

## **RISK MANAGEMENT**

The Bank has developed and implemented the Risk Management Policy for internal control, or basic principles that define:

- 1) General provisions that guide the Bank in its activities in order to minimise all kinds of risks that might cause losses;
- 2) Description of risk transactions and other risks to which the Bank is subject in its activities;
- 3) Control over day-to-day risk transactions of the Bank and transaction risk management.

The Risk Management Policy describes and defines a set of events to be used for decreasing opportunities for the Bank to suffer losses in cases when the Bank's investments are not repaid in time or in full, or when the Bank faces other losses. The Board and the Council of the Bank have approved the Risk Management Policy. Both the Board and the Council have also approved all policies related with the Bank risk management, which are listed below. The Board of the Bank manages and appropriate structural units are responsible for implementation of the risk management system that is defined in the Risk Management Policy. The risk management system is constantly improved taking into account the Bank's activities and development of the financial market – the Internal Audit Unit regularly controls this process.

### ***Interest Rate, Liquidity and Foreign currency Risk***

The banking activities are subject to the interest rate risk that comes from possible interest rate fluctuations against the Bank's domestic and foreign assets and liabilities. Control and management of interest rate risk are defined in the Interest Rate Risk Management Policy. The Financial Market Department is responsible for management and control over the interest rate risk. The Financial Market Department coordinates activities of structural units related with interest rate risk management, as well as plans banking activities. **The Bank considers this risk to be significant and assesses its level as high.**

Control and management of the liquidity risk are defined Liquidity Management Policy developed by the Bank, which includes the risk related with the Bank's ability to timely cover legally grounded liabilities towards customers and other creditors. **The Bank considers this risk to be significant and assesses its level as high.**

The Bank has developed the Foreign Currency Risk Management Policy to control and manage the foreign currency risk. In order to avoid losses that might arise from currency exchange rate fluctuations the Financial Market department manages and the Finance and Risks Department constantly supervises compliance with limitations set for foreign currency positions. **In order to limit risks the Bank uses derivative financial instruments, such as swap transactions and future contracts. The Bank considers this risk to be significant and assesses its level as high.**

### ***Crediting Risk***

Management and control of the crediting risk are defined the in the Crediting Policy developed by the Bank. The crediting risk includes the risk that the Bank's debtors might fail to repay their liabilities in time or in full. The Board of the Bank and Credit Committee manage this crediting risk and the Credit Unit constantly supervises related procedures and limits. **The Bank considers this risk to be significant and assesses its level as high.**

### ***Other Activities Risks***

Other risks may be identified in the banking activities, which may cause unexpected losses. Such risks may come from, for example: human mistakes or fraud, failures of information systems, insufficient internal control and procedures, etc. The Board and appropriate structural units of the Bank supervise and control the aforementioned risks. The Bank maintains resources necessary to ensure flawless functioning.

## About Ratings Assigned by Rating Agencies

The international rating Agency Moody's Investors Services has assigned the following ratings to the Bank – the long-term rating and the Bank Financial Strength Rating.

<b>Rating Agency</b>	<b>Long-Term Rating</b>	<b>Financial Strength Rating</b>	<b>Forecast</b>	<b>Assigning Date</b>
Moody's Investors Services	B1	E+	Stable	05/04/2007
Moody's Investors Services	B2	E+	Stable	09/07/2006

Detailed information is available on [www.moodys.com](http://www.moodys.com)