

# STATUTE OF THE RISK MANAGEMENT DEPARTMENT OF THE STATE OIL FUND OF THE REPUBLIC OF AZERBAIJAN

## 1. GENERAL PROVISIONS

- 1.1. The Risk Management Department (the Department hereafter) is a structural unit of the State Oil Fund of the Republic of Azerbaijan (the Fund hereafter).
- 1.2. The Department is guided by the Constitution of the Republic of Azerbaijan, the laws of the Republic of Azerbaijan, the decrees and orders of the President of the Republic of Azerbaijan, the “Statute of the State Oil Fund of the Republic of Azerbaijan”, the decrees and orders of the Fund, as well as this Statute in its activities.
- 1.3. The Department operates in collaboration with other structural units of the Fund in fulfilling the functions identified by this Statute.
- 1.4. Terms and definitions:  
Benchmark – standard used as a point of reference for measuring and comparison of target return of investment portfolio  
Traditional asset classes – fixed income securities and stocks;  
Alternative asset classes – real estate, private equity and etc.

## 2. THE MAIN OBJECTIVES OF THE ACTIVITIES OF THE DEPARTMENT

The main objectives of the Department are developing investment policy proposals and managing risks within the framework of approved investment policy.

## 3. THE FUNCTIONS OF THE DEPARTMENT

The Department has the following functions:

- 3.1. Developing proposals for setting investment constraints as well as defining risk limits to be considered within Fund’s investment policy.
- 3.2. Investment risk management and performance measurement.
- 3.3. Compliance.

## 4. THE RESPONSIBILITIES OF THE DEPARTMENT

- 4.1. Conducting relevant research, defining risk limits and providing proposals related to investment policy update and benchmark selection;
- 4.2. Participating in the process of monitoring and reviewing the investment strategy for traditional asset class investments ;
- 4.3. Identification, assessment, management and monitoring of risks related to traditional asset class investments within the Funds investment policy framework and development of relevant database;

- 4.4. Measuring the absolute and relative performance of investment portfolio and return decomposition;
- 4.5. Monitoring the allocation of investment portfolio by asset classes and currencies in accordance with investment policy;
- 4.6. Running stress tests and scenario analysis to determine the reaction of investment portfolio to various market and portfolio allocation changes;
- 4.7. Participating in the process of monitoring and review of the investment strategy for alternative investments;
- 4.8. Identification, assessment, management and monitoring of risks related to alternative investments within the Funds investment policy framework and development of relevant database;
- 4.9. Development, implementation and periodic review of compliance related policies relevant to the Fund's investment activities;
- 4.10. Monitoring of compliance of the Fund's investment activities within "Rules on management of foreign currency assets of the State Oil Fund of the Republic of Azerbaijan", "Investment Policy", any other relevant internal documents approved by the Fund's Executive Director; monitoring the Fund's external managers' compliance within investment mandates;
- 4.11. Identification, analysis and management of risks related to changes to global financial regulations relevant to the Fund's investment activities;
- 4.12. Compliance due diligence of the Fund's counterparties; responding to external compliance related due diligence requests;
- 4.13. Prepare and present regular reports on the activities of department;
- 4.14. Execute all other risk management related tasks set by senior management.

## 5. ORGANIZATION OF THE OPERATIONAL PROCESS OF THE DEPARTMENT

- 5.1. The organizational structure and the number of employees of the Department are determined by the Executive Director of the Fund.
- 5.2. The operations of the Department are overseen by the Director of the Department. The Director of the Department is appointed and dismissed from his position by the Executive Director of the Fund. The Director of the Department bears personal responsibility for the accomplishment of the responsibilities assigned to the Department.
- 5.3. The Director of the Department:
  - 5.3.1. Organizes and controls activities of the Department;
  - 5.3.2. Allocates work the employees under his supervision, coordinates their activities and monitors the execution of duties and oversees employee discipline in the workplace;
  - 5.3.3. Informs the management of the Fund on important issues about the activities of the Department;
  - 5.3.4. Provides the management of the Fund with proposals regarding the enforcement of appropriate incentives and disciplinary measures for the employees of the Department;
  - 5.3.5. Ensures the review of incoming letters, requests, complaints and proposals in accordance with the legislation;

- 5.3.6. Ensures the execution of the clerical work of the Department;
- 5.3.7. Represents the Department;
- 5.3.8. In the case of absence of the Department Director, his/her duties are delegated to the Deputy Director of the Department.
- 5.4. The Department consists of the following divisions: Modelling and Performance Measurement Division and Alternative Investments Risk Management Division (the Division hereafter). The activities of the Division are overseen by the Head of Division. The Head of Division is appointed and dismissed from his position by the Executive Director of the Fund. The Head of Division bears personal responsibility for the accomplishment of the responsibilities assigned to the Division. In the case of absence of the Head of Division, his/her duties are delegated to one of the employees within the Division.
- 5.5. The responsibilities of the Department are indicated in the “Responsibilities of the Department” section and covered in articles 4.1-4.14.  
The responsibilities of Modelling and Performance Measurement Division are covered in articles 4.1. – 4.6., 4.13. and 4.14.  
The responsibilities of the Alternative Investments Risk Management Division are covered in articles 4.7. – 4.14.
- 5.6. The Head of Division:
  - 5.6.1. Organizes and controls activities of the Division;
  - 5.6.2. Allocates work duties among the employees under his supervision, coordinates their activities and monitors the execution of duties and oversees employee discipline in the workplace;
  - 5.6.3. Informs the Director of the Department on important issues about the activities of the Division;
  - 5.6.4. Provides the Director of the Department with proposals regarding the implementation of incentives and disciplinary measures for the employees of the Division;
  - 5.6.5. Ensures the execution of the clerical work of the Division;
  - 5.6.6. Represents the Division.