Info on Risk Management

1. Credit Risk Management

1.1. Credit Policies and Guidelines

The Bank's credit policies in the fields of facilities and debts were communicated to all related executive units at the beginning of the current fiscal year as follows:

a) Facilities: Observance of all permissible consumption ceilings; improvement of the facilities portfolio based on term and yield

b) debts: decreasing the debts balance and checkingthe major debts cases

In addition, the most important credit plans and requirements of Bank during the fiscal year 2015-16 are as follows:

- Determining quantitative objectives for granting facilities, debts collection, L/Gs and L/Cs;
- Delimitating the powers of credit related units in granting facilities and collection of debts;
- Fulfillment of the tasks notified by the government in granting facilities;
- Installing and implementing granting facilities monitoring systems;
- Emphasizing on rating customers' capacity for granting facilities;
- Implementation of a control and monitoring system for the quality ofdata reports;
- Reduction of the facilities and liabilities risk by obtaining secure collaterals;
- Full observance of the credit health when granting facilities or liabilities and complying with the circulars and provisions of the policy and regulatory package issued by Central Bank of the Islamic Republic of Iran;
- Exact observance of the regulations on beneficiaries unit, related parties and major facilities and liabilities;
- Holding regular sessions of Restitution and debts Collection Committee at different levels in order to swiftly resolve customers' debt cases;

- Paying especial attention to the reasons for the growth of overdue debts, outstanding paid L/Cs and seized and paid L/Gs; and extraction of their status, and reporting and providing the required proposals; and
- Periodic monitoring by the supervisors considered in the directives, visiting the site of activities related to facilities to check them at random for their progress and procedures, by supervisors, other competent persons and members of the Credit Committee.

1.2. Executive Units for Credit Risk Management

- Credit Affairs Division and subsidiary departments such as Collection Follow-up and Monitoring Dept., Credit Information Dept., Survey and Supervision Dept. and Credits General Dept.;
- Credits sections in all regions and branches;
- All credit pillars such as Credit High Committee, Central Credit Committee, credit committees of regions and credit committees of branches;
- Subcommittee on Credit Risk Management and Risk Management Dept.

1.3. Scope of Authority in Organizational Various Levels for Granting Facilities and Liabilities

Every year, based on the risks assumed, economic situation and the nature of collaterals; the scope of authority for any of Bank's credit pillars is defined and communicated to the related executive units and is reviewed considering the continuous assessment of Bank's credit risk status.

1.4. The Acceptable Level of Credit Risk

Currently, the Bank's acceptable level of credit risk is defined based on the nonperforming loans (NPL) ratio and the capital adequacy ratio, such that as a standard practice, the maximum acceptable credit risk is subject to provision of the Bank's capital adequacy ratio at minimum 8 percent.

1.5. Process of Customers' Credit Rating

The process of customer's credit rating is carried out in two procedures: expertise and mechanized.

- **Expertise Procedure**

The Bank may assesses the customer's (applicants') capacity and credit level by having skilled credit experts and based on financial, economic, technical and customer's recordreviews.

- **Mechanized Approach**

➢ **Internal Credit Rating System:** This system covers all of the branches of Bank integrally and applies the updated data on the applicant's business status, data of the facilities system and data of branches. The system's output includes the scores and rank ofapplicants and warning of necessary alarms. At the present time, the system has the capability of instantaneous reporting at micro-level (branches' scope of authority). The system's establishment at the level of expertise reports is in pilot implementation in Credit Affairs Division and Tehran regions branches' division.

➢ The System of Iran consultancy and Credit Scoring Co.: Tejarat Bank is the first bank in collaboration with and application of the reports of that system. Access to this system is possible for every relevant unit. For each facilities request; a copy of the company's reports (including basic report, standard report, advanced report, inquiries data and records report) as applicable for the case is obtained and maintained together with other documents in the applicant's file.

1.6. Credit Risk Measurement Method

The credit risk measurement in Bank is carried out in two levels related to the applicants of facilities and credit portfolio. For evaluating the risk of facilities applicants; the method of data reviews - credit rating and expertise – credit rating is applied. In this way the quality of data of the credit information forms is enhanced and updated. Then, classifying them in terms of being a natural person or a legal entity, economic sectors, level of authority (based on data or expertise report), nature of facilities, type of liabilities (L/C and L/G) or commitment by promissory note, the applicants arecategorized and scored by the computational engine designed based on the 5C criteria. The applicant is accordingly categorized into one of the following credit ranking groups of excellent, very good, good, medium, weak, very weak, and defaulter. The Credit rating reports, providethe credit ranks(include points based on personality, capital, capacity, collaterals and conditions), beside the notifications and warnings for users. The system fully maintain every customer's records and credit rank, as the course of changes in the customer's credit rank and status may be monitoredover time. The credit portfolio risk is alsomeasured and estimated based on the prescribed ranges of regulatory ratios.

1.7. Credit Risk Reduction Techniques

In order to reduce the credit risk; the bank has set up and implemented the following points:

- establishment of internal credit rating system and mechanized ranking credit customers;
- Standardization of credit customers capacity evaluation
- Smart system for informing the maturity of installments to loans borrowers and guarantors
- Launching a projects monitoring system
- Strict observance of Central Bank's regulatory guidelines such as major facilities and liabilities
- Emphasis on obtaining valid and reliable collaterals and encouraging customers to provide more tradable collaterals by applying various profit rates for the facilities
- Pilot operation of the Beneficiaries Unit System

1.8. Capital Required to Cover Credit Risk

(In IRR Million)

Title / Fiscal Year	March 2014	March 2015
Risk Weighted Credit Asset	**387,420,733**	**450,615,126**
Amount of Covering Capital	**30,993,659**	**36,049,210**

1.9. Criteria of Receiving Collaterals for Credit Risk exposures

Collaterals shall preferentially have the following conditions:

- They have high liquidity;
- Collaterals shall cover the potential risks especially in terms of fluctuations in their value and be proportional to facilities and liabilities; and
- Ensuring the financial ability of pledgers of promissory notes (presented by companies) through their credit rating.

1.10. Mechanisms for Credit Risk Control and Monitoring

Making inquiries by Branches and regions from Credit Affairs Division and Internal Audit Dept. for identification of the individuals subject to beneficiaries unit, supervision of observance on the conditions related to facilities, and submitting periodic report of the status of Bank's credit portfolio, are among the controlling measures in the field of credits.

1.11. Measures For Managing Non-Performing Loans and amount of Provisions Related to Them

In this regard, the following measures are taken:

- Targeting the non-performing loans (NPL) for regions and continuous pursuit of the goal
- Holding regular sessions of NPLs Follow-up and Collection Committee to negotiate with the major debtors of Bank
- Assistance to the customers whom owe to Bank considering the expertise reports provided on their positions and obtaining approval from debts Collection Committee
- Holding the Supreme Committee for Follow-up and Collection of Bank's receivables to review cases of major non-performing loans and to decide on them
- Evaluating and obtaining new collaterals regarding the cases decided
- Check the total amount of provisions taken at the times of presenting financial statements
- Outsourcing the non-performing loans
- Taking non-performing loans provisions in compliance with the issued directives.

2. Liquidity Risk Management

Currently; Tejarat Bank, based on liquidity risk management indicators such as loans to deposits ratio, consumptions to resources ratio, the realization status of Bank's objectives in absorption of deposits and monitoring key customers' deposits position, regularly assesses the Bank's liquidity status.

2.1. Policies and Guidelines of Liquidity Risk Management

In order to keep an appropriate level of liquidity to meet unexpected cash outflows and avoid financing with considerable costs; Tejarat Bank has determined its policies and guidelines as follows:

- Continuous monitoring of the liquidity status for major items of resources and consumptions and the realization status of the related objectives;
- Evaluating and monitoring the effects of economic variables on the status of the Bank's resources and consumptions;
- Monitoring of deposits trend of the Bank's major customers considering their effects on Bank's liquidity situation;
- Using the static and dynamic liquidity gap tables that can show Bank's liquidity situation based on different time classes; and
- Using stress testing and multiple scenarios analysis and based on the liquidity gap tables; the Bank will assess the necessary amount of liquidity.

2.2. Executive Units of Liquidity Risk Management

- High Committee of Resources and Consumptions

This Committee is responsible for the Bank's liquidity management under normal and critical circumstances, managing deposits resources and cost of money, managing liquidity indicators, and resources-consumptions ratios, interest rates of the CentralAccount, considering to the reports received from related units.

- Subcommittee on Liquidity Risk Management

This committee is responsible for compiling and suggesting the strategies, policies and procedures for liquidity risk management and for supervising Bank's liquidity risk status on the basis of the reports from Financial Affairs Division and Risk Management Dept.

- Financial Affairs Division

Financial Affairs Division, checking the liquidity status of the Bank by considering resources and consumptions reports, periodically monitors and surveys the situation of absorbed deposits and consumptions in terms of conformity with the intended objectives. It also assesses the key factors affecting the trend of resources and consumptions and the Bank's major customers deposits status, and provides the necessary reports to the High Committee of Liquidity Risk Management as well as senior officials of the Bank.

- Risk Management Department

Considering that the plan of gap analysis based liquidity risk measurement is being done; after its finalization and establishment, the liquidity risk measurement will be executed by applying techniques such as CFAR (Cash Flows at Risk), scenario analysis and performing stress testing.

2.3. Deposits in Terms of Maturities

The following table shows the balances of Bank's deposits at the end of Iranian fiscal year (March 20,2015) as classified in terms of their maturity:

(In IRR Million)

Duration	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Deposits	332,962,208	48,061,219	108,592,137	42,172,935	131,078,841	1,287,331

2.4. Facilities based on Maturity

The following table shows the balances of Bank's facilities at the end of Iranian fiscal year (March 20, 2015) as classified in terms of their maturity:

(In IRR Million)

Duration	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Deposits	3,890,773	3,747,426	266,793,307	207,268,790	147,924,404

2.5. Composition and Maturities of loans and Other Assets, particularly assets with high liquidity

The following table shows the composition of the assets with high liquidity at the end of Iranian fiscal year (March 20,2015) in terms of the time remaining to maturity up to 6 months.

	Less than 1 month	1 to 3 months	3 to 6 months
Cash Assets	7,343,914	0	0
Due from Central Bank	13,492,310	0	0
Receivables from Banks and Credit Institutions	43,539,353	1,659,292	154,493
Performing Loans	0	3,842,559	60,000
Non-Performing Loans	0	48,214	3,687,426
Other Assets	74,311,333	1,851,020	393,796
Total Assets	138,686,910	7,401,085	4,292,715

2.6. BusinessContinuity Program

Considering the daily resources and consumptions reports and the realization status of the Bank's macro objectives as well as examining the trend of indicators and ratios; the Bank manages its liquidity on a daily basis.

2.7. Program to Confront Crisis

In order to manage the consumptions in critical situations; the Bank takes the following actions:

- Controlling the consumptions of the Bank, including prioritization of loans’ recipients;
- Applying encouraging policies for absorption of resources, including determining preferential profit rates of the CentralAccount;
- Evaluating the status of the interbank market resourceswith the aim of procuring the necessary resources and prevent of debt our account with the Central Bank; and

- Continuous evaluation of the situation in Bank's High Committee of Resources and Consumptions.

2.8. Liquidity Risk measurement Method

Currently, the Bank evaluates its liquidity risk on the basis of computation of the liquidity ratios and analysis of their trends. In this regard and to precisely evaluate the liquidity risk; the program for computing liquidity gap in both dynamic and static status and performing the stress testing to evaluate the Bank's liquidity status in pessimistic circumstances is under process.

2.9. Mechanisms for Liquidity Risk Control and Monitoring

- Extraction of resources and consumptions status table at the level of regions and computing the liquidity ratios and monitoring of their status;
- At the macro level, extraction of the Bank's liquidity status table and continuous monitoring of the ratios and the topics affecting on them; and
- Based on different time classes and taking into account all the cash flows in both static and dynamic status; the liquidity risk managementhas actedin order toextract the Bank's liquidity gap table, where there will be possibility for evaluating all the expected trends.

3. Operational Risk Management

The operational risk is among the most important risks threatening almost all activities of any credit institution. This risk arising from inappropriate and inadequate processes and procedures, personnel and internal systems or from occurrence of external events, which sometimes may has large impacts resulting in bankruptcy of credit institutions.

3.1. Preventive Measures to Avoid Unintentional and Inadvertent Human Errors

Such measures are taken by the inspection and supervision sector of the Bank including Inspection and Security Affairs Divisions, Anti-Money Laundering Dept. and Internal Audit Dept. while one of the mainpriorities of the Bank is systematization of most operations and elimination of flaws in the existing systems in order to avoid any kind of errors. The most important actions taken in this connection are as the followings:

- Regularly inspecting the units and branches' performances and reporting results to the senior officials of the Bank;
- Providing corrective suggestions for eliminating the functional flaws and defects in the inspected units;
- Distant and online inspection of branches;
- Planning to boost the internal controls and implementing some related operational plans;
- Ensuring adequacy of internal controls
- Deploying the anti-money laundering (AML) software system
- Making Bank's accounts smart with the aim of preventing misuses
- Implementing customers' credit rating system

Also among the programs being pursued in this regard are the programs for promoting the colleagues' level of knowledge and awareness about the subjects of protection,security and implementing the centralized monitoring system in the sector of facilities and liabilities.

3.2. Measures to Confront Crisis

In order to confront unexpected events and for managing crisis circumstances and based on the approval dated Feb. 14, 2010 of the then bank’s Board of Directors; the Passive Defense Committee (commanding part) has been established. Also the following sub-committees have been formed in the relevant sections.

1. Passive Defense Supports and Logistics Subcommittee (Section)
2. Passive Defense Dealing with IT Events Subcommittee (Section)
3. Passive Defense Operation Subcommittee (Section)
4. Passive Defense Financial Subcommittee (Section)
5. Crisis committee (Section)in Province/Region Branches Divisions

3.3. Operational Risk Measurement Method

To identify and measure operational risk, the Bank has applied the following methods:

- **Use of the Loss database and start up risk measurement system based on advanced methods:**

Creating a comprehensive database is among key needs of an effective operational risk management. So that such a database helps the Bank to become aware of the risk's probability and severity in the business lines and organizational units, to utilize them in evaluating the operational risk by advanced techniques as well as in evaluating the controls' effectiveness. This system is able to report the events of operational risk based on areas (on the geographical map), organizational location, business lines and types of events in different formats (charts and tables) based on the severity and frequency of them; and making possible the operational risk measurement by advanced methods. Currently, the Bank's loss database has already been created and is in the phase of entering the operational risk loss events data.

- **Key Risk Indicators (KRI):**

In this method, defining key risk indicators from high risk areas and activities, the operational risk of Bank is monitored over time.

- **Risk and Control Self-Assessment (RCSA):**

The risk and control self-assessment method is the systematic approach to identify the control gaps which threaten the achievementof business objectives or organizational units; and to monitor how much the management really eliminates these gaps.

3.4. The Capital Required to Cover the Operational Risk

The capital required to cover the operational risk based on the basic method is as presented in the table below:

(In IRR Million)

	March 20, 2014	March 20, 2015
Capital Allocated for Operational Risk	2,949,094	2,703,753

3.5. Mechanisms to Control and Monitor Operational Risk

The Bank currently has a defined process to monitor the operational risk and reporting thereof; so that the required assessments are carried out in the regular inspections and audits and the reports thereof are submitted to the senior officials. In order to monitor the branches' activities; the Real-time monitoring system was launched in early fiscal year 2005-06. At the early phase, the branches' performance was controlled as offline; but finally after the measures taken, since early fiscal year 2008-09, it has become able to control through online monitoring. In compliance with the decisions adopted; it was decided to shift the system's performance from the approach of general monitoring of branches to the approach of dealing with high risk topics. Accordingly, at the present time, the daily performances of all units of the Bank can be monitored; and based on the various reports taken from the system. the facts will be checked by the inspectors deployed in the mentioned system.

Also among the ongoing programs to monitor the operational risk is the use of the RCSA and KRI processes, making possibility for the monitoring based on the events' severity and probability. In addition; in order to check the reports and to adopt control decisions, the Operational Risk and System Security Management Subcommittee, chaired by Deputy Managing Director in the Field of Planning and Supervision, was formed as a subset of the High Committee of Risk Management. The operational risk items determined the related divisions of Bank are dealt with in this subcommittee.

4. Market Risk Management

4.1. Market Risk Management Policies

In order to maintain the value of the income flows resulting from the transactions portfolio (stock and foreign currency); Tejarat Bank applies the risk management process to mitigate the probable loss resulting from unexpected motions and fluctuations in prices and or in the market rates of its transaction portfolio.

Strategies of Bank

1. The Bank will manage the market risk of its foreign exchange and stock portfolio with respect to the amount of capital base.
2. The Bank will manage the market risk related to its own activities and services.
3. The Bank will assess the effects of changes in variables affecting its transactions portfolio using the scenario analysis and stress testing methods.
4. The Bank will monitor the economic variables and use the pre-warning models to identify and predict the behavior of the variables affecting the market risk.
5. The Bank will evaluate and manage its own profit rate risk.

4.2. Market Risk Assessment Method

1. To estimate the loss expected from stock transactions, Tejarat Bank carries out the planning required to use the value at risk method to be applied in determining the permissible limits.
2. The Bank manages its foreign exchange open position with respect its own base capital.
3. The Bank will apply the methods for using historical data and Monte Carlo simulation to measure the foreign exchange portfolio risk.
4. The Bank continuously monitors its own business environment and analyzes the macroeconomic variables.
5. The Bank will use the duration analysis and the duration gap measurement framework to measure the profit rate risk.

4.3. The Capital Required to Cover the Market Risk

Using the standard method based on foreign exchange open position; the amount of capital required for covering foreign exchange rates for the ends of March 20, 2014 and 2015 is estimated as shown in the following table:

(In IRR Million)

Fiscal Year / Title	March 20, 2014	March 20, 2015
Covering Capital	1,182,978	1,407,115