidated and individual basis to the effect of events, which may negatively affect the ability to achieve the planned objectives and implement assigned tasks as well as determination of direction and necessity of improvement of the risk management process.

13.2. Combination of different methods and tools shall be used for identification of risks, such as identification of risks on the basis of specified objectives and tasks, industry-wise and international comparison, workshops and discussions, interviewing, survey, SWOT-analysis, brainstorming, and analysis of reports in accordance with audits and other inspections, Near Miss analysis, data base on implemented risks, etc.

13.3. Grouping of risks in the following categories shall be used for the classification of risks in the Company:

* + - Strategic Risks;
		- Financial Risks;
		- Legal Risks;
		- Operational Risks;
		- Investment Risks.

13.4. Identified risks which the Company faces during its activities shall be systematized in the form of the Risk Register, which also include different scenarios of possible implementation of the specified risks. The Company’s structural division, which is responsible for arrangement of activities on Risk management, shall initiate the process of identification and formation of the Risk Register once a year. This procedure is described in more details in the Risk Management Rules of UMP JSC.

# Risk Assessment

14.1. The process of Risk assessment shall be carried out for the purpose of identifying of the most Key Risks, which may negatively affect the Company’s activities and achievement of the strategic objectives and tasks. These risks shall be reviewed by the Company’s Board of Directors which shall make decision concerning these risks management and control.

14.2. Risk assessment shall be carried out on the yearly basis at any levels of the Company. As needed, in case of significant change in the Company’s activities and the environment, more frequent assessment shall be carried out for providing of an actual Risk profile of the Company.

14.3. Initially Risk assessment shall be carried out by the Risk Owners on the qualitative basis, and then in case of the calculation’s possibility, Quantitative Assessment may be carried out.

14.4. Any identified and assessed risks shall be indicated in the Risk Map.

14.5. The procedure of the Qualitative and Quantitative Risk Assessment is described in the in the Risk Management Rules of UMP JSC.

# Risk Management

15.1. Risk management shall be carried out in the frame of specified objectives and tasks specified with regard to the Company on the basis of the approved strategies, development plans and other internal documents. The Company shall determine Risk Appetite and make Risks Register no less than once per year.

15.2. The Company shall determine the methods of response to risks and develop annual actions (within the framework of Risks Register) on Key Risks management, which are obligatory for implementation by all divisions.

15.3. Responsibility for implementation of the Preventive Measures for risk management shall be borne by the Risk Owners.

15.4. During determination of the Risk management methods the Company shall take into account the main factors, which affect the selection of:

* + Risk Appetite;
	+ Analysis of expenses and profits related to one or another Risk management method.

15.5. In accordance with COSO methodology selection of the methods of response to the risks and development of actions for Risk management for the purpose of providing the acceptable level of residual Risk shall include the following strategies of response:

* + - Risk reduction;
		- Risk financing;
		- Risk acceptance;
		- Risk avoidance.

15.6. More detailed information concerning the methods and actions plans on Risk management is provided in the Risk Management Rules of UMP JSC.

# Control Actions

16.1. Control actions are policies and procedures, which assist to ensure the implementation of the Risk management actions. Control actions shall be included in business procedures at all levels of the Company. Control actions shall include a wide range of measures such as approval, authorization, verification, coordination, analysis of operations performance, assets security and distribution of duties.

16.2. Business processes owners - heads of structural divisions of the Company shall take the responsibility for the analysis of business processes and determination of necessity and advisability of additional control actions.

16.3. Control over the current risks and performance of Risk Response Measures shall be carried out on the basis of regular reporting on risks in the Company.

16.4.Employees and officers of the Company shall be entitled to confidentially report to the IAO/the Board of Directors of the Company about violation or improper performance of risks or internal control management procedures or other policies and about cases of fraud or violation of the legislation of the Republic of Kazakhstan.

16.5. More detailed information on the internal control is provided in the Internal Control Regulation of UMP JSC.

# Information Exchange

17.1. Risks management structure of the Company shall ensure an adequate flow of information both vertically and horizontally. The objectives of the regular information exchange on the risks of the Company are as follows:

* Establish personal responsibility for the management of various considerable risks for the risks owners;
* Provide timely the Board of Directors with the information on all risks which management shall be performed at the corresponding level of the Company;
* Provide timely the persons responsible for risks management actions with the information on their personal responsibility for the performance of the corresponding actions (including the expected results, terms, sources etc.);
* Ensure the efficient information exchange in the course of cross functional risks management of the Company.

17.2. The Company shall provide the partners, creditors, external auditors, rating agencies and other concerned parties with the information on risks management to make sure that the level of detailing the disclosed information corresponds to the nature and scope of the Company’s activities.

17.3. There are two types of the information sources for risks in the Company: reporting by the divisions and reporting by the Company. The requirements for the content of the risks reporting and the terms of providing reports are specified in the Risks Management Regulation of UMP JSC.

# Monitoring

18.1. The RMS efficiency (including any existing management methods and means of risks control) and, if necessary, its modification and development shall be monitored in the Company. Monitoring shall be carried out on a regular basis no less than once per year.

18.2. Monitoring of the RMS is a considerable part of the whole business process and it assesses both the availability of such system and the implementation of its components. Monitoring shall be carried out through permanent tracking the implementation of the RMS policy, procedures and activities and ad hoc inspections. The scope and frequency of the ad hoc inspections shall be stipulated by the risks assessment and permanent monitoring efficiency. The Board of Directors and the Executive Board of the Company shall be informed about the RMS drawbacks.

18.3. One of the most principal risks and Risk factors monitoring instruments are KRIs. The KRIs allow detecting potential risks and taking preliminary actions in order to avoid Risks or minimize their impact on the Company’s activities.

18.4. The detailed description of the process of KRI determination with the examples and patterns is provided in the Instruction “Determination and Monitoring of Risk Appetite and Level of Tolerance on the Key Risks of UMP JSC”.

# Interrelation of the Risk Management Process with the Strategic Planning Processes and Operating Activity, Budgeting and Motivation

19.1. The Risk management process shall be based on interrelation with the key business processes of the Company.

19.2. The interrelation of the Risk management process with the **strategic planning** process shall include, but not limited to:

* The process of development of strategic plans shall provide detection and analysis of risks which may affect the achievement of the specified strategic objectives;
* The strategic plans of the Company shall provide a set of measures aimed at minimizing risks related to the implementation of the planned strategic initiatives.

19.3. The interrelation of the Risk management process with the **operating activity** process shall include, but not limited to:

* The Risk Owner shall assess objectively temporary and administrative resources required for the implementation of the proposed risks management actions and reflect the obtained assessment in the corresponding Risk report;
* The employees of the divisions shall be provided with the necessary temporary and administrative resources for the implementation of the risks management actions;
* The employees of the structural divisions of the Company shall provide the report on the implemented risks.

19.4. The interrelation of the Risk management process with the **investment activity** and **credit activity** process (during credit receiving, granting, financial assistance and financial guarantees) shall include but not limited to:

* The initiators of the capital investment projects, and productive economic benefits who require the feasibility study, shall detect and analyze the risks which may impact on the implementation and achievement of the specified objectives of the capital investment projects. A set of actions aimed at minimizing the potential adverse effect of the principal risks related to the project implementation shall also be provided;
* The initiators of the credit receiving/granting process (the debt funds raising/providing) shall include the analysis of the risks for financial sustainability of the Company, but not limited to the analysis of the effect on regulatory compliance stipulated by the Executive Board of the Company, and external creditors (if available);
* The initiators of the credit (debt funds) and financial guarantees providing process to the counterparts shall include the analysis of the credit Risk according to the internal documents of the Company.

19.5. The interrelation of the Risks management process with the **budgeting** process:

* Before the approval of the Risk Register by the Executive Board/ Board of Directors of the Company, the Risk Owners shall provide any financial resources for the implementation of the risks management activities and negotiate with the structural division responsible for budgeting;
* The development plan of the Company shall be made with consideration of the Risk oriented approach.

19.6. The interrelation of the Risk management process with the **personnel motivation** process shall include but not limited to:

* The responsibilities of the RMS participants for implementation of all procedures stipulated by the system shall be specified in the internal documents of the Company;
* The provision of encouragement mechanisms aimed to motivate the heads and employees of the Company to act within the RMS in the proper way in accordance with the stipulated terms and performance targets shall also be assured.

# Requirements for Risks Information Confidentiality

20.1. The procedure of handling confidential risks documents and information shall be performed in accordance FI 18.0027 and FI 18.0028.

# Criteria of the RMS Efficiency

21.1.To ensure the RMS efficiency in the structural division of the Company a Risk Coordinator shall be designated to bear responsibility for the risks management activity in his/her structural division and cooperation with the structural division responsible for the risks management activities in the Company, at any stages of the RMS implementation. Training of the Company employees shall be carried out, if necessary, in order to support and increase the Risk culture in the Company.

21.2. The RMS efficiency shall be confirmed by the results of independent inspections carried out by internal and/or external auditors or independent experts.

22.3. The RMS assessment shall be carried out in accordance with the Assessment Procedure of RMS Efficiency of JSC NAC KAZATOMPROM.