
June 24, 2024

EXECUTIVE SUMMARY

Opinion on the compliance/non-compliance of "Otbasy Bank" JSC's Social Bond Framework Regulations with the Social Bond Principles.



We assess "Otbasy Bank" JSC's Social Bond Framework Regulation as **compliant** with the Social Bond Principles.

Opinion on assigning the degree of compliance from "Excellent (High)" to "Poor (Low)."



Following the results of the analysis, according to the Principles Compliance Scorecard, we determined the degree of compliance with the Social Bond Principles as **"Excellent (High)"** – "Otbasy Bank" JSC shows an excellent level of management, use of proceeds, project selection, quality of management of raised funds, reporting and disclosure of information on the implemented projects of social importance.

TABLE OF CONTENTS

1. METHODOLOGY	3
2. A BRIEF DESCRIPTION OF THE BANK'S SOCIAL BOND FRAMEWORK REGULATION AND OTHER STRATEGIC DOCUMENTS	4
USE OF PROCEEDS	6
EVALUATION AND SELECTION PROCESSES	6
MANAGEMENT OF PROCEEDS	7
REPORTING	7
3. ASSESSMENT OF THE BANK'S SOCIAL BOND FRAMEWORK REGULATION	8
OVERALL ASSESSMENT AND DETERMINATION OF THE LEVEL OF COMPLIANCE WITH THE PRINCIPLES	8
ASSESSMENT BY THE CRITERION "USE OF PROCEEDS"	9
ASSESSMENT BY THE CRITERION "MANAGEMENT OF PROCEEDS"	10
ASSESSMENT BY THE CRITERION "REPORTING AND DISCLOSURE OF INFORMATION"	11

1. METHODOLOGY

The External Review is an independent assessment (Second Party Opinion) and expresses Green Investment Group's (GIG) opinion on the management, administration, allocation, reporting and disclosure of eligible projects financed by the proceeds from specific financial instruments and their compliance with the Principles of the International Capital Markets Association (Principles).

The Social Bond Principles 2023 were developed by the International Capital Market Association.

The preparation of the External Review includes reviewing relevant documentation, regulatory documents, reports and presentations of the issuer, if any, and other publicly available information that may serve to describe, detail and confirm compliance with the issuer's Social Bond and Social Affairs Policy implementation processes. The information used for these purposes is obtained through direct interaction with the issuer and/or from any public sources that GIG considers reliable.

Criteria for assessment

The opinion (conclusion) is expressed in the following order according to the assessment criteria:

1. Opinion on the compliance/non-compliance of the Issuer's Social Bond Framework with the Social Bond Principles.

This includes meeting the minimum thresholds for all assessment criteria at the same time in order for GIG to confirm that the Issuer's Social Bond Framework is in line with these Principles.

2. Opinion on assigning the degree of compliance from "Excellent (High)" to "Poor (Low)" according to the assessment criteria on the Principles Compliance Scorecard.

In this case, an assessment is provided by calculating a "weighted score of the criterion" considering its relevance. This opinion is supplementary information and is intended to form a measure of compliance with the Principles. This opinion should not be regarded as a credit rating, or any other rating that reflects the degree of creditworthiness or financial attractiveness and vice versa. Any degree of compliance with the Principles other than "Poor (Low)" should be considered to be consistent with the Principles.

The preparation of the External Review is assessed for compliance against four criteria:

- Use of Proceeds
- Project Evaluation and Selection Process
- Management of Proceeds
- Reporting and Disclosure.

The weighted scores for all criteria are summarized and the degree of compliance is determined according to the obtained threshold scores on the Principles Compliance Scorecard:

Threshold score	Score	Definitions
High >4.5	Excellent	The Issuer shows an excellent level of management, allocation of monies raised, project selection, quality of management of monies raised, reporting and disclosure of information on the implemented projects of social importance
Average 3,5-4,5	Good	The Issuer shows a good level of management, allocation of monies raised, project selection, quality of management of monies raised, reporting and disclosure of information on implemented projects of social importance
Satisfactory 3-3,5	Satisfactory	The Issuer shows a satisfactory level of management, allocation of monies raised, project selection, quality of management of monies raised, reporting and disclosure of information on the implemented projects of social importance
Low <3	Poor	The Issuer shows a poor level of management, allocation of monies raised, project selection, quality of management of monies raised, reporting and disclosure of information on the implemented projects of social importance

The final External Review shall be submitted to the Issuer and then subject to public dissemination. Public dissemination shall be made by posting the External Review on GIG's website - www.greeninvest.kz, and may also be made via a press release of news services and/or relevant web resources.

Full information on the GIG's Methodology for Preparation of Second Party Opinion on the Compliance of the Issuer's Green, Social and/or Sustainable Financial Instruments Framework with the Green and Social Bond Principles, the Green and Social Loan Principles, and the Sustainability Bond Guidelines is available at www.greeninvest.kz.

2. A BRIEF DESCRIPTION OF THE BANK'S SOCIAL BOND FRAMEWORK REGULATION AND OTHER STRATEGIC DOCUMENTS

Joint Stock Company "Housing Construction Savings Bank of Kazakhstan" with 100% state participation in the authorized capital was established following the Resolution of the Government of the Republic of Kazakhstan dated April 16, 2003, № 364 to improve and increase the efficiency of long-term financing of housing construction and development of the system of housing construction savings. On December 20, 2020 Bank carried out re-registration of the Joint Stock Company "Housing Construction Savings Bank of Kazakhstan" to Joint Stock Company "Housing Construction Savings Bank "Otbasy Bank" (Bank, the Issuer). From August 2013 to the present day the Bank's only shareholder is National Management Holding "Baiterek" JSC.

The Social Bond Framework Regulation (the Regulation) is applicable to ensure transparency in the Bank's investment attraction using social bonds and implementation of the Bank's social programs. At the same time, the programs implemented by the Bank correspond to the categories of eligible projects according to the Principles.

The Bank's Regulation provides for disclosure of information on the use of proceeds from social bonds, investment directions and the impact of activities on social development and solution of specific social problems on an annual basis on the Issuer's official website <https://hcsbk.kz>.

The accounting, management and monitoring of the use of proceeds is performed by the responsible business owner unit of the Bank, whose detailed work process allows for a positive assessment of compliance with the Principles.

For the implementation of social programs (eligible projects), the Bank shall ensure:

- Transparent and objective process of selection and evaluation of social programs (eligible projects);
- Management of portfolios of loans issued under social programs (eligible projects);
- Monitoring indicators of solving or mitigating a specific social problem and/or achieving positive social outcomes.

Description of the Bank's activities

The Issuer is an operator of state concessional housing programs, where special attention is paid to socially vulnerable segments of the population. The only bank in the country that implements a system of housing construction savings.

The Bank offers its clients: state programs, regional programs with local Akimats, youth programs, programs for military personnel, women's programs, children's programs, etc. and implements other social projects aimed at improving housing conditions and health care.

The Bank adopted the Social Bond Framework Regulation approved by the decision of the Board of "Otbasy Bank" JSC (dated 21.06.2024) to formalize the approach to raising funds, in particular, from the issue of social bonds and using them for the implementation of social programs (eligible projects) consistent with the objectives and principles of the Bank.

The Bank intends to adhere to the key four elements of the Principles on monies raised through the issuance of social bonds:

1. Use of Proceeds
2. Project Evaluation and Selection process
3. Management of Proceeds
4. Reporting

The Bank's regulation is applicable for implementation of social programs (eligible projects), in the field of providing the population of the Republic of Kazakhstan with affordable housing. Monies raised through the issue of social bonds will be intended for the subsequent issuance of housing mortgage loans to improve the housing conditions of citizens of the Republic of Kazakhstan and kandas, persons registered as in need of housing (including as socially vulnerable segments of the population) on the date of application for a housing mortgage loan, as well as working youth, young families, recipients of housing payments, depositors of the Bank, residents of single-industry towns, district centers and rural settlements.

The Bank identifies its active position in solving acute social problems and achieving social effects through the implementation of effective HR policy, observance of human rights and creation of

equal opportunities for employees and the population. In addition, the Bank strives for sustainable development by defining the fundamental norms, principles, rules and approaches to be followed by the Bank in building its management system.

The Bank also declares its commitment to the 17 UN Sustainable Development Goals (SDGs). Of the 17 SDGs, the Bank focuses on 9, which, due to the specific nature of its operations, the Bank can influence:

- poverty eradication;
- good health and well-being;
- quality education;
- gender equality;
- decent work and economic growth;
- Industrialization, innovation and infrastructure;
- sustainable cities and human settlements;
- responsible consumption and production;
- partnership for sustainable development.

USE OF PROCEEDS

By adopting the Regulation, the Bank declares that the raised monies from the issued social bonds will be used to finance or refinance social programs (eligible projects), which are aimed at solving specific social problems and achieving positive social effects and can be measured by quantitative and qualitative characteristics.

Under social programs (eligible projects) according to the Regulation, the Bank accepts projects that meet the following categories, but are not limited to them:

- Ensuring access to finance and financial services;
- Affordable housing;
- Gender equality projects;
- Other social projects defined by internationally recognized sustainability standards, including but not limited to the International Capital Markets Association's Social Bond Principles.

EVALUATION AND SELECTION PROCESSES

According to the Bank's data, the following divisions carry out activities on the evaluation and selection of social programs and implementation of the Regulation on Social Bonds Policy: Banking Products and Technologies Division, Planning and Strategic Analysis Division, and Treasury of the Bank. Decisions are made by authorized collegial bodies in respect of social programs (eligible projects). The process of evaluation and selection of social programs (eligible projects) is described in the Social Bond Framework Regulation of "Otbasy Bank" JSC. The project selection process consists of the following stages:

- screening of lending programs for compliance with the categories of social programs (eligible projects);
- assessing the compliance of programs with the principles of sustainable development;
- carrying out activities to develop the terms of the programs and their main parameters;

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- reviewing and approving the terms and conditions of the programs and products being implemented;
 - decision of the authorized bodies of the Bank regarding the need to raise monies for the purposes of program implementation;
 - engagement of external consultants for evaluation and selection of social programs (eligible projects), if necessary;
 - decision on the project's compliance or non-compliance with the categories and criteria of Eligible Social Projects.

In case a program (project) is recognized as complying with the categories and criteria of the Regulations, it is accepted for implementation.

MANAGEMENT OF PROCEEDS

The Bank's Regulation states that proceeds from social bonds are subject to accounting and control.

The responsible business owner unit of the social program of "Otbasy Bank" JSC will monitor the total amount of eligible assets daily to ensure that it equals or exceeds the total amount of proceeds received from the placement of social bonds, and also check the targeted use of loans issued.

In case there are unused proceeds from placement of social bonds, the Bank has the right to place the unallocated amount of borrowed funds as a result of placement of social bonds in financial instruments permitted for investment under the Bank's internal documents regulating investment activities, namely, in liquid and highly reliable financial instruments that can be sold in the shortest possible time without creating cash gaps when the need for targeted financing arises, that is, until these funds are used for lending. At the same time, the Bank will make every effort to use temporarily available funds in Social Programs as soon as possible per the Bank's internal documents.

If for any reason, the responsible business unit owner of the social program has concluded that the loan is not fit for purpose, the loan disbursed is excluded from the portfolio of loans disbursed under the social program (eligible project).

REPORTING

The Bank declares that it will disclose information on the use of proceeds from social bonds, investment directions, and achievement of social effects on an annual basis on its official website www.hcsbk.kz following the procedure specified in the Social Bond Framework Regulation and the Bank's Information Disclosure Rules.

Reporting will include the following information, which is not exhaustive:

- the nominal value of placed social bonds with the indication of their key characteristics (date, currency, interest rate, bond circulation period, etc.);
- the amount of cash used for lending as well as unallocated balance of proceeds and temporarily placed in financial instruments in accordance with the Bank's internal documents regulating investment activities;
- categorization of eligible social projects in accordance with these Regulation.

In addition, where possible, the Bank will provide aggregated information on the use of proceeds, including performance indicators such as (but not limited to):

- funding levels;
- number of borrowers lent in general and by target groups;
- rate on loans issued by target groups.

3. ASSESSMENT OF THE BANK'S SOCIAL BOND FRAMEWORK REGULATION

In this section we describe the assessment of the Social Bond Framework Regulation and other relevant Bank documents for compliance with the Principles according to Green Investment Group's External Review Methodology. The information used for this purpose has been obtained through direct interaction with the Bank.

OVERALL ASSESSMENT AND DETERMINATION OF THE LEVEL OF COMPLIANCE WITH THE PRINCIPLES

The Bank confirmed that the proceeds will be directed to the implementation of social programs (eligible projects), in the field of providing the population of the Republic of Kazakhstan affordable housing. Monies raised through the issue of social bonds will be intended for subsequent issuance of housing mortgage loans to improve the housing conditions of citizens of the Republic of Kazakhstan and kandas, persons registered as in need of housing (including as socially vulnerable segments of the population) on the date of application for a housing mortgage loan, as well as working youth, young families, recipients of housing payments, depositors of the Bank, residents of single-industry towns, district centers and rural settlements. The categories of eligible social programs financed through social bond proceeds are consistent with the Principles. Social programs (eligible projects) have a social effect taking into account the characteristics of the financed programs and the requirements for them according to the Regulation adopted by the Bank. The processes of assessment and selection of programs (projects) and management of proceeds are also in line with the key elements of the Principles. Per the Bank's Regulation, reporting on the use of proceeds and social impact is subject to annual disclosure and is publicly available on the Bank's official website.

Opinion on compliance/non-compliance of the Bank's Social Bond Framework Regulation with the Principles

Based on our assessment of the criteria for meeting the thresholds, we have determined that the Bank's Regulation meets the mandatory and partially additional values of the criteria and we confirm that the Social Bond Framework Regulation of "Otbasy Bank" JSC complies with the Social Bond Principles.

Opinion on the degree of compliance with the Principles from "High (Excellent)" to "Low (Poor)"

Based on the results of the analysis, according to the Principles Compliance Scorecard, we determined the compliance degree as "High (Excellent)" - the Bank shows an excellent level of management, allocation of proceeds, project selection, quality of attracted proceeds management, reporting and disclosure of information on projects of social importance.

Degree of compliance	Weighted average	Description
High (Excellent)	4.9	The Issuer shows an excellent level of management, allocation of monies raised, project selection, quality of monies raised management, reporting and disclosure of information on the implemented projects of social importance

ASSESSMENT BY THE CRITERION "USE OF PROCEEDS"

The Bank confirmed that the proceeds from the social bonds will be used to implement eligible social programs (projects).

At present, the Bank is implementing projects in the field of providing the population of the Republic of Kazakhstan with affordable housing, including proceeds raised through the issue of social bonds will be intended for the subsequent issuance of housing mortgage loans to improve the housing conditions of citizens of the Republic of Kazakhstan and kandas, persons registered as in need of housing (including as socially vulnerable segments of the population) as of the date of application for a housing mortgage loan, as well as working youth, young people with disabilities, and young people with disabilities.

Implementation of social programs (eligible projects) and, in general, the Bank's activities are aimed at solving specific social problems and achieving positive social effects, which corresponds to the eligible categories of projects in accordance with the Principles. It is also worth noting that the Bank's activities are aimed at selecting and implementing projects in line with the SDGs.

Indicator	Score	Eligibility of the project category according to the Social Bond Principles	Compliance with the threshold value	Weighted score according to the significance of the criterion - 45%
100% of the funds are used to finance/refinance of social projects that show a significant social effect and have been assessed by the issuer in terms of compliance with the categories of eligible projects in accordance with the Social Bond Principles in terms of qualitative and/or quantitative characteristics.	5	<ul style="list-style-type: none"> ensuring access to finance and financial services; affordable housing; gender equality projects 	Yes	2.25

ASSESSMENT BY THE CRITERION "PROJECT EVALUATION AND SELECTION PROCESS"

The Bank's policies and objectives are consistent with the Principles and allow for a thorough review of decision-making processes. According to the Regulation, the project evaluation and selection process is consistent with the Principles. Decisions made within the framework of the Regulation are implemented by the Bank's collegial authorized bodies. The Regulation defines the principles of activity, authorities of the Bank's responsible units, processes of selection of social programs (eligible projects), criteria for their selection, record keeping and monitoring of eligible assets. A program (project) meeting the eligibility qualification is approved and entered into the portfolio of eligible assets for further record keeping. Procedures are also in place to decide on the allocation of unused balances of funds from placed social bonds prior to the appropriate selection of eligible social programs (projects).

Indicator	Score
Mandatory indicators	
1. The issuer's strategy, policies, and objectives are consistent with the Social Bond Principles and allow for a thorough analysis of decision-making processes to select projects that meet the categories of eligible projects	1
2. Disclosure of key methodologies and assumptions used in determining whether projects meet the eligibility categories	1
3. Availability and disclosure of descriptions of eligible projects, actual and/or proposed (planned) for implementation	1
Optional indicators	
4. the Issuer has established/designated a special unit that, among other things, controls the selection and implementation of projects. The staff generally understand the assigned tasks and have experience supporting social projects. Involvement of an independent qualified party to select projects corresponding to the categories of social projects.	1
5. The issuer shall have quality certificates of social projects being implemented or conclusions of leading international or independent Kazakhstani verifiers confirming compliance of projects with the required social standards, including opinions on compliance with applicable regulatory requirements for infrastructure facilities prepared as part of project documentation. Leading verifiers are considered to be those with certificates and licenses for expert review or proven experience in assessing social projects, quality of social services (for social projects) and/or compliance with sustainable development investment requirements	-
6. Existence of procedures for identification and management of social risks. Supplier/partner selection policy to take into account the achievement of positive social effects	0,5
Compliance with the threshold value	Yes
Weighted score on the significance of the criterion - criterion score "4.5", criterion weight 20%	0.9

ASSESSMENT BY THE CRITERION "MANAGEMENT OF PROCEEDS"

The Bank's Social Bond Framework Regulation provides for the maintenance of records on the use of proceeds received from the placement of social bonds. According to the Regulation, the disposal of these proceeds will be supervised by the Responsible Unit and following the intended purpose of raising the social bond placement. The Bank also informed that temporarily unused funds from social bonds will be placed in financial instruments permitted for investment under the Bank's internal documents regulating investment activities, namely, in liquid and highly reliable financial instruments that can be realized as soon as possible without creating cash gaps when the

need for targeted financing arises, i.e. until these funds are used for lending. A positive aspect of mitigating the risk on the target compliance of the use and management of funds is that the Bank will monitor the compliance of eligible assets with the Principles and, if necessary, make adjustments to the portfolio of eligible assets. Therefore, we believe that the assessment under the "Management of Proceeds" criterion is in line with the Principles. The Bank's Regulation provide for the possibility of engaging an independent audit and the Bank states that in the event of changes to the Regulation, it will ensure that the External Review is updated with the engagement of an independent consultant to reflect the adopted changes and/or amendments.

Indicator	Score
Mandatory indicators	
1. Proceeds from social bonds are recorded in a separate sub-account/s or transferred to a separate portfolio or otherwise separately accounted for by the issuer	1
2. The Issuer has a procedure for accounting for the proceeds of social bonds	1
3. the Issuer monitors proceeds (including by sub-account/s) on an ongoing basis during the period of validity of the applicable financial instruments and has recorded a procedure for removing eligible assets that have become non-compliant from the portfolio.	1
Optional indicators	
4. Existence of rules for temporary investment of unused funds	1
5. Audit by an external organization or independent internal audit team	1
Compliance with the threshold value	Yes
Weighted score on the significance of the criterion - criterion score "5", criterion weight 15%	0.75

ASSESSMENT BY THE CRITERION "REPORTING AND DISCLOSURE OF INFORMATION"

On the official website www.hcsbk.kz, the Bank has committed to posting the relevant IRDs related to social bonds, selection procedures and evaluation of eligible assets.

In order to improve information transparency, regularity and timeliness of disclosure, reliability and completeness of content, the Bank confirms its position concerning information transparency, regularity and timeliness of disclosure of information on the use of proceeds from social bonds, investment directions, and the achievement of positive social effect. Preparation of reports is provided for on an annual basis and is subject to publication on the Bank's official website www.hcsbk.kz. Following the Bank's Social Bond Framework Regulation, the reporting will include the following information, which is not exhaustive:

- the nominal value of placed social bonds with an indication of their key characteristics (date, currency, interest rate, bond circulation period, etc.);
- the amount of proceeds used for lending as well as unallocated balance of proceeds and temporarily placed in financial instruments following the Bank's internal documents regulating investment activities;
- categorization of eligible social projects under this Regulation.

In addition, where possible, the Bank will provide aggregated information on the use of proceeds, including performance indicators such as (but not limited to):

- funding levels;
- number of borrowers lent in general and by target groups;
- rate on loans issued by target groups.

Indicator	Score
Mandatory indicators	
1. Provides for itemized (with a list of projects) reporting and disclosure of social bond information regarding the use of proceeds	1
2. Reporting provides for disclosure of information on the nature of the investment and the achievement of positive social impact Availability of methodologies and assumptions used to calculate social performance indicators.	1
3. It is envisaged that the disclosed statements will be issued at least once a year and there is a procedure for monitoring the correctness of the data	1
Optional indicators	
4. The Issuer provides for the engagement of independent qualified parties to assess its reporting in relation to the implementation of the Social Bond Framework	1
5 The Issuer conducts internal monitoring of reporting and tracks the correctness of data in public reports at least once a quarter	1
Compliance with the threshold value	Yes
Weighted score on criterion significance - criterion score "5", criterion weight 20%	1

Assumptions and limitations

All rights reserved. No part of this External Review may be reproduced, transmitted or published in any form or by any means without the prior written permission of GIG.

The External Review reflects our opinion on the expected outcomes from the use of green, social and/or sustainable financial instruments and the compliance of the company's green, social and/or sustainable financial instruments framework with the Green and Social Bond Principles, the Green and Social Loan Principles, and the Sustainability Bond Guidelines. There is a possibility of inaccuracy in the final conclusion due to unforeseen changes in the economic environment and financial market. The External Review is an independent assessment, based on information provided by the company according to the GIG assessment methodology, of the compliance of the company's Green, Social and/or Sustainable Financial Instruments Framework with the Green and Social Bond Principles, the Green and Social Loan Principles, the Sustainability Bond Guidelines, does not disclose any confidential information of the company and does not constitute an indication for any investment decisions. The External Review is for informational purposes only, and GIG does not accept any form of liability for damages resulting from the use of this External Review and/or the information provided therein. It is permissible to update the External Review after publication, stating the reasons for such update. To learn more about Green Investment Group's External Review Methodology for compliance of an issuer's Green, Social and/or Sustainable Financial Instruments Framework with the Green and Social Bond Principles, Green and Social Loan Principles, and Sustainability Bond Guidelines, please visit www.greeninvest.kz.

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