

RISK MANAGEMENT POLICY OF "BANK OF BAKU" OJSC

Risk management policy of "Bank of Baku" OJSC defines minimum requirements to the organization of the risk management activities, risk management processes concerning the allocation of authorities, types of bank activities, business processes and information systems.

Main purposes of risk management of the Bank:

1. To ensure effectiveness of the development strategy of the Bank;
2. To optimize results by preventing expected and unexpected losses affecting the income and capital of the Bank;
3. To minimize and keep the risks under control in order not to jeopardize profitability and liquidity of the Bank;
4. To determine risks and take relevant actions when issuing new banking products;
5. To ensure effective functioning of asset-liability management;
6. To provide diversification of assets and liabilities of the Bank at the appropriate level;
7. To ensure maintenance of optimal balance or effective margin between the attracted and placed funds;
8. To fully perform its obligations to the counterparties, creditors and depositors.

General methods and principles used in the Risk management process

Principles and methods of risk management are applied with the purpose of regulating issues stated below:

1. Reflection of operational procedures of all existing services (products) of the bank in respective internal documents;
2. The existence of risk management procedures in case of crisis at the bank;
3. Utilization of "stress-test" methodologies at managing risks;
4. To avoid conducting operations that do not conform to the acceptable risk levels of the bank and give rise to the risks that are not investigated and classified in advance;
5. To minimize the impact of the risks related to any single function of the bank on the whole activity of the Bank;
6. To avoid performing any banking activities that does not conform to the requirements as stipulated by the internal documents;
7. To ensure that the level of risk in any single type of bank activity does not differ excessively from the overall risk level of the other activities of the bank;
8. Continuous implementation of risk management procedures and mechanisms;
9. Reporting risk management systems clearly and transparently to the public;
10. Preventing the use of the Bank's infrastructure for legalization of funds or other properties obtained criminally and with the purpose of financing terrorism;
11. Determination of the limits on performing any operation and adoption of decisions, as well as of the allocation of authorities.

Methods of determination and evaluation of the risks are as follows:

1. Map of risks;
2. Inquiries;
3. Empirical analysis (information systems);
4. Early warning system;
5. Allocation of authorities and decision-making system;
6. Control and monitoring system.

Organization of the risk management and allocation of authorities

Organization of the risk management is implemented by the Supervisory Board of the Bank, Risk Management Committee, Management Board, Chief Risk Officer, Risk Management Department, the Committee of Information Technology, Internal Audit Department, the Department of Business

processes, Corporate Law Department, the Department of Information Technology and business sections within the scope of their power.