JSC Bank CenterCredit

Annual Capital and Risk Disclosure Report

As of 1 January 2025

Изображение выглядит как Красочность

Контент, сгенерированный ИИ, может содержать ошибки.

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# 1. Introduction

## 1.1 Purpose of Disclosure

This report has been prepared to enhance the transparency of the risk profile, capital and liquidity structure of JSC Bank CenterCredit (hereinafter the Bank) in accordance with the requirements of the Basel III and Resolution of the Management Board of the National Bank of the Republic of Kazakhstan (the NBRK) No. 188 dated 12 November 2019 “On Approval of the Rules for Formation of Risk Management and Internal Control System for Second-Tier Banks and Branches of Non-Resident Banks of the Republic of Kazakhstan”, and Resolution of the Management Board of the National Bank of the Republic of Kazakhstan No. 170 dated 13 September 2017 “On Setting Regulatory Ratios and Methods for Calculating Prudential Ratios and Other Mandatory Norms and Limits, the Size of Bank Capital, and the Rules For Calculation of Foreign Currency Exposure and Its Limits”. The report covers data as of 1 January 2025, and is intended for shareholders, investors, counterparties, the regulator, and other stakeholders.

## 1.2 About Bank

JSC Bank CenterCredit is one of the leaders in Kazakhstan’s banking system, providing simple and convenient products and services across all regions of the country since 1988.

As of today, the Bank has an extensive branch network serving over 3 million retail and corporate customers through 20 branches and more than 150 banking outlets nationwide.

The Bank’s core areas of activity include commercial banking operations, lending and guarantees, transactions in securities, foreign exchange, and derivative instruments. Its widespread branch network supports geographical expansion within Kazakhstan, aimed at maintaining synergy and diversifying risks and income streams.

The Bank’s strategic vision is centered on being a universal institution focused on retail and SMEs, investing in high-tech to ensure high-quality customer service, and sustainable growth with managed risk and targeted profitabilityИзображение выглядит как дизайн

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Bank CenterCredit published its first Sustainability Report for 2023. The document was prepared in accordance with the GRI (Global Reporting Initiative) standards, subject to recommendations of the ARDFM, SASB (Sustainability Accounting Standards Board), and TCFD (Task Force on Climate-related Financial Disclosures) for non-financial disclosures. The report was verified\* by one of the world’s leading audit firms, KPMG, highlighting the Bank’s commitment to transparency and reliability of the disclosed information. This practice represents a significant milestone among second-tier banks in Kazakhstan.

Bank CenterCredit was the first among Kazakhstani banks to develop and approve the Climate Strategy, reinforcing its leadership in sustainable development and commitment to climate action.

The elaborated Climate Strategy represents a significant milestone both for the Bank itself and for the Republic of Kazakhstan in achieving sustainable development goals. Developed as part of a major ESG transformation, the Climate Strategy focuses not only on risk management, but also on developing and implementing the new “green” economy opportunities. The Bank’s decarbonization goals are exceptionally ambitious and ahead of the national goals, demonstrating leadership in the sustainability and ESG agenda.

The Group of Bank CenterCredit comprises of six subsidiaries:

- BCC Project, a distressed asset management company;

- BCC Invest, broker and dealer activities;

- BCC Leasing, a leasing company;

- Sinoasia B&R (92.45%), a general insurance company;

- BCC Life (100%), a life insurance company;

- BCC-HUB, engaged in technology and solution development and implementation, service improvement, and process automation within the Banking Group.

Thus, members of the Conglomerate cover the full spectrum of the financial sector – banking, both types of insurance, and activities in the securities markets.

# 2. Terms and Definitions

**ARDFM** means the Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market

**Bank** means JSC Bank CenterCredit

**Internal (Economic) Capital** means capital required to cover significant, including potential, risks taken by the Bank, calculated internally by the Bank using proprietary models

**Risk Appetite Statement** means a document approved by the Bank’s Board of Directors describing the aggregate level(s) of significant risks (acceptable risk limits) the Bank is willing to assume or intends to avoid when implementing the Strategy

**Risk Identification** means the process of identifying, assessing the materiality of, and classifying risks

**Supervisory Stress Testing** means a tool used by the competent authority to assess the Bank’s financial stability against hypothetical (stress) scenarios. Based on a unified methodology and scenarios for all participants of the supervisory stress testing, the Bank makes calculations using internal models and submits the stress testing results to the competent authority

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Контент, сгенерированный ИИ, может содержать ошибки.NBRK means the National Bank of the Republic of Kazakhstan

**Non-Financial Risks** mean risks where the damage or benefit is measured not only by direct impact on profit/expense and stock value, but also by effect on the company’s reputation, human capital development, and the overall socio-political environment in the region and in the country as a whole. Non-financial risks include political, social, reputational, environmental, regulatory, corporate governance risks, etc. When determining the permissible and critical non-financial factor, factors such as the possibility of social fallout, mass protests, or political crisis are also considered

**Risk Assessment** means evaluating the likelihood of the risk occurring, the potential loss, and the significance of consequences if a specific risk or aggregate risks assumed by the Bank occur

**Resolution 170** means Resolution of the Management Board of the National Bank of the Republic of Kazakhstan No. 170 dated 13 September 2017 “On Setting Regulatory Ratios and Methods for Calculating Prudential Ratios and Other Mandatory Norms and Limits, the Size of Bank Capital, and the Rules For Calculation of Foreign Currency Exposure and Its Limits”

**Resolution 188** means Resolution of the Management Board of the National Bank of the Republic of Kazakhstan (NBRK) No. 188 dated 12 November 2019 “On Approval of the Rules for Formation of Risk Management and Internal Control System for Second-Tier Banks and Branches of Non-Resident Banks of the Republic of Kazakhstan”

**Risk** means the probability that any expected or unforeseen events will adversely affect the Bank’s financial stability, capital, and/or income

**Risk Appetite** means the aggregate level(s) of significant risks (acceptable risk limits) the Bank is willing to assume to achieve its objectives or intends to avoid when implementing the Strategy

**Self-financing** means direct or indirect financing aimed at funding or acquiring capital. The term “financing” includes equity instruments, debt instruments, loans, and any off-balance sheet financing instruments

**Stress Testing** means a method to assess the potential impact of exceptional but plausible events on the Bank’s financial condition.

**Significant Risks** mean risks that, if realized, would result in deterioration of the Bank’s financial stability

**ESG (Environmental, Social, Governance)** means the Bank’s approaches to funding, investing, and other activities that involve evaluation of the following factors in decision-making:

- Environmental and climate factors, defining the Bank’s role in environmental protection and global and national climate agenda;

- Social factors, defining approaches to relations with employees, suppliers, customers, and society;

- Corporate governance factors, reflecting governance approaches in terms of the Bank’s management, executive remuneration, auditing, internal controls, and shareholder rights

# 3. Corporate Risk Management

The Bank’s organizational structure aligns with its chosen business model, scope of business, types and complexity of operations, and minimizes the conflict of interests while distributing risk management powers between collegial bodies and structural subdivisions based on the Three Lines of Defense model:

1. The First Line of Defense is ensured by the Bank’s structural subdivisions in charge of timely risk identification and assessment, communicating risk information to subdivisions included in the second line of defense, and risk management. The first line of defense conducts transactions within the Bank’s approved risk appetite levels and operates in accordance with the adopted risk management policiesИзображение выглядит как дизайн

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2. The Second Line of Defense is provided by independent risk management, compliance control, and other subdivisions performing control functions (including, within their scope of competence, security, financial control, HR support, legal risk management, and operational risk management subdivisions). Risk management subdivisions perform comprehensive risk analysis within the scope of their authority in the Bank’s activities, monitor adherence to the Internal Capital Adequacy Assessment Process (ICAAP) procedures, generate required reports for the Board of Directors, Finance and Risk Management Committee, and the Management Board, and support critical risk assessment and identification.
3. The Third Line of Defense is ensured by the independent Internal Audit Service responsible for assessing the quality and effectiveness of the risk management and internal control system.

The below is the Bank’s corporate risk management structure:

|  |  |  |  |
| --- | --- | --- | --- |
| **Board of Directors** | | | |
| **Committee under the Board of Directors, the Management Board** | | | |
| ***Types of Risk*** | ***First Line of Defense*** | ***Second Line of Defense*** | ***Third Line of Defense*** |
| Credit risk | Business Subdivisions | Risk Management Subdivision | Internal Audit Service |
| Market risk | Treasury |
| Market risk in the banking book |
| Liquidity risk |
| Operational risk | Business Subdivisions |

# 4. Capital Structure

## 4.1 Capital Structure

The Bank’s capital structure includes Tier 1 and Tier 2 capital. Tier 1 capital consists of core capital, the key components of which are share capital (ordinary shares), retained earnings from prior years and current period, and additional capital in the form of paid-in preference shares less the Bank’s repurchased treasury preference shares. Tier 2 capital includes subordinated debt that meets the criteria established by Resolution of the Management Board of the NBRK No. 170 dated 13 September 2017.

As of the reporting date, the Bank’s equity amounted to KZT 647,754,353 ths. The major portion of equity is represented by core capital totaling KZT 604,398,349 ths. In turn, the main core capital component and driver of the Bank’s equity growth is retained net earningsИзображение выглядит как дизайн

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## 4.2 Capital Adequacy Ratios

According to the data as of 01 January 2025, capital adequacy ratios, including the conservation buffer and systemic buffer, comprise the following:

|  |  |  |  |
| --- | --- | --- | --- |
| No. | Description | Minimum Permissible Capital Adequacy Ratios, including conservation buffer and systemic buffer (%) | Actual Capital Adequacy Ratios, including conservation buffer and systemic buffer (%) |
| 1. | Core capital adequacy (k1) | 10.1% | 16.6% |
| 2. | Tier 1 capital adequacy (k1-2) | 11.3% | 16.6% |
| 3. | Capital adequacy (k2) | 13.0% | 17.8% |

## 4.3 Internal Capital Adequacy Assessment Process

**The Internal Capital Adequacy Assessment Process (ICAAP)** is a set of processes for managing significant risks, subject to the size of assets, nature and complexity of operations, organizational structure, strategic plans, the Bank’s risk profile, regulatory framework, assessment and aggregation of such risks in order to determine the target capital adequacy of the Bank required to maintain stable financial standing and solvency.

The Bank’s risk management subdivision annually prepares the ICAAP compliance report. The purpose of this report is to present information on the ICAAP implementation results, the risks taken, the level of risk appetite, and maintenance of the required capital adequacy level.

The following is information on the ICAAP processes in the Bank:

1. **Identification of Significant Risks**

The purpose of assessing significant risks is to identify those types of risks for which the Bank deems it necessary to establish and employ risk management systems. Risks are considered insignificant if it is reasonably believed that they are either not inherent to the Bank’s current business model, or the possible losses from such unlikely events would not result in significant financial losses, negative impact on the business reputation or liquidity. The risk identification process is carried out by the Bank on a regular basis. The Bank establishes a time interval between regular risk identification processes not exceeding one year. Depending on characteristics of the said events/information, the risk identification process may be performed partially, i.e. focusing on specific types of risks only (occurrence/change of relevance and/or materiality of which is associated with the event under consideration).

1. **Assessment of Significant Risks**

The risk structure in terms of materiality is determined based on the level of potential losses the Bank may incur due to occurrence of the respective risk factorИзображение выглядит как дизайн

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|  |  |
| --- | --- |
| **Materiality Level** | **Potential Losses for the Bank** |
| Significant Risks | The risk factors pose a significant threat to the Bank’s financial stability, and realization of these risks may jeopardize the Bank’s risk appetite targets in terms of capital adequacy. |
| Material Risks | The risk factors pose a moderate threat to the Bank’s financial stability. |
| Insignificant Risks | The risk factors pose a minimal threat to the Bank’s financial stability. |

Depending on the category a risk type is categorized into, requirements for building the risk management system differ:

**Significant risks**: The risk management system for risks classified in this category must fully comply with the requirements of Resolution 188.

**Material risks:** For risks classified in this category, only the following minimum mandatory requirements apply:

* Availability of a risk assessment approach using quantitative or qualitative method;
* Availability of an internal limit system, which may be based on expert judgments;
* Availability of a reporting system that allows monitoring the accepted risk level;
* Assessment of the quality and effectiveness of the system for managing these types of risks is determined in accordance with the audit plan of the Internal Audit Service.

1. **Calculation of Internal (Economic) and Regulatory Capital**

The Bank’s own (available) capital (regulatory capital) is calculated in accordance with Resolution 170, both for the purpose of evaluating prudential capital adequacy ratios and for assessing internal capital adequacy. Internal (economic) capital is calculated based on the Bank’s internal models.

1. **Stress Testing**

The purpose of stress testing is to quantitatively assess the impact of exceptional but plausible adverse scenarios on the Bank’s performance indicators.

The Bank conducts stress testing using (but not limited to) the following methods:

1. Sensitivity analysis;
2. Scenario analysis.

The Bank performs stress testing on a regular basis, and its results are integrated into the Bank’s strategy.

1. **Regulatory Capital Adequacy Planning and Assessment**

The Bank’s regulatory capital adequacy is planned and assessed in accordance with Resolution 170. This process includesИзображение выглядит как дизайн

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1. Projection of financial performance and risk exposure to assess future capital needs;
2. Aggregation of all significant risks and financial metrics;
3. Capital allocation among business lines subject to regulatory limits and acceptable risk level;
4. Integration of these results into strategic business planning.

For the purposes of managing this indicator, the Bank applies additional internal limits as defined in the Bank’s Risk Appetite Statement.

1. **Integration of the ICAAP Results into the Risk Appetite Strategy**

The Bank’s Risk Appetite Strategy is prepared/adjusted when drafting the Bank Strategy. The Board of Directors oversees that the risk appetite strategy is integrated into strategic and budget planning, internal capital and liquidity adequacy assessment procedures, the Bank’s organizational structure, and remuneration policy. The ICAAP results (risk appetite levels, stress test results, etc.) must be taken into account across the Bank processes, including strategic and budget planning, shaping of the Bank’s organizational structure and remuneration policy development.

1. **ICAAP Self-Assessment**

The ICAAP self-assessment is performed to evaluate the compliance of the Bank’s ICAAP with regulatory requirements, assess the completeness and correctness of the ICAAP procedures and elements, and identify weaknesses in the process.

# 5. Credit Risk

**Credit risk** is the risk oflosses occurring as a result of default by a borrower or counterparty on their obligations under the terms of a bank loan contract.

The Bank adheres to the following principles in credit risk management:

1. compliance with the laws of the Republic of Kazakhstan, regulatory legal acts of the Republic of Kazakhstan, and requirements of international standards;
2. Credit decisions are made subject to:

* the Bank’s Risk Appetite Strategy;
* the Bank interests, based on a comprehensive assessment of information provided in good faith, with due diligence and duty of care;
* cost of risk in pricing lending transactions;

1. Ensuring internal control over organization of lending operations.

The Bank’s credit risk management system is aligned with the current market environment, the Bank’s strategy, asset volume, and operational complexity, and ensures effective identification, measurement, monitoring, and control of the Bank’s credit risk in order to maintain capital adequacy to cover such risk, and includes (but is not limited to) the following components:

1) Internal procedures for conducting transactions involving credit risk, and decision-making;

2) Credit administration procedures;

3) Credit risk assessment procedures;

4) Credit monitoring;

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Контент, сгенерированный ИИ, может содержать ошибки.5) Collateral management;

6) NPL management;

7) Assessment of the effectiveness of the credit risk management system.

The Bank’s organizational credit risk management structure is based on the “Three Lines of Defense” principle, distributing responsibilities across the credit risk management process and involving the following process participants:

1. The First Line of Defense – all employees of the Bank’s structural subdivisions involved in the lending process;
2. The Second Line of Defense – the credit risk assessment subdivision;
3. The Third Line of Defense – Internal Audit Service;
4. Governing bodies – the Board of Directors, Committee under the Board of Directors, the Management Board, and the Risk Management Committee of the Management Board;
5. Other structural subdivisions of the Bank.

To maintain risks assumed at an acceptable level, the Bank implements the following credit risk mitigation measures:

* creditworthiness assessment in accordance with creditworthiness analysis requirements;
* continuous monitoring of internal and external credit risk factors;
* limit setting – introduction of restrictions on parameters and metrics of credit risk-bearing positions, maximum permissible values of losses (loss limits), including limit compliance controls and control over their correspondence to the current risk level;
* diversification – reducing credit risk by avoiding excessive risk concentration;
* provisioning – forming adequate reserves for potential losses on active transactions, including loans, loan and equivalent debts;
* securing credit risk-exposed assets with collateral, guarantees, sureties, or other forms of security;
* hedging – insurance against risks by taking positions opposite to a certain risk factor.

The asset classification system by credit risk level provides information to the Board of Directors, the Committee under the Board of Directors, the Bank’s Management Board and other subdivisions involved in the credit risk management process, and allows to assess the Bank’s credit risk both across the balance sheet and by individual asset.

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Контент, сгенерированный ИИ, может содержать ошибки.Information on the Bank credit risk-exposed assets as of 01 January 2025: KZT ths.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Description** | **Defaulted exposures** | **Exposures with principal and accrued interest overdue for more than 90 (ninety) calendar days** | **Non-defaulted exposures** | **Exposures with principal and accrued interest overdue less than 90 (ninety) calendar days** | **Provisions (reserves)** | **Net book value of assets** |
| 1 | Loans | 128 693 345 | 67 208 599 | 3 905 827 030 | 75 131 228 | 173 438 301 | 3 861 082 074 |
| 2 | Debt securities | 0 | 0 | 213 118 603 | 0 | 243 098 | 213 118 603 |
| 3 | Off-balance sheet liabilities | 1 370 095 | 0 | 223 148 143 | 0 | 1 491 542 | 223 026 696 |
| 4 | Total: | 130 063 440 | 67 208 599 | 4 342 093 776 | 75 131 228 | 175 172 941 | 4 297 227 374 |

Credit risk information as of 01 January 2025: KZT ths.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| No. | Description | Total | Unsecured exposures | Secured exposures | Guarantee-secured exposures | Derivative financial instrument-secured exposures |
| 1 | Loans | 3 861 082 074 | 587 193 098 | 3 224 608 519 | 49 280 457 | 0 |
| 2 | Debt securities | 213 118 603 | 213 118 603 | 0 | 0 | 0 |
| 3 | Total, of which: |  |  |  |  |  |
| 4 | Defaulted exposures | 41 644 693 | 7 140 106 | 33 620 008 | 884 578 | 0 |

For the purpose of assessing the potential impact of possible events on the Bank’s financial standing, the subdivision responsible for credit risk assessment performs stress testing of the loan portfolio.

Loan portfolio stress testing is used by the Bank as a tool to evaluate the potential impact of internal and external factors on the loan portfolio that may result in significant deterioration or losses in the loan portfolio.

The objectives of loan portfolio stress testing are as follows:

1. to identify sources of potential credit risk threats and estimate potential expected losses due to occurrence of stress situations;
2. to define solutions and actions required to mitigate credit risk;
3. to prepare an action plan for adverse situations;
4. to develop recommendations and forecast the Bank’s lending activity;
5. other objectives.

The Bank’s loan portfolio is stress tested by the credit risk assessment subdivision on the resolution or instruction of the Risk Management Committee of the Management Board, the Management Board itself, the Committee under the Board of Directors, at the request of the ARDFM, or at the subdivision’s own initiative.

The stress testing results are included in the credit risk management reporting.

# Изображение выглядит как дизайн Контент, сгенерированный ИИ, может содержать ошибки.6. Market Risk

**Market risk** is the risk of financial losses on balance sheet and off-balance sheet items driven by adverse changes in the market environment expressed in fluctuations in market interest rates, foreign exchange rates, market value of financial instruments, and commodities.

The market risk management strategy is based on maintaining the break-even principle and aims to ensure an optimal balance between profitability and the level of risks the Bank is willing to accept.

To support its market risk management strategy, the Bank regularly:

1. analyzes the stability of Kazakhstan’s financial system;
2. determines the optimal level of market risks for the Bank;
3. conducts sensitivity analysis for each type of market risk inherent in the Bank’s activities;
4. conducts stress testing of key indicators having a direct or indirect impact on the Bank’s exposure to market risks.

The key areas of the Bank’s activities in managing market risks include:

1. identification, assessment, monitoring, and control of market risks the Bank is or may be exposed to;
2. determination of market risk mitigation tools and the rules for their application, depending on the current state of the Bank’s portfolio and the external environment;
3. shaping an adequate organizational structure for the market risk management system with clear delineation of authorities, reporting responsibilities, and an adequate flow of information;
4. development and oversight of a risk management reporting;
5. improvement of the internal control system to minimize the Bank’s risks.

In conducting its activities aimed at achieving market risk management objectives, the Bank is guided by the following principles:

1. conduction of operations in compliance with the laws and standards of the Republic of Kazakhstan and the fulfillment of obligations undertaken;
2. appropriateness to the nature and scale of the Bank’s operations;
3. clear segregation of market risk management authorities and responsibilities between the Bank’s collegial bodies and subdivisions;
4. setting market risk limits that ensure an adequate market risk level, in line with the Bank’s size, nature of business, financial standing, and the risk appetite indicators as defined in the Bank’s Risk Appetite Statement;
5. stress testing is conducted (at least twice a year) to assess the current market conditions and the Bank’s level of exposure to market risks;
6. back-testing is performed (at least once a year) to assess the adequacy of limits established.

As part of market risk management, the Bank distinguishes the following subtypes of market risk:

1. currency risk;
2. Изображение выглядит как дизайн

   Контент, сгенерированный ИИ, может содержать ошибки.interest rate risk in the trading book;
3. price risk.

The Bank uses the following key management techniques for each market risk subtype, which allow to maintain risk levels within the defined risk appetite values and reduce them when necessary:

1) Limit setting – The Bank sets limits for all financial instruments, transactions in which involve the assumption of market risk.

The Bank distinguishes the following types of limits:

* + Prudential standards – regulated by the NBRK regulatory acts;
  + Internal Bank limits – approved by the Bank’s authorized bodies;
  + Rating limits – recommendations and criteria from international financial institutions and rating agencies related to the Bank’s financial performance.

2) Operational regulation – qualitative risk management through detailed regulation of operations, subject to efficient business process logistics and internal control system principles.

3) Diversification – distribution of assets and liabilities across various components, both at the level of financial instruments and portfolios, and by their individual elements.

4) Risk hedging – one of the risk management methods involving investments made to reduce the risk of unfavorable changes in the price of a particular asset. Hedging consists of neutralizing risks through taking opposite positions on correlated assets.

The Bank determines the level of liquidity required to cover hedging instruments and considers this in the Bank’s liquidity management assessment process.

# 7. Interest Rate Risk in the Banking Book (IRRBB)

The objective of the IRRBB management is to maintain the risk assumed by the Bank at the level as determined by the Bank in accordance with its strategic objectives. The primary priority is to ensure maximum preservation of assets and capital by minimizing (eliminating) potential losses and income deficiency resulting from adverse changes in market interest rates.

In implementing the IRRBB management process, the Bank is guided by the following principles:

1. appropriateness to the nature and scale of the Bank’s operations;
2. The applicable IRRBB assessment methods and tools must not contradict the regulatory documents of the NBRK, the ARDFM, and the Bank’s internal policies;
3. clear segregation of the IRRBB management authorities and responsibilities between the Bank’s collegial bodies and subdivisions;
4. setting limits that ensure an adequate IRRBB level, in line with the Bank’s size, nature of business, financial standing, and the risk appetite indicators as defined in the Bank’s Risk Appetite Statement;
5. stress testing is conducted (at least once every six months) to assess the current market conditions and the Bank’s level of exposure to the IRRBB.

The key areas of the Bank’s activities in managing IRRBB include:

1. identification, assessment, monitoring, and control of IRRBB the Bank is exposed to;
2. determination of IRRBB mitigation tools and the rules for their application, depending on the current state of the Bank’s portfolio and the external environmentИзображение выглядит как дизайн

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3. shaping an adequate organizational structure for the IRRBB management system with clear delineation of authorities, reporting responsibilities, and an adequate flow of information;
4. development and oversight of an IRRBB management reporting;
5. improvement of the internal control system to minimize the Bank’s risks.

The Bank uses the following key IRRBB management techniques, which allow to maintain risk levels within the defined risk appetite values and reduce them when necessary:

1. Limit setting – The Bank sets limits for potential losses occurring as a result of adverse changes in the market interest rates;
2. Operational regulation – detailed regulation of operations, subject to efficient business process logistics and the internal control system principles;
3. Maturity diversification – distribution of assets and liabilities across time intervals, both at the level of financial instruments and portfolios, and by currency;
4. Risk hedging – neutralizing risks through taking opposite positions on correlated assets.

# 8. Operational Risk

**Operational Risk** is the risk of loss resulting from inadequate or failed internal processes, human resources, and systems, or the effects of external events, except for strategic and reputational risks.

In accordance with international practices, standards, and the requirements of regulatory authorities of the Republic of Kazakhstan, the Bank defines the following objectives for its operational risk management system:

1. To cover all types of the Bank’s activities and provide timely management information on the Bank’s significant operational risks to the Management Board, the Committee under the Board of Directors, and the Board of Directors;
2. To elaborate and improve unified approaches to operational risk management and ensure their application in order to ensure that operational risks are properly identified, assessed, and controlled, and significant risks are identified in the Bank’s activities;
3. To develop measures for managing the identified operational risks that are aimed at minimizing the Bank’s significant risks/consequences in decision-making, reducing losses, and ensuring the Bank’s sustainable operations, based on its adopted business model, scale, types and complexity of operations, and risk materiality;
4. To measure operational risk and establish the acceptable risk appetite level, apply quantitative and qualitative indicators to assess the Bank’s performance;
5. To improve the Bank’s internal operational risk control system, effectiveness of preventive measures in order to prevent deterioration of the Bank’s financial soundness by adjusting risk management systems based on the scale of activity and level of risks taken.

The Bank is guided by the following approaches in the operational risk management process:

1. Bottom-up approach, when the sources, causes, and consequences (both potential and realized) of operational risk are identified and assessed, and the approved risk mitigation measures are implemented within the Bank’s subdivisions and processes. This approach is applied on an ongoing basis by the Bank employees and management as part of the Bank’s existing risk management processes/procedures in accordance with job responsibilities and subdivision regulationsИзображение выглядит как дизайн

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2. Top-down approach, when potential consequences of the risk occurrence (financial and/or non-financial consequences, their effect on the Bank’s final performance) are assessed, and capital for operational risk is calculated. For the purpose of taking appropriate measures aimed at improving the operational risk management system, the Bank’s management and collegial bodies regularly review prepared reports on the level of realized operational risks, the status of implementation of risk mitigation measures, fact of breaching the operational regulations and procedures, established powers, limits, and restrictions in accordance with requirements of the Bank’s internal regulations.

The operational risk management system is fully integrated into the Bank’s overall risk management process at all levels of the organizational structure of the Bank and into newly created products, activities, processes and systems, and ensures that the Bank’s operational risk is effectively identified, measured, monitored and controlled for purpose of maintaining capital adequacy to cover such risks.

The Bank defines risk appetite indicators to protect itself from taking excessive operational risks, including when adopting decisions on introducing new products, activities, processes, and systems, or when modifying existing ones. The methodology for defining risk appetite indicators and setting/updating their threshold values, and the process of determining risk appetite are defined in the Risk Appetite Strategy. The Bank documents the risk appetite indicators and thresholds for operational risk in the Risk Appetite Statement.

For effective operational risk management (operational risk identification, measurement, monitoring, and control), and to calculate the value of operational risk, the Bank employs the following key tools:

* + 1. Collection and analysis of internal data on operational risk events;
    2. Collection and analysis of external data on operational risk events;
    3. Description (regulation) of business processes/processes;
    4. Conducting operational risk self-assessments;
    5. Scenario analysis;
    6. Use of audit findings;
    7. Development of risk maps (risk registers) by business processes/processes and Basel II categories;
    8. Insurance of the Bank’s activities against operational risks;
    9. Use of key risk indicators;
    10. Comparative analysis of operational risk tools;
    11. Operational risk reporting.

# 9. Liquidity Risk

Изображение выглядит как дизайн

Контент, сгенерированный ИИ, может содержать ошибки. Liquidity risk is the risk of financial losses occurring as a result of the Bank’s inability to meet its obligations on time without incurring significant losses.

One of the key areas of the liquidity and funding risk management system is to maintain a liquidity buffer consisting of high-quality liquid assets that can be sold or pledged as collateral for receive funding without significant losses or discounts, both under normal market conditions and in times of stress.

Significant risks are identified to determine the types of risks for which the Bank considers it necessary to establish and employ risk management systems.

Liquidity risk and its subtypes are included in the set of risks the banking activity is exposed to and are analyzed for their relevance and materiality in respect of the Bank.

Liquidity risk appetite indicators are cascaded into the system of limits and other restrictions. The threshold values of the risk appetite indicators (including those for liquidity risk) are documented in the JSC Bank CenterCredit Risk Appetite Statement.

To assess liquidity risk, the Bank applies (but is not limited to) the following approaches:

1. Computational and analytical assessment methods, including analysis of the actual liquidity data dynamics, and evaluation of the volume and structure of liabilities maturing at various times and the assets to cover them, including:
2. Cash flow analysis and forecasting;
3. Scenario analysis, allowing to forecast the emergence of factors that may significantly affect the changes in the Bank’s payment flows and liquidity planning.

The Bank uses an early warning indicator that detects potential increase in liquidity risk and risks of funding constraints. The indicator developed identifies negative trends in the Bank’s liquidity and funding levels and provides an accurate assessment for taking timely actions to mitigate the impact of emerging risks on the Bank’s financial position.

The Committee under the Board of Directors monitors the early warning indicators on a monthly basis and, if required, develops action plans to mitigate liquidity risk.

# 10. Risk Profile Assessment Summary

JSC Bank CenterCredit demonstrates a mature, comprehensive, and regulatory-compliant risk management system that covers all significant risk categories. Clearly structured corporate governance, regular multi-level stress testing, a sufficient capital buffer, and developed limiting/hedging tools ensure the Bank’s resilience to realistic stress scenarios. The integration of ESG criteria and early warning indicators enhances the Bank’s long-term financial and non-financial stability. Overall, the Bank’s risk profile is under effective control, which confirms its ability to maintain profitability targets and comply with regulatory requirements even under conditions of heightened external volatilityИзображение выглядит как дизайн

Контент, сгенерированный ИИ, может содержать ошибки..