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INSTRUCTION #181

“On requirements to risk management and internal control systems at credit organizations”

The present instruction is developed in accordance to part 5 of article 42 of the Law of the Republic of Tajikistan «On the National Bank of Tajikistan» for the purpose of evaluation, restriction and accurate risk identification taking into account the form and extent of use of methods for controlling risks and operations, establishes requirements to the credit organization for availability of risk management and internal control systems. Compliance with the requirements of the present Instruction is obligatory for credit organizations.

Chapter 1. General provisions

1. The following concepts are used in the present instruction:

- **front-office** – a division of credit organization the basic function of which is the conclusion of transactions with clients of credit organization;
- **back office** – a division of credit organization the basic function of which is the registration of executed operations in auxiliary accounting on the basis of primary documents received from the front-office;
- **back-testing** – methods for checking the efficiency of risk measurement procedures with the use of historical data on credit organization’s operations and comparison of calculated results with current (actual) results from performance of specified operations;
- **currency risk** – risk of occurrence of expenses (losses) associated with change in foreign exchange rates in the course of implementation by credit organization of its activities. Danger of expenses (losses) arises due to revaluation of credit organization’s currency positions in value terms;
- **gap – methods** for measurement of credit organization’s interest rate risk and liquidity risk on the basis of comparison of credit organization’s volume of assets and liabilities which are susceptible to interest rate changes or are subject to repayment during specific periods;
- **gap – positions** on cash–size of gap between of credit organization’s cash receipts and cash outflows;
- **credit risk** - risk of expenses (losses) arising in consequence of the breach by the client of the initial terms of agreement (contract) for execution of monetary obligations undertaken for

carrying out loan, leasing, factoring, forfeiting operations, operations with issuance of bank guarantees and other operations;

- **operational risk** – risk of losses occurring as a result of non-conformity of character and of credit organization's scales of activity with the requirements of current legislation and procedures for carrying out of banking activities and other transactions, deficiencies or errors during execution of internal processes by employees, functioning of information systems and technologies, as well as due to external events.

- **legal risk** – risk of expenses (losses) arising from infringement by the credit organization of requirements of the legislation of the Republic of Tajikistan or non-conformance of credit organization's practices with its internal documents, and in relation to non-residents of the Republic of Tajikistan - due to legislations of other states;

- **interest rate risk** - risk of expenses (losses) occurring due to adverse interest rate changes, including: risk of emergence of expenses (losses) due to discrepancy of terms of return and repayment of disbursed assets and attracted liabilities of credit organization (by fixed interest rates);

- **risk of occurrence of expenses (losses)** - due to application of different types of interest rates (floating or fixed) by credit organization on its assets and on its liabilities;

- **reputational risk** – risk of expenses (losses) arising as a consequence of negative public opinion or decrease in trust towards the credit organization;

- **liquidity risk** – risk connected with possible default or untimely performance by credit organization on its obligations.

By managing the liquidity risk, the current liquidity of credit organization is controlled as well as the terms of disbursed and attracted funds, income and expenses connected with receipt (payment) of compensation are matched;

- **risk of occurrence of losses** - resulting from implementation by credit organization of its operations;

- **market risk** – risk of expenses (losses) associated with adverse changes of market parameters (exchange rate, interest rate, value of financial instruments);

- **price risk** - risk of expenses (losses) as a consequence of changes in the value of portfolio of financial instruments arising in case of changes to conditions of financial markets affecting market value of financial instruments;

- **risk management system** - this process consists of four basic elements: risk assessment, risk measurement, risk control and risk monitoring;

- **internal control system** – a set of procedures and internal control policies ensuring realization by the credit organization of its long-term goals of profitability and maintenance of reliable system of financial and management reports facilitating the compliance with the legislation of the Republic of Tajikistan and normative legal acts of the National Bank of Tajikistan, policies of credit organization, internal rules and procedures, reducing the risk of losses or reputation of the credit organization;

- **internal audit service** – a division of credit organization carrying out objective assessment and consulting activity for the purposes of improvement of credit organization's activities, provision and implementation of internal audit in the credit organization. Internal audit in the credit organization facilitates the achievement of specific objectives by presentation of

recommendations on improvement of risk assessment processes, risk management and internal control;

- **compliance service** – internal service of credit organization consisting of compliance-controller and participants compliance with the exclusive competence for implementation of internal control of conformity of the credit organization's activities to the requirements of the legislation of Republic Tajikistan, including normative legal acts of the National bank of Tajikistan as well as internal regulations and procedures of the credit organization (compliance risk management).

Another important component of compliance service is the financial monitoring of (counteraction to legalization (money laundering) of incomes received by illegal ways and financing of terrorism);

- **compliance controller** – an employee of the credit organization whose exclusive competence includes the responsibility for coordination of activity of compliance service and control over the realization of compliance - risk management policy by participants compliance;

- **compliance participants** - division and/or employees of the credit organization whose exclusive competence includes implementation of functions on compliance-risk management;

- **compliance-risk** – risk of emergence of expenses (losses) due to non-compliance of credit organization with the requirements of legislation of the Republic of Tajikistan, including normative legal acts of the National Bank of Tajikistan as well as internal rules and procedures of the credit organization. Compliance-risk can lead to deterioration of reputation, falling trust, and possibility of restrictions to the business.

- **cumulative limit** – the most acceptable size of losses for conducting of operations;

- **country (transfer) risk** – risk of emergence of expenses (losses) resulting from the insolvency or unwillingness of a foreign state or resident of a foreign state to satisfy the obligations before credit organization for the reasons which are not connected with financial risks;

- **stress testing** – measurement methods for potential influence on financial position of the credit organization exclusive, but possible events which can influence activity of the credit organization;

- **trade operations** – operations of credit organization concerning acquisition/sale of securities in the interests and at its own expense.

- **custodial** – service that includes safekeeping of certain assets and some functions of management or such as encashment services of income on safekept assets (for example in case of securities), or possibility of sale/purchase of assets if requested by the owner;

- **credit scoring** - this assessment of aspiration of the client for credit repayment and possibilities in the future to liquidate the debt.

2. The credit organization annually no later than July 1 following the reporting period submits its report on the assessment of fulfillment of the requirements of the present Instruction to the National Bank of Tajikistan,.

3. The list of requirements for the availability of risk management and internal control systems are specified in appendixes 1-6 to the present Instruction.

4. The report concerning the execution of requirement criterias established by the present Instruction is submitted to the National Bank of Tajikistan in the form according to the appendix 7 of the present Instruction.

5. Conformity to requirement criterias of the present Instruction is determined by the National Bank of Tajikistan.

In case the share of evaluations "conformance" makes up 80 percent or more from total of requirement criterias and the share of evaluations "non-conformance" - 10 percent or less, the credit organization is considered to be conforming to the corresponding requirements of the present Instruction and within fourteen calendar days from the date of submission of the report specified in the first paragraph of this article submits to the National Bank of Tajikistan for coordination the action plan for elimination of the detected deficiencies of the credit organization's risk management and internal controls systems with specific dates of execution of such actions.

In other cases the credit organization is considered to be not conforming to the requirements of the present Instruction and enforcement measures and/or sanctions stipulated by the legislation of the Republic of Tajikistan can be applied against it.

The evaluation "not applicable" is not included in calculation of share of executed by the credit organization requirement criterias specified by the present Instruction.

The corresponding assessment is determined according to the appendix 7 to the present Instruction.

Chapter 2. Requirements to risk management system

6. Availability of risk management system in a credit organization ensures the compliance with the requirements established by the present Instruction to corporate governance, availability of practice for carrying out credit operations, operations with financial instruments, practice of assets and liabilities management, functioning of information systems and systems of management information.

7. The risk management system of the credit organization ensures the compliance of the credit organization with the requirements specified in Appendix 1 to the present Instruction.

8. Implementation of credit operations includes extending of credits and other types of financing provided with the terms of their repayment to the credit organization with or without interest payments including the purchase of debt securities and other financial instruments, issuance of guarantees, opening of letters of credit, bill discounting and fulfillment of other operations connected with credit risk.

Within the framework of risk management systems, the availability of practice for carrying out credit operations including the provision of mortgage credits which are disbursed to individuals and mortgage credits secured by real estate or provided for the purpose of real estate construction ensures compliance of the credit organization with the requirements specified in Appendixes 3-4 to the present Instruction.

9. Carrying out operations with financial instruments involves the purchase/sale of securities and other financial instruments on which interest payment (compensation) may be effected and are exposed to price.

Asset and liabilities management involves carrying out actions directed on setting the assets and liabilities structure of the credit organization in line with its strategic objectives, considering the corresponding risks as well as maintenance of credit organization's profit margin at a necessary level.

Within the framework of risk management systems, the availability of practice for carrying out operations with financial instruments ensures the compliance of the credit organization with the requirements specified in the Appendix 5 to the present Instruction.

10. Maintenance of functioning of information systems and management information systems requires the availability in the credit organization of program and technical complexes, the personnel and information communication systems, appropriately carried out operations by the credit organization including limiting the degree of susceptibility of the credit organization to operational risk.

Within the framework of systems for risk management, the availability of maintaining the operational activity of credit organization, functioning of information systems and management information systems is allowed if credit organization is compliant with the requirements specified in Appendix 6 to the present Instruction.

Chapter 3. Requirements to internal control system

11. The Supervisory board and the management (Board) of the credit organization provide the availability of an adequate system of internal control and create conditions for execution by the staff of the credit organization of their duties relating to internal control.

12. Internal control system in the credit organization is created for implementation of the following purposes:

- operational and financial efficiency of credit organization's activities that assume checking the efficiency and profitability of managing of credit organization's assets and identifying the probability of losses;

- reliability, completeness and timeliness of financial and management information. This purpose assumes the review of the preparation of accurate and quality financial statements, and other financial documents used by the credit organization in making decisions;

- compliance with the requirements of the legislation of the Republic of Tajikistan that assumes the compliance of credit organization with the legislation including normative legal acts of the National Bank of Tajikistan and as well as requirements of documents defining internal policy and procedures of the credit organization.

13. The internal control system consists of five interconnected elements:

- administrative control;
- risk identification and assessment;
- control and division of authorities;
- information and cooperation;
- monitoring and correction of deficiencies.

Appropriate functioning of these components is an important condition for effective activity of the credit organization, functioning of information systems and compliance with prudential norms and other norms and limits of credit organization established by the National Bank of Tajikistan.

14. Functioning of internal control system should occur by the principle of continuous and alternate passage of the following three stages:

- formation of internal control system (taking into account results of efficiency assessment) by inclusion of procedures in internal regulations of the credit organization;
- application of credit organization's internal regulations at work;
- carrying out the assessment of effectiveness of internal control system.

15. The internal control system involves carrying out of the following procedures:

- quarterly review of the process of credit organization's achievement of its objectives and targets by representation to the Supervisory board and management the reports on current results of the financial activity of credit organization, with enclosed planned indicators of financial activity;
 - review on a monthly basis the heads of divisions standard detailed reports on results of activity in divisions, deviations including from planned indicators and the reasons of non-fulfillment of planned indicators;
 - inspection for the purpose of control and restriction of access to the tangible assets including cash and securities, control of double custodial safekeeping*, carrying out periodic inventory;
 - checking the observance of established risk limits and implementation actions for elimination of detected discrepancies;
 - establishment of requirements by the management of credit organization on the set of operations requiring obligatory authorization;
 - review of the conditions of operations and results of application of models for managing the risks connected with activity of the credit organization;
 - checking the timeliness, reliability, completeness and accuracy of reflection of banking and other operations carried out stipulated by the legislation of the Republic of Tajikistan in accounting and reporting;
 - prevention of legalization (money laundering) of income received by illegal ways and financing of terrorism.

16. In order to check the conformity of internal control system in the credit organization internal audit service is created.

The purpose of internal audit is the assessment of adequacy and efficiency of internal control and risk management systems in all aspects of activity of the credit organization, provision of timely and reliable information about the performance condition by divisions of the credit organization of their assigned functions and tasks as well as provision of effective and efficient recommendations on work improvement.

17. The internal audit service is created for the purpose of solution of challenges, arising from implementation by the Supervisory board and Audit committee of functions on ensuring the availability and functioning of adequate internal control system by providing objective assessment of condition of the internal control system and recommendations on their improvement.

18. Internal audit service for execution of its functions follows the charter of credit organization, regulations on internal control system and internal audit service of credit organization, and as well as other internal documents regulating the activities of credit organization and requirements of the present Instruction.

19. Members of the internal audit service are appointed by the Supervisory board of the credit organization.

20. The internal audit service appoints the inspections of the activity of any division or activity of any official of the credit organization. The internal audit service regularly reports to the Supervisory board (Audit committee).

21. The internal audit service creates the plan and the program of internal audit approved by the Supervisory board of the credit organization.

22. The objectives of internal audit service include the consideration and discussion of the following matters:

- functioning of internal control system;
- preparation of reports for the Audit committee and Supervisory board regarding the activity of internal audit service;
- risk areas in the operations of credit organization which need to be put to internal and external audits in the current year;
- reliability and accuracy of financial information provided to the management and to external users;
- any substantial deficiencies in accounting or in internal audit revealed by external or internal auditors.

23. The main functions of internal audit are:

- checking and assessment of effectiveness of internal control system.
- checking the completeness of application and efficiency of methodology for assessment of bank risks and bank risk management procedures (techniques, programs, rules, orders and procedures for conducting banking operations and transactions, risk management);
- checking the efficiency of functioning of the automated information systems, including control of database integrity and their protection against unauthorized access, existence of action plans in case of unforeseen circumstances;
- auditing the reliability, completeness, objectivity and timeliness of accounting and reporting and as well as the accuracy and timeliness of collection and submission of information and reporting;
- verifying the reliability, completeness, objectivity and timeliness of presentation of other data in accordance to normative legal acts of the Republic of Tajikistan;
- checking the applicable approaches (methods) for preservation of credit organization's property;
- assessment of economic feasibility and efficiency in operations of credit organization;
- checking the internal control processes and procedures;
- checking the systems created for the purpose of compliance with the requirements of normative legal acts of the Republic of Tajikistan;
- assesment of the work of human resources division of the credit organization;
- carrying out control over the efficiency of measures taken by divisions and bodies of credit organization as the result of inspections of divisions of the credit organization maintaining the lower level of detected risks or documenting the decisions made by the

management of division and (or) management bodies on acceptability of revealed risks for the credit organization;

- Other matters stipulated by internal documents of the credit organization.

24. The internal audit service carries out preliminary selection of nominees for the external auditor independently or as part of working group of the credit organization. The proposal for selection of external auditor is presented for consideration to the Audit committee by the Supervisory board of credit organization.

25. The chief internal auditor and internal audit service employees cannot manage (supervise) other divisions of the credit organization at one time as well as be members of the Credit committee and other banking bodies.

26. The chief internal auditor must conform to the requirements of part 5 article 22 of the Law of the Republic of Tajikistan "On banking activity".

27. In the process of execution of their daily functions, credit organization's employees observe the requirements of the legislation of Republic Tajikistan concerning the prevention of legalization (money laundering) of incomes received by illegal ways and financing of terrorism .

28. Employees of the credit organization inform the internal audit service and compliance service regarding the following transactions (operations):

- Any receipts (in the form of deposit, loan, acquisition of securities of credit organization) in the credit organization in the amount specified by the legislation of the Republic of Tajikistan without documents confirming their sources of origin;
- Any transactions in the amount specified by the legislation of the Republic of Tajikistan paid in cash;
- Speculative operations with corporate securities;
- Renewal or assignment of rights of demand for financial instruments without providing any of confirming documents;
- Other operations or transactions that raise doubts or suspicions in their legitimacy.

The credit organization' internal control system ensures the conformity of the credit organization to the requirements set forth above and also specified in appendix 2 to the present Instruction.

Chapter 4. Final provisions

29. Subjects or matters not regulated by the present Instruction are subject to settlement in accordance to the legislation of the Republic of Tajikistan.

Appendix 1
to Instruction on requirements
to risk management and internal control systems
at credit organizations

Requirements to credit organization's risk management system

Type of requirements	Requirement criteria
The Supervisory board formulated the long-term corporate strategy.	<p>The Supervisory board has approved the strategy of the activity of credit organization;</p> <ul style="list-style-type: none"> - corporate strategy of credit organization includes short-term and long-term objectives or goals of the credit organization. Terms of short-term and long-term objectives of credit organization is defined by the credit organization independently; - the short-term and long-term strategy of the credit organization is designed and constantly improved for the purpose of excluding the factors that previously negatively reflected in the activity of the credit organization .
The Supervisory board established the policy on managing the activities of the credit organization the requirements of which includes the provision of efficient corporate governance.	<p>The supervisory board approved the policy on settlement of conflict of interests in the credit organization;</p> <ul style="list-style-type: none"> - The Supervisory board approves the policy for conducting monitoring of credit organization's operations related to risks (credit risk, interest rate risk, liquidity risk, currency risk) carried out by the Board of the credit organization for the purpose of prevention of operations that are in contradiction to credit organization's strategy, policy and procedures or the creation of preferential terms for connected persons/entities; <p>The Supervisory board approves the policy on monitoring of credit organization's operations with connected entities.</p>
The Supervisory board carries out monitoring of credit organization's activities through committees created by the Supervisory board	<ul style="list-style-type: none"> - internal audit service - carries out control of the compliance with internal rules and procedures of the credit organization, execution of reports from internal and external auditors, enforcement measures, sanctions and other requirements of the National Bank of Tajikistan and also presents the information to the audit committee by the Supervisory Board;

	<ul style="list-style-type: none"> - Credit committee, which establishes and approves the requirements for bank credit operations, follows the quality of credits and grants preliminary permission for issuance of credits exceeding the established limits; - Asset and liability management committee - establishes and approves the rules and procedures for borrowings, operations for purchase/sale of financial instruments, investments and issuance of bank guarantees as well as determining the orientation for diversification of assets, profitability, liquidity and capital adequacy.
<p>The Supervisory board periodically receives the necessary information enabling it to trace the financial situation of the credit organization, conduct analysis and assesment of activity of the credit organization in the reporting period.</p>	<p>The Supervisory board analyzes the following reports on monthly basis:</p> <ul style="list-style-type: none"> - summary balance sheet and report on income and expenses of the credit organization in comparison with the same period of last year and planned indicators of activity; - reports on investments: with groups of financial instruments by their types and indication of balance value, market value, profitability and total amount of purchase and sale; - reports on dynamics of classified credits, the size of provisions created against them; - report on new credits received by connected persons and shareholders. <p>Supervisory board analyzes the following reports on quarterly basis:</p> <ul style="list-style-type: none"> - a short analysis of the credit organization's position on interest rate risk; - a short analysis of credit organization's susceptibility to risk of currency exchange rate fluctuations; - a short analysis of current and predicted requirement for regulative capital; - the supervisory board carries out control with clarification of reasons for not taking enforcement measures and other requirements of the National Bank of Tajikistan, including the action plan of measures for elimination of deficiencies in the credit organization's activities.

<p>The Supervisory board on annual basis analyzes the possible conflicts of interests in the functional duties of the senior executives of the credit organization.</p>	<p>Supervisory board analyzes the annual reports on functional duties of executive personnel of the credit organization;</p> <ul style="list-style-type: none"> - the supervisory board (audit committee) compares the terms of crediting of the members of the supervisory board, executive, entities who are large participant of the credit organization and other connected persons, servicing of other credit organization's borrowers including the for the purposes of provision of preferential terms; - Supervisory board (audit committee) authenticates the list of connected person;
<p>Supervisory board analyzes annually the activity of the board within the fiscal year.</p>	<p>Supervisory board annually analyzes the activity of the board in regards to the credit organization's achievements of the projected objectives for the current financial year;</p> <ul style="list-style-type: none"> - supervisory board within its authority may take measures against the members of the credit organization's board in case of nonconformity of the credit organization's activity results to the indicators for the current year.
<p>The Board establishes the procedures for the creation of organizational functional structure of the credit organization;</p> <p>Organizational structure (diagram of organizational structure) includes optionally all credit organization's employees but it includes all executives of the credit organization.</p>	<p>The organizational functional diagram of the credit organization also includes the following:</p> <ul style="list-style-type: none"> - the authority and responsibilities of the credit organization's division or the person in charge of managing of risks or responsible for independent evaluation of and analysis of main risks associated with the credit organization's operations; - management structure of the credit organization conforming to their functional duties; - functional duties and authority of each senior executive of the credit organization; - the procedures of evaluation the activity of each senior executive of the credit organization (excluding the members of the board) within fiscal year including the application of measures and holding responsible in case of nonexecution of target indicators of the credit organization.
<p>Supervisory board approves the methods of preparation of budget/financial plan for</p>	<p>Preparation of annual budgets and strategic plans are carried out by the Board considering the current and future competition, economic environment and normative legal base and additional necessary size of capital of the credit</p>

<p>Short-term period and strategic planning for long-term considering the future economic conditions of the Republic of Tajikistan, foreign countries, residents who are clients of the credit organization and the environment of world's financial and commodity markets.</p>	<p>organization and access to new long-term sources of financing the credit organization's capital.</p>
<p>Board identifies and assesses the potential and possible risks related to credit organization's operations and applies the regulation procedures for risk management.</p>	<p>A division of the credit organization that fulfills the functions of risk management uses the methodics of assessment of adequacy of own capital, profitability and liquidity in case of negative dynamics on world's commodity and financial markets; The Board identifies and analyzes internal and external economic factors that pose potential and possible risk, assesses their degree of influence on financial indicators of the credit organization; - within to cumulative limits approved by the Supervisory board, the Board determines the limits on acceptable size of risks independently by types of banking operations, takes effective measures for control of compliance by the credit organization of the indicated limits.</p>
<p>Board carries out control of possible and potential risks of the credit organization.</p>	<p>The board controls the compliance of cumulative limits by risk types based on their monthly calculations; - the board controls the compliance by the divisions of credit organization of policy of managing of potential and possible risks, conducts monitoring of the compliance of risk sizes within the established limits by divisions of credit organization.</p>
<p>The credit organization possesses policy on diversification</p>	<p>Board applies the policy on diversification of risks by the types of operations, particularly the formation of the structure and size of banking operations taking into</p>

<p>(distribution) of banking risks.</p>	<p>account associated risks for the purposes of maintaining necessary level of adequacy of regulative capital and paying capacity and controls their execution by applicable divisions of credit organization;</p> <ul style="list-style-type: none"> - credit organization possesses organizational functional and operational structure which ensures the realization of the diversification policy.
<p>Organizational and functional structure of the credit organization, procedure for making decisions on financial activity of the credit organization regulated by the internal policy of the credit organization.</p>	<p>Risk management policy stipulates:</p> <ul style="list-style-type: none"> -provisions regulating the authority and functional duties of senior executives of the credit organization including the ones providing for maintenance of double control on correctness of execution of banking operations and control of risks associated to it. -internal audit service conducts inspections of senior executives on revelation of concentration of authority of them and functions for management of credit organization's activity; <p>Risk management and internal control policies determine the authority and functional duties for management of risks of supervisory board members, board and responsible employees of the credit organization.</p>
<p>Credit organization possesses the management accounting system and reporting which allows the Supervisory board and Board to periodically receive information on current financial activity of credit organization and risks accepted by the credit organization.</p>	<p>Formats of information on current financial position of credit organization and accepted risks are standardized in the form of management reports which also identify and measure credit, interest rate, liquidity risk, currency risk, and country (transfer) risks as well as determine the degree of susceptibility to risks, maintaining them within the established limits.</p> <p>Types of management information presented to Supervisory board and Board of credit organization is sufficient for appropriate execution by Supervisory board and Board of credit organization of their functional duties for risk management.</p>
<p>Internal policy of the credit organization on risk management also establishes the</p>	<p>Personnel from risk management division conform to qualification requirements including the availability of relevant qualification for conducting of functional duties for managing of risks.</p>

<p>qualificational requirements for employees whose functions include execution of procedures for managing of risks.</p>	<p>Functional duties of personnel of the credit organization's risk management and internal audit service divisions conform to the operations carried out by them.</p>
<p>The Board and heads (managers) of credit organization's divisions responsible for execution of banking operations carry out monthly monitoring of income (expenses) of the credit organization for the purposes of keeping them within the limits approved by the Supervisory board of the credit organization.</p>	<p>By internal policies it is established the divisions of credit organization follow monthly income (expenses) of the credit organization including by dynamics, by profile and types of banking services, territorial and functional divisions of the credit organization, as well as quarterly on consolidated basis.</p> <p>The internal policies determine authority of the division of the credit organization for management of income (expenses) related to the activity of the division within the cumulative limits established by the Supervisory board.</p> <p>The divisions conduct evaluations (accrual) of expected returns of the credit organization taking into account the size of accepted risks.</p>
<p>The Board conducts monitoring of the distribution of financial resources by divisions of credit organization in charge of fulfillment of banking operations by complying to the established limits approved by the Supervisory board including in relations to risks and profitability, risk and regulative capital of the credit organization.</p>	<p>Board by standard procedures carries out an analysis of the dynamics of the regulative capital and potential risks connected to projected rendering of new banking services.</p> <p>The Board within cumulative risk limits established by the Supervisory board defines the risk limits for each division of credit organization which is involved in conducting financial services.</p>

<p>Internal policy of the credit organization provides for establishment of the cost of services rendered by the credit organization depending directly from expenses incurred from rendering those services, income/ expenses plan, economic conditions, financial markets and risks;</p>	<p>The Board has approved the policy for establishment of interest rates for attracted deposits and extended credits. Policy on establishment of interest rates also provides for the procedure for establishing of interest rates.</p>
<p>Risk management division carries out monitoring of financial indicators of the credit organization and accepted risks on consolidated bases that is taking into account the activity of affiliated credit organizations;</p>	<p>Risk management policy approved by the Supervisory board also defines the procedure for monitoring of financial indicators and accepted risks of the credit organization on consolidated basis. The Supervisory board approves the risk limits for affiliated organizations within the cumulative risk limits of the credit organization determined by the Supervisory board.</p>
<p>Risk management division carries out quarterly monitoring of risk sizes for affiliated organizations and evaluates the correctness and accuracy of risk measurement by affiliated organizations.</p>	<p>Risk management division conducts monitoring of the financial activity of the affiliated organizations and bank holdings; - risk management division has authority for inspection of operations carried out by the credit organizations with bank holdings; - Supervisory board establishes requirements for conditions of transactions with bank holdings; - Board regularly analyzes the data on risk that entities as bank holdings are exposed to as well as risks accepted by the bank holdings that could influence the activity of the credit organization as a whole.</p>

<p>Board carries out regular monitoring of conformance by the credit organization of contractual obligations, normative legal acts of the bank, requirements of the legislature of the Republic of Tajikistan, internal policies on conducting of banking operations.</p>	<p>Divisions of the credit organization assess the compliance of their operations with the requirements of the legislation of the Republic of Tajikistan and internal rules and documents of the credit organization.</p> <p>-internal audit service conducts assessment of the possibility of emergence of additional risks of the credit organization related to adherence to normative legal acts that regulate banking operations when introducing new types of banking services.</p>
<p>Board carries out monitoring of implementation by divisions of the credit organization of the policy on compliance with the normative legal acts that regulate banking operations.</p>	
<p>Board presents to the Supervisory board and shareholders of the credit organization financial and management reports related to the operations of the credit organization.</p>	<p>Supervisory board approved the form and terms of presentation by the Board to Supervisory board (Audit Committee) and shareholders of the credit organization financial and management reports that enable the possibility of assessing the financial indicators of the credit organization.</p> <p>Supervisory board (Audit committee) analyzes the report by outside auditors on enhancement of internal control and risk management.</p>
<p>Board conducts the improvement of accounting and reporting system of the credit organization based on the report by independent international auditors.</p>	<p>Accounting and reporting policy of the credit organization also includes the check of following issues in the process of audit of the credit organization:</p> <ul style="list-style-type: none"> - correctness of processing of daily balances; - conformance of the credit organization's accounting policy to the international financial reporting standards.

	<p>Financial reporting;</p> <ul style="list-style-type: none"> - presence of facts of unreasonable accounting manipulations of the financial reports; - correctness of formation of provisions (reserves) for classified assets; - conformance of accounting methods and report preparation to the requirements established in the accounting policy of the credit organization; - completeness and correctness of disclosure in its annual reports of the structure and risk sizes in the credit organization and its affiliated credit organizations.
<p>Board carries out monthly analysis of critical indicators of economic conditions present in the activity of the credit organization with subsequent presentation of the following report to the Supervisory board.</p>	<p>Risk management division predicts the affects on the regulative capital adequacy, profitability and liquidity to the following factors,</p> <p>For example:</p> <ul style="list-style-type: none"> - a fall in prices of cotton,aluminum: - foreign credit organizations raised interest rates and reduced terms of maturity for credits extended to credit organizations of the Republic of Tajikistan; - devaluation of somoni.
<p>Board devised measures for maintaining the adequacy of regulative capital and liquidity in case of occurrence of any of the factors.</p>	<p>Risk management division conducts regular analysis of:</p> <p>On-balance and off-balance sheet reports of the credit organization as well as the accounts of income and expenses that are sensitive to change in economic conditions;</p> <ul style="list-style-type: none"> - on-balance sheet and off-balance sheet reports as well as accounts for income and expenses of affiliated credit organizations and entities that are banking holdings; - increase of rates and decrease in maturity terms of syndicated credits and other outside loans received by the credit organization; - possible reduction in volume of deposits from legal entities and individuals; - decrease in liquidity, change in the prices of financial instruments; - level of unrecoverability of credits extended in foreign currency.

<p>Credit organization possesses credit scoring* for consumer credits.</p> <p>- (*credit scoring – is the assessment of the client’s intention and willingness to repay the credit and ability in the future to satisfy the debt).</p>	<p>Automation of application registration process for consumer credits;</p> <ul style="list-style-type: none"> - presence of historical database for consumer credits in the past three years; - availability of internal policy that determines terms of provision, approval process and monitoring of consumer credits.
<p>Credit organization has internal policy established by the Supervisory board that defines the terms of provision, approval process and monitoring of consumer credits.</p>	<p>Policy defines the procedure:</p> <p>Evaluation of the creditworthiness of the borrower by credit scoring based on qualitative and quantitative characteristics including:</p> <ul style="list-style-type: none"> - availability of permanent and sufficient income of the borrower; - place of work(job) and position; - duration of work in the current profession; - availability of real estate property acceptable as security collateral; -existence of loan debt including to other credit organizations; -payment discipline on loans of the credit organization; -availability of credit history; -establishment of internal credit rating of the borrower; -determination of the reliability and accuracy of data provided by the borrower; -monitoring and classification of consumer credits; -creation of reserves for consumer credits.

Appendix 2
to the Instruction on requirements
to risk management and internal control systems
at credit organizations

Requirements to internal control system

Name of requirement	Requirement criteria
<p>Management (Board) of the credit organization:</p> <ul style="list-style-type: none"> -bears responsibility for implementation of the strategy and policy of the credit organization approved by the Supervisory board; - develops processes intended to detection, measurement, following and control banking risks; -maintains organizational structure with clear and exact lines of responsibility, authority and reporting; - ensures effective execution of delegated authority; - develops applicable rules for internal control; - keeps track of adequacy and functionality of internal control system. 	<p>Supervisory board of the credit organization is responsible for creation and functionality of adequate and effective system of internal control. Members of the Supervisory board possess necessary knowledge and experience in the field of banking activity and associated risks. Managers (heads) of structural divisions of the credit organization bear responsibility for adequate functioning of the internal control system.</p> <p>Board takes measures that ensure:</p> <ul style="list-style-type: none"> -fulfillment of work on internal control by highly qualified employees, who possess necessary experience and technical capabilities. <p>Supervisory board:</p> <ol style="list-style-type: none"> 1)periodically discusses the efficiency of internal control system with the management of the credit organization; 2)reviews in due time the assessment of internal control prepared by the management, internal audit service and outside auditors; 3) Carries out periodically arrangements that ensure real-time execution by the management of the recommendations and remarks expressed by auditors and supervision bodies concerning shortcomings of internal control system; 4) conducts periodic checks of the adequacy of the credit organization’s strategy and risk limits.

<p>Board of the credit organization works out related rules for internal control; keep track of adequacy and functioning of the internal control system.</p>	<p>Board bears responsibility for executing of Supervisory board instructions including the realization of the strategy and policy and creation of an effective system of internal control.</p> <p>Internal regulations of the credit organization describe the organizational structure with precise indicate on of the spheres of authority, accountability and effective system of information exchange within the whole credit organization.</p> <p>Board delegates authority for design of specific rules and procedures in the sphere of internal control to the head of related division. And management controls the design and execution of appropriate rules and procedures. Management of the credit organization takes measures ensuring fulfillment of work on internal control by highly qualified employees possessing necessary experiences and technical capabilities.</p>
<p>Supervisory board of the credit organization and Board bear responsibility for strict compliance of ethical norms and standards of professional activity for creation of corporate culture emphasizes and demonstrates to the personnel of all levels importance of internal control. All employees of the credit organization recongnize and understand their role in the process of internal control and take full participation in this process.</p>	<p>Operational procedures are clearly described in designed internal documents which are accessible to all interested employees of the credit organization. Employees of the credit organization effectively perform their duties and bring to the information of the management at the appropriate level any operational problems, cases of non-compliance professional etiquette or other violations of the procedures or abuse.</p>
<p>Assessment on constant basis essential risks which have negative affect on achievement of objectives of the credit organization. Assessment encompasses all risks that accepted by the credit organization individually</p>	<p>Constant evaluation by the management of risks that effect the achievement of set objectives, and reaction to changing circumstances and conditions.</p> <p>Revision of the internal control system for the purposes of effective tracking of new or until now uncontrolled risks. Evaluation of new financial instruments and market operations appearing in the</p>

<p>and on consolidated basis (credit risk, country risk, risk for currency restrictions, market risk, interest rate risk, liquidity risk, operational risk, legal risk, and risk of undermining of business reputation. Entering changes in the system of internal control for the purposes of effective solution of new problems or previously uncontrolled risks.</p>	<p>Financial market and analysis of risks associated with this activity. Risk assessment reveals and reviews the internal factors (such as complexity of the credit organization structure, nature of the banking activity, level of qualification of employees, credit organizational changes and staff turnover and other external factors (such as changes in the economic conditions and situation in the banking sphere, technological innovations) which could have negative effect on the achievement of its objectives by the credit organization.</p>
<p>Internal documents provides for creation appropriate structure of control including: -inspections conducted by the management; -system of coordination and delegation of rights; -proper control over various divisions; - checking the abidance of risk limits and subsequent control and elimination of revealed violations; -verification of accounts and cross check inspection; - taking inventory of property.</p>	<p>Carrying out of control extends to all employees of the credit organization including management and employees who work with clients. Management of the credit organization on constant basis receives confirmation on conformity of all aspects in credit organization's activity to the internal documents of the credit organization, and information about the contents of internal documents continues to remain adequate.</p>
<p>Exact separation of employee responsibilities and exclusion of situations that allow for conflict of interest in the sphere of employee accountability. Disclosure, minimization, strict and independent control in the areas of potential conflict of interests.</p>	<p>Division of authority between several employees on: -sanctioned or approved payout of money and their actual payout; -maintenance of accounts that reflect clients' operations and accounts that reflect credit organization's own operations; -conducting operations that relate to «banking» portfolio and «dealer» portfolio; -informal presentation of information to clients about their positions by simultaneous execution of marketing operations with the same clients;</p>

	<p>- assessment of the appropriateness of credit documentation when extending the credit and monitoring of the borrower after issuance of loan;</p> <p>- other areas of occurrence of significant conflict of interests, not softened by other factors. The areas of potential conflict of interests are detected, minimized and an independent third party carries out its constant monitoring.</p>
<p>Presence of adequate and comprehensive financial, operational in nature and information on compliance with established normative requirements as well as coming from outside market information on events and conditions that have relevance for making decisions. Information is reliable, timely, accessible and accurately recorded.</p>	<p>Availability of adequate information and effective delivery of it. Information has the following qualities: relates to the case, reliable, timely, accessible and formalized. Information includes internal financial and operational data, information on compliance to established requirements of the legislature of the Republic of Tajikistan and normative legal acts as well as information coming from outside markets, about events and conditions having relation for making decisions. Internal information is part of the record keeping of based on established order of keeping of accounting records.</p>
<p>Availability of reliable information systems that cover all the major types of activities of credit organization. The given systems including electronic are under independent control. Applicable arrangements have been made for support of information systems in case of emergencies.</p>	<p>Creation of internal reserve procedures and procedures for restoration of functions, rules for creation and procurement of the program maintenance procedures (change of control) and security control for safe physical/logical access. Control over software programs represents computer steps in programs and other manual procedures controlling the processing of operations and other types of banking activities. Design of action plan in case of unforeseen circumstances with using duplicate equipment located outside the credit organization including recovery of critical for the operations of credit organization systems supported by outside service providers. Periodical testing of the program for restoration of banking operations in terms of feasibility in case of occurrence of unforeseen circumstances.</p>

<p>Availability of effective information systems enabling the compliance of the employees of the policies and procedures regulating the responsibilities as well as to bring the necessary information to relevant employees.</p>	<p>Management of credit organization creates effective system of program delivery (documents, defining the operational policy and procedures for activity of the credit organization information for factual operational activity of the credit organization). Creation of credit-organizational structure of credit organization providing adequate flow of information - upward, downward and horizontally. Information flowing from down upwards provides the Supervisory board and Board with necessary information about risks accepted during the activity and about current position of credit organization. Information sent downwards provides the management of middle, lower levels and ordinary employees with objectives of credit organization, its strategies, established orders and procedures.</p>
<p>Monitoring the effectiveness of the internal control on permanent basis. Division of the credit organization and internal audit service conduct monitoring of key risks and their periodical assessment.</p>	<p>Employees of various divisions including the divisions that conduct banking operations, financial control and internal audit conduct the monitoring of the efficiency of internal control. Management of the credit organization assigns the duties to employees in charge of specific aspects of monitoring. Monitoring involves periodic assessment of the whole process of internal control. Frequency of various types of operations of credit organization is determined based on risks associated with them, frequency and character of changes taking place in the operations of credit organization.</p>
<p>Independent in operational sense and competent employees carry out effective and comprehensive internal audit of the internal audit system. Internal audit service as part of the monitoring of the internal control system is accountable to Audit committee by the Supervisory board.</p>	<p>Internal audit service is a part of the permanent monitoring of the internal control system and provides independent assessment of the adequacy of the established rules and procedures as well as their adherence. Internal audit service is independent from day-to-day operations of the credit organization and has access to all types of operations carried out by the credit organization including by its branches and affiliated structures.</p>

<p>Deficiencies of internal control detected by employees of division of the credit organization, internal audit service or other monitoring services in due time are reported to the managers of relevant levels and promptly corrected. Management of the credit organization and the Supervisory board are informed about the substantial defects of the internal control.</p>	<p>Information on deficiencies in the internal control system and ineffective control of risks is immediately brought to the knowledge of corresponding person(s) and by revealing of serious matters passed to the the knowledge of Audit committee and Supervisory board. Related managers make sure for timely correction of the shortcomings. Internal audit service conducts the subsequent transactions or carries out other types of monitoring and promptly informs the Audit committee and Supervisory board about the remaining unsolved shortcomings. Audit committee and Supervisory board of the credit organization create a system of tracking of faults and measures taken to for their elimination. Audit committee and Supervisory board periodically receive reports summarizing all problems revealed by the internal control system.</p>
<p>Supervisory board of the credit organization bears responsibility for provision of credit organization and maintaining by the management of an adequate and effective system of internal control, measuring system and assessing of risks inherent to activities of credit organization, risk identification systems that deal with level of capital of credit organization and applicable methods of monitoring compliance with laws, normative legal acts and internal policies. Once in a year, the Supervisory board checks the internal control system and capital evaluation procedure.</p>	<p>Supervisory board regularly checks the internal control system for ensuring arranged way of doing businessy (with reference to specific objectives). Supervisory board regularly checks for the availability of risk management system, maintains availability of the procedures for detection and adequate control of risks that bank is exposed to when achieving its set objectives; testing integrity, reliability and and timeliness of financial and management informations; Monitoring the compliance with laws and normative legal acts, supervisory policy and internal plans, methodologies and procedures.</p>

<p>Board of credit organizations bears responsibility for development of procedures on identification, measurement, monitoring and control of risks to which the bank is exposed to. Once a year the management reports to the Supervisory board about scope and effectiveness of internal control system.</p>	<p>The board encourages an organizational structure with assignment of responsibilities, powers and reporting relations and ensuring effective implementation of delegated powers. The management bears responsibility for development of procedures of risk management, establishes the corresponding internal control methods and tracks adequacy and effectiveness of internal control system.</p>
<p>Internal audit is part of an ongoing monitoring of internal control system of credit organization and internal procedure of capital assessment since internal audit provides an independent assessment of adequacy and observance of established internal policies and procedures of the credit organization. Internal audit service assists the management and the Supervisory board in effective and efficient execution of their responsibilities.</p>	<p>Main responsibilities of internal audit service are:</p> <ul style="list-style-type: none"> - checking the assessment of adequacy and effectiveness of internal control system; - checking the application and efficiency of risk management procedures and methodology for assessment of risks; - checking the management and financial information systems including system of electronic information and electronic banking services; - checking the accuracy and reliability of accounting records and financial reports; - checking the means for maintenance of assets; - checking the credit organization system on assessment of its capital in connection with its evaluation of risk; - an assessment of efficiency of operations; - testing the transactions as well as functioning of specific internal control procedures; - checking the systems established for ensuring observance of legal and regulatory requirements, codes of conduct and carrying out techniques and procedures; - testing reliability and timeliness of financial reports. - carrying out of special inspections. <p>The management provides constant and full awareness to internal audit service of new developments, products and operational changes for ensuring identification of related risks at early stages.</p>

<p>Credit organization provides for the availability of internal audit service. In performing its duties the management takes all necessary measures to make sure credit organization relies on adequacy of internal audit corresponding to its size and nature of operations. These measures include provision of adequate resources and personnel to internal audit for achievement of its objectives.</p>	<p>Internal audit is carried out by the internal audit service with its own full-time staff.</p>
<p>Internal audit service of credit organization is independent of the activity, subjected to audit, and from daily procedures of internal control. Internal audit has the corresponding status in the credit organization and carries out its activities objectively and impartially.</p>	<p>The service of internal audit carries out activity on its own initiative at all departments, divisions and services of credit organization. Internal audit service has the right to report the data received by it and evaluations and to disclose this information inside the credit organization. The internal audit service operates under direct control of Audit committee and the Supervisory board.</p> <p>The head of internal audit service has powers directly and on its own initiative to contact the Audit committee and the Supervisory board, the chairman of the Supervisory board, or if necessary - with external auditors according to the rules defined by each credit organization in its Procedures on internal audit service. This informing can concern acceptance of decisions by the management of the credit organization contradicting the legislation of the Republic of Tajikistan and internal documents of the credit organization.</p> <p>The service of internal audit is subject to independent audit. This audit is carried out by an independent party such as an external auditor.</p>

<p>Internal audit service is objective and impartial and takes its position enabling it to carry out its functions without bias and interference.</p>	<p>Objectivity and impartiality means internal audit service strives to avoid the conflict of interests.</p> <p>The employees of internal audit service need to be periodically rotated. The auditors recruited from inside of the credit organization shouldn't be engaged in audit of activity or the functions which were carried out by them within last twelve months in the credit organization. Impartiality requires that internal audit service is not involved in operations of the credit organization or in the choice of implementation of measures for internal control. The management can request the opinion of internal audit service on specific matters concerning observance of the principles of internal control. For the purpose of achieving effectiveness, the management can request opinion for the consideration of issues of reorganization, the most important matters on operations, establishment of new divisions, including creation or reorganization of risk monitoring systems, information management systems or information technologies. However, the development and implementation of these measures remains the sphere of final responsibility of Board: advisory function is an additional task which does not disturb the performance of the main objectives or responsibilities and independence of internal audit service.</p> <p>The subsequent statements by internal audit service contain the recommendations concerning shortcomings and defects and suggestions for improvement of internal control.</p>
<p>Professional competence of every internal auditor and internal audit service.</p>	<p>The professional competence of every internal auditor and also her motivation and continuous training are necessary conditions for raising the overall efficiency of the work of internal audit service. Professional competence is evaluated by considering the character performed role and ability of the auditor to collection of information, analysis, assessment and communicativeness.</p>

<p>Any activity and any division of the credit organization is checked by internal audit service</p>	<p>Internal audit service inspects the divisions of the credit organization, including its branch operations, offices and affiliated companies as well as operations with involvement of external auditors. Internal audit includes inspection and assessment of the adequacy and efficiency of internal control and risk management systems.</p> <p>The internal audit service evaluates:</p> <ul style="list-style-type: none"> - observance by the credit organization of policy and risk control; - reliability (including integrity, accuracy and completeness) and timeliness of financial and management informations; - continuity and reliability of the functioning of electronic information systems; - functioning of human resources division; - availability of norms of the legislation of the Republic of Tajikistan and internal procedures of the credit organization concerning the operations of the credit organization, including techniques, principles, rules and instructions of the National bank of Tajikistan in regards to credit organizational structure and management of the credit organization.
<p>Internal audit service periodically but at least once a year, carries out internal audit of divisions of the credit organization that conduct banking operations including for the purposes of improving the risk management and internal control systems.</p>	<p>Policy of the credit organization on internal control defines:</p> <ul style="list-style-type: none"> - all risks to which the bank is subject to; - scope and frequency of carrying out internal control; - the rating system used at carrying out of internal control; - requirements to development of internal control implementation plan for the credit organization; <p>internal audit service according to policies on audit carries out regular internal inspections of all divisions of the credit organization the function of which involves performance of bank operations;</p>

	<p>The employees of internal audit service possess the experience and necessary knowledge of the operations of credit organization’s divisions which are to be audited;</p> <p>Internal policies of the credit organization provide the internal audit service with the right of access to any necessary documents associated with the operations of audited division, including those with commercial, other or confidentiality regime.</p> <p>The internal audit service jointly with the external auditor of the credit organization can hold joint meetings for discussion of deficiencies in the internal control system of the credit organization;</p> <p>Internal audit service participates in the discussions regarding the introduction of new products or services.</p>
<p>The board analyzes the report by internal audit service based on the results of each inspection and makes suggestions to the Supervisory board on applicable measures to be taken for the elimination of detected deficiencies.</p>	<p>Internal control policy stipulates the optimal terms of submission of the results of inspection by internal audit service to the Supervisory board and Board of the credit organization;</p> <p>Authority of internal audit service includes the preparation of recommendations by results of each completed inspection, the execution of which is obligatory by the divisions, herewith the means and conditions of their implementation is defined directly by divisions of the credit organization;</p> <p>Internal audit service monitors the executed and projected actions undertaken by the divisions of the credit organization on the results of internal control, for the purpose of their optimal fulfillment.</p>
<p>Internal audit carries out independent inspection of risk management system developed by the credit organization for correlation of risk with the level of regulative capital of the credit organization and the method established for monitoring of compliance of internal policy in relation to the capital.</p>	<p>Credit organization defines the person or department who are responsible for checking the procedure on assessment of regulative (equity) capital.</p>

<p>Credit organization has the procedures on internal audit service that specify the status and authority of internal audit service at the bank.</p>	<p>The procedures on internal audit service establishes:</p> <ul style="list-style-type: none"> - purposes and the field of activity of the internal audit service; - status of internal audit service at the credit organization, its authority, responsibilities and its relations with other services; - accountability of the internal audit service. <p>The procedure on internal audit service is approved by the Supervisory board.</p> <p>The procedures on internal audit service provides the management with the right of initiative and the employee of internal audit service is permitted to have direct access to any employee of the credit organization, to check any activity or any division of the credit organization, and also to have access to any records, file or data of the credit organization, including management information and protocols (minutes) of all advisory or decision-making bodies which relate to performance of their responsibilities.</p> <p>The procedures on internal audit service provide the conditions by which, the internal audit service can be engaged in provision of consulting services or execution of other special assignments.</p>
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<p>Internal audit includes the audit plan, checking and assessment of available information, reporting the results and monitoring the execution of recommendations and solution of problems.</p>	<p>Internal audit also includes:</p> <p>Financial audit - the purpose of which is to assess the reliability of the accounting system and informations and financial statements prepared based on them;</p> <p>audit compliance - the purpose of which is to evaluate the quality and conformance of the developed systems designed for ensuring compliance with the laws of the Republic of Tajikistan, bylaws, methodologies and procedures;</p> <ul style="list-style-type: none"> - operational audit, the purpose of which is to evaluate the quality and conformance of other systems and procedures, to analyze the credit organizational structures and evaluation of the sufficiency for fulfillment of assigned duties; - management audit the purpose of which is to evaluate the quality of management's approaches to risks and control within the framework of credit organization's set objectives. <p>Management of internal audit service prepares the execution plan for instructed assignments. Audit plan includes the schedule and frequency of planned work on internal audit. The audit plan is based on a methodical assessment of controlling the risks. In a risk management assessment the perception is documented by the internal auditor of primary activity of the credit organization and the related risks.</p> <p>The management of internal audit service makes written records of the principles of risk assessment methodology principles and regularly updates them for the purpose of reflecting the changes in the internal control system in the work process taking into account the new directions of activities.</p> <p>By doing risk analysis the internal audit service also checks the direction of activities and divisions of the credit organization as well as the internal control system. Based on the results of risk analysis, the audit plan is prepared for some years ahead taking into account the degree of risks inherent in this or that type of activity. The plan also takes into account the expected development and innovations usually</p>
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	<p>higher degree of risk for new types of activities and intentions to subject all important types of activity and divisions to audit within a reasonable period of time.</p> <p>The audit plan also includes time for performance of other tasks, such as specific inspections, pronouncement of conclusions and training. A section for transfer of necessary resources for recruitment of staff and other requirements.</p> <p>The audit plan is developed by internal audit service and is approved by the Supervisory board (Audit committee).</p> <p>For performance of each audit assignment, it is necessary to prepare an audit program. The audit program includes the purposes for carrying out the audit.</p> <p>All procedures for performance of assignments of audit are made out in writing by the corresponding employees which reflect the results of completed inspections with emphasis on assessments in the report. A written audit report is prepared for each assignment. The audit report includes the purpose and scope of the audit. It also includes conclusions and recommendations. The management of the credit organization should ensure the timely implementation of recommendations made by internal audit service.</p> <p>The internal audit service monitors the implementation of its recommendations and prepares and submits a report at least once in a half year to the management of the credit organization, the Supervisory board, depending on the structure of the corporate governance.</p>
<p>The head of internal audit service (Chief internal auditor) bears responsibility for ensuring compliance by internal audit service with the principles of internal audit.</p>	<p>The head of service of internal audit ensures the observance of the standards of internal audit. In particular, the head of internal audit service provides the development of audit plan, programs, techniques and procedures of the activity of internal audit service. The head of internal audit service provides professional competence, training for the personnel and availability of necessary resources.</p>

<p>The Supervisory board of the credit organization bears responsibility for effective management of compliance-risk.</p> <p>Board of credit organization bears responsibility for effective management of compliance-risk</p>	<p>Internal audit service regularly reports to the Supervisory board (Audit committee) and advises them concerning the effectiveness of internal control system and achievement of the objectives internal audit service as well as informs the management and the Supervisory board the course of implementation of the audit plan.</p> <p>The Supervisory board (Audit committee) considers the credit organization (in respect to the personnel, and as well as in other respects) internal audit service, the audit plan, reports on the work done, a summary of recommendations of internal audit service and state of affairs with their performance.</p> <p>The credit organization establishes the control procedures (including for carrying out of repeated inspections) in order to take measures for the elimination of violations revealed by internal audit service; information regarding the measures taken and execution of recommendations and elimination of the revealed violations is presented to to the Supervisory board and the Board by the internal audit service.</p> <p>The Board of the credit organization bears responsibility for realization of compliance-risk management policy and ensuring compliance with compliance-risk management policy and presentation of report to the Supervisory board concerning the effectiveness of managing the compliance-risk.</p> <p>The Board of the credit organization bears responsibility for development of compliance-risk management policy containing requiring the observance by the Board and employees of the credit organization of basic principles of compliance-risk management.</p> <p>The board ensures the compliance of compliance-risk management policy and takes remedial and disciplinary measures, in case of detection of compliance-risk.</p> <p>Board of the credit organization jointly with compliance-service:</p> <ul style="list-style-type: none"> - Annually identifies and estimates emergence of compliance-risk problems and approves the action
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	<p>plan of measures on their elimination.</p> <p>The action plan contains shortcomings of compliance-risk management and requirement for revision of internal policy and procedures for effective management of compliance-risk;</p> <ul style="list-style-type: none"> - annually informs the Supervisory board on the efficiency of compliance-risk management; - Immediately informs the Supervisory board about any operations which could lead to losses or losses of business reputation as a result of non-compliance with requirements of the legislation of the Republic of Tajikistan.
<p>Compliance service is independent while managing of compliance-risk at the bank</p>	<p>Compliance service has access to any information necessary for implementation of functions for management of compliance-risk within the framework of authority assigned on it for management of compliance-risk;</p> <ul style="list-style-type: none"> - has official status within credit organization, relevant procedures, authority and independence. <p>Compliance-controller is appointed for a position by the Supervisory board.</p>
	<p>Procedures on service compliance stipulates:</p> <ul style="list-style-type: none"> - accountability of compliance– controller to the Supervisory board; - accountability of compliance participants compliance–controller concerning the management of compliance - risk; - duties and authorities of compliance–controller and participants compliance; - independence of compliance-controller and participants compliance in terms of functions, assigned to them for management of compliance–risk; - relationship of compliance service with other divisions of the credit organization and internal audit service; - the right of carrying out checks and identification of possible violations of policy of management compliance-risk and involvement of internal and external experts for performance of this task; - the right to freely express and disclose the results of inspections to the Board and if necessary to the Supervisory board of the credit organization.

	<p>The compliance service has the right to cooperate on its own initiative with any division of the credit organization and to get access to any files and the reports necessary for performance of its duties.</p>
<p>The compliance service has ample resources for effective implementation of its duties.</p>	<p>The resources necessary for compliance service should be sufficient and relevant to effective management of compliance-risk.</p> <p>Compliance-controller and compliance participants have necessary qualification, experience, professional and personal qualities for performance of their duties. Compliance-controller and compliance participants possess knowledge of the legislation of the Republic of Tajikistan, internal rules and procedures of the credit organization.</p> <p>Professional skills of compliance-controller and compliance-participants are supported and developed through regular and systematic training.</p>
<p>Functions and powers of compliance service are directed at managing the compliance-risk arising at the bank.</p>	<p>For achievement of its objectives the compliance service carries out the following functions:</p> <ul style="list-style-type: none"> - maintains control of the conformance of credit organization's activity as well as actions of its employees in the financial market to the legislation of the Republic of Tajikistan; - controls the compliance of the employees of credit organization with the rules of carrying out activities in the financial market and standards for carrying out of operations (transactions) in the financial market, established by internal documents of the credit organization, and decisions of governing bodies of the credit organization on credit organization's activity in the financial market; - independently or jointly with other divisions and officials of the credit organization investigates the facts of employees' violation of the legislation of the Republic of Tajikistan that regulates the activity of credit organizations in the financial market; - ensures the implementation of measures, directed on prevention of legalizations (money laundering) of the income received through illegal ways and financing of terrorism; - independently or jointly with other divisions and officials of the credit organization reviews claims of clients and contractors regarding the transactions

	<p>(operations) of the credit organization or actions of its certain employees in performing their official duties concerning the activity of credit organization in the financial market;</p> <ul style="list-style-type: none"> - independently or jointly with other divisions and officials of the credit organization develops and represents to the management recommendations on elimination of revealed violations and faults in the work of separate employees and divisions of the credit organization, whose activity involves operations (transactions) in the financial market, as well as recommendations for work optimization at the specified divisions. - Controls the credit organization's work with familiarization of all employees of credit organization with requirements of internal documents of the credit organization regulating the activity of credit organization in the financial market based on the list of employees' official duties; - provides consultations to inquiries concerning the conformity of specific operation (transaction) or part of it to the current requirements of the legislation of the Republic Tajikistan. - Carries out monitoring of compliance-risk. Monitoring results are represented in the form of reports according to internal procedures of compliance-risk management; - conducts personnel training on the problems connected with the occurrence of compliance-risk, the need for cooperation in solving the problems connected with occurrence of compliance-risk; - develops internal manual for personnel of the credit organization on compliance-risk by approving of the internal policies and procedures. The types of reporting for compliance service are specified by internal documents of the credit organization. <p>Compliance-controller informs the Board of the credit organization:</p> <ul style="list-style-type: none"> - About the revealed cases of violations by employees of the legislation of Republic Tajikistan, internal documents of the credit organization that regulate the activity of the credit organization in the financial market;
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	<ul style="list-style-type: none">- on measures taken by heads of divisions of the credit organization being inspected on elimination of occurred violations and their results, or about measures not being taken;- Annually reports the Supervisory board of the credit organization on compliance-risk control. <p>In performing their functions compliance-controller and compliance participants:</p> <ul style="list-style-type: none">- Provide full documentation for each fact of the inspection and prepare a conclusive report based on the inspection results, reflecting all matters and issues examined during the inspection, revealed deficiencies and violations, and recommendations for their elimination;- Provide the availability of documents (or information about their location) that enable to keep track of the course of inspections and completed inspections, and as well as to ensure the accuracy of their results;- Provide the safety and return of the documentations received from corresponding divisions;- keep the confidentiality of received information;- present the summary report based on the results of inspections to the management and to the corresponding divisions of the credit organization in order to take measures on elimination of violations as well as for the purpose of analyzing the activity of individual workers of the credit organization
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Appendix 3
to the Instruction on requirements
to risk management and internal control systems
at credit organizations

Requirements to carrying out bank loan operations

Name of requirements	Requirement criteries
Credit organization possesses policy on credit risk control.	<p>The Board carries out monitoring of susceptibility of credit organization and its affiliated credit organizations to credit risk for on-balance and off-balance operations;</p> <p>The Supervisory board has established procedures for estimating the quality of credits;</p> <p>The supervisory board and the executive board have established procedures for formation of provisions and write-off of classified assets;</p> <p>The executive board at least once a month conducts an analysis of quality of assets and level of credit risk of credit organization for on-balance and off-balance liabilities, defines extent of influence of credit risk on the financial position of the credit organization.</p>
The supervisory board has established procedures limiting the risk of conflict of interests of employees of credit organization connected to lending.	<p>The personnel of the credit division of organization carries out functional duties with observance of the procedures limiting the risk of conflict of interests;</p> <p>- internal audit service no less than once a year inspects the observance by employees of credit division the policies and procedures limiting the risk of conflict of interests.</p>

<p>Supervisory board has approved policy on monitoring and control of credit risk including on the consolidated basis.</p>	<p>Risk management division at least once in quarter conducts monitoring of credit operations carried out during the reporting period for the purposes of clarification of concentration of credit risks of organization and on the consolidated basis including by type of borrowers, sectors of economy, regions;</p> <p>risk management division carries out monitoring and provides at least once in a quarter to executive Board and at least once in a half-year – to Supervisory board the data on credit risk of credit organization, including on the consolidated basis by type of borrowers, branches of economy, regions;</p>
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	<p>The supervisory board has approved procedures for measurement and forecast assessment of credit risk for short-term, medium-term and long-term periods;</p> <ul style="list-style-type: none"> - procedures for measurement and forecast assessment of credit risk also includes the use of credit risk models involving the following parameters: level of expense (loss) when credit risk arises, distribution of assets by degrees of credit risk, forecast of change of distribution of assets by degrees of credit risk, correlation of credit risks of various assets, forecast of possible risk size on accepted liabilities connected with credit risk, breakdown of industry sectors and regions with which the credit risk of credit organization is connected by degree of credit risk, preparation of reports based on the above-named parameters of credit risk model; - The executive board carries out analysis of credit risks, associated with the provision by credit organization of new banking services or rendering of bank services to new sectors of economy or regions.
<p>Supervisory board has approved policy on rankings (distribution of credit risks by levels), and the executive Board approved - procedures for ranging of credits on the basis of ratings (levels) of credit organization.</p>	<p>Policy of credit risk ranking also includes:</p> <ul style="list-style-type: none"> - frequency of corporate rating assignments on the basis of quantitative and qualitative factors; - establishment of credit limits and interest rates on credits taking into account ratings of borrowers; - frequency of monitoring of losses on ratings; - making a decision on issuance of credit based on compliance of borrower with minimum acceptable level of rating.

<p>Supervisory board has approved policy on carrying out internal credit analysis for verification of reliability of ranking process (rating assessment), which includes the independence of credit analysis functions from provision of credits, formation of provisions.</p>	<p>Policy on internal credit analysis also includes:</p> <ul style="list-style-type: none"> - frequency of verifications for reliability of credit rankings (distribution by levels), in addition on consolidated basis; - periodic checks on reliability of formation of provisions (reserves) in accordance to internal documents of credit organization and normative legal acts of the National bank of Tajikistan; - periodic checks on reliability of rankings (distribution by levels) of off-balance sheet operations of credit organization related to derivative instruments, forward currency transactions, financial obligations.
<p>Executive Board has approved procedures on internal credit analysis.</p>	<p>Procedures on internal credit analysis involve:</p> <ul style="list-style-type: none"> - annual audit of no less than 70 percent of credit portfolio volume of credit organization; - division and employees of credit organization who carry out internal analysis and are responsible for checking the results of internal credit analysis; - qualification requirements to persons who carry out the functions on conducting the credit analysis.
<p>Procedures on credit analysis establish frequency of representation of reports on credit analysis results to the Supervisory board and executive Board.</p>	<p>Procedures on credit analysis define:</p> <ul style="list-style-type: none"> - frequency of representation of reports on the results of credit analysis to the Supervisory board and executive Board; - the form and additional data indicated on report on the results of credit analysis; - methods for controlling over the implementation by credit organization divisions of decisions accepted by the Supervisory board or executive Board on the results of review of reports.
<p>The Board has approved procedures on executives of credit organization authorized to make decision on issuance of credit</p>	<p>Internal audit service carries out inspections of compliance of authorities of senior executives of credit organization, making decisions on issuance of credits, their position authorities stipulated in internal procedures of credit organization;</p> <ul style="list-style-type: none"> - procedures on executives of credit organization authorized to make decisions on issuance of credits define qualification and professional requirements to the person authorized on decision-making process on granting of credits.

<p>The Supervisory board has approved the policy on maintenance of lending documentation including conditions which are subject to obligatory inclusion in bank credit agreements.</p>	<p>Policy on maintenance of lending documentation defines:</p> <ul style="list-style-type: none"> - conditions which are subject to obligatory inclusion in bank credit contracts including to disclose by borrowers information on financial position and other data which can negatively affect the ability of borrower to fulfill its loan obligations in due time and in full; - carrying out legal examination of legislation of a foreign country when lending to nonresidents of the Republic of Tajikistan.
<p>Risk management division conducts the analysis of effective assesment of borrower's creditworthiness.</p>	<p>Supervisory board approves criterias:</p> <ul style="list-style-type: none"> - Evaluating the conformance of the borrower's accounting policies of the borrower with existing standards of accounting and reporting; Reliability of borrowers financial reports; - Evaluation of accuracy of financial position of parent company and affiliated credit organizations of borrower; - Evaluation of reputation and business image of borrower; - Evaluation of sector's condition and efficiency of borrower's production technology; - Checking the use of borrowed funds by the borrower; - Evaluating the borrower's sources of credit repayment taking into account the following factors: <ul style="list-style-type: none"> - Production perspectives, dynamics of sales, quality of short-term assets, - The sum of income which can be allocated for debt repayment in comparison with the requirements of servicing of debt; - Evaluation of effectiveness of borrower's business plan.
<p>The Supervisory board has approved the policy and Board-has approved the procedures on monitoring of borrowers including checking the borrower's production indicators by credit organization.</p>	<p>The policy and procedures on monitoring of borrower determine the order:</p> <ul style="list-style-type: none"> - Carrying out by credit organization of borrower's financial analysis– legal entities including mortgage credits; - Following of changes in the financial position of borrowers by credit organization based on gathering and analysis of the data from financial reports; - Checking the effective use of borrowed funds by credit organization through financial analysis; - Checking the risks the figure of which exceeds the established limits including on-balance and off-balance sheet operations; <p>Control over the consolidated credit risk of borrower including taking into account its parent and affiliated credit organizations.</p>

<p>The Supervisory board has approved policy on monitoring of borrowers with unstable financial position.</p>	<p>Policy on monitoring of borrowers with unsatisfactory financial position specifies:</p> <ul style="list-style-type: none"> - methods for collection of doubtful credits with high risk and bad credits; - methods for informing of credit organization branches on borrowers whose credits are classified as doubtful with high risk and bad credits; - methods for monthly tracking of financial and production activity indicators of borrower with unsatisfactory financial position. - Measures for working out of a restructuring plan for doubtful with high risk and bad credits.
<p>Supervisory board has approved the policy for evaluation of sufficiency of pledged security collateral.</p>	<p>Risk management division periodically analyzes the efficiency of procedures on evaluation of sufficiency security collateral which determine:</p> <ul style="list-style-type: none"> - rules for calculation of collateral sufficiency (for example, value of credit to value of collateral ratio, revaluation of collateral); - quick evaluation methods for sufficiency of collateral taking into account changes in borrower's production activity indicators, preservation of collateral including its susceptibility to force-majeure circumstances; - frequency of inspecting the subject of collateral (pledge); - frequency of revaluation of real estate pledged as collateral, particularly for credits granted to legal entities for acquisition of real property, lines of credit, letters of credit and guarantees; - frequency of revaluation in the value of securities held as collateral until credit repayment; - frequency and evaluation methods of guarantor's financial position.

Appendix 4
to the Instruction on requirements
to risk management and internal control systems
at credit organizations

**Requirements to risk management system by provision of mortgage housing loans
disbursed to individuals and mortgage loans secured by real estate or provided for the
purposes of real estate construction**

Name of requirement	Requirement criterias
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<p>Credit organization develops internal credit policy on mortgage housing credits extended to individuals and mortgage credits secured by real estate or provided for the purposes of real estate construction (hereinafter – credits related to real estate) defining degree of risk, depending on the size of credit, interest rates and other special conditions.</p>	<p>Credit policy of credit organization on credits related to real estate stipulates:</p> <ul style="list-style-type: none"> - geographical regions for lending; - diversification of credit organization’s loan portfolio; - limits on credits related to real estate – by types and geographical regions (for example, limits on more risky credits); - procedures and conditions by credit types; - lending and approval of credits; - forms of credit management including documentation, lending, collateral control, repayment and loan analysis; - program on informal and official appraisal of real estate value; - responsibility of credit organization’s management to manage the loan portfolio and to ensure timely and complete submission of reports to the Supervisory board. <p>For developmental and construction projects and completed commercial objects the credit policy also provides for:</p> <ul style="list-style-type: none"> - requirements to conducting the feasibility study and sensitivity and risk analysis (for example, sensitivity of predicted income to changes of economic variables, including interest rates, percent of vacant premises or operational costs); - minimum requirements to initial volume of investments, technical contents of borrower’s own capital (for example, cash or investments, uncharged property); - minimum requirements to regulatory capital, cash flow and coverage of servicing of borrower’s debt or base asset; - eligibility standards and limits on unamortized credits; - pre-rent and pre-selling requirements to property that brings in income; - pre-selling requirements and minimum requirements to commissioning of one structural unit of a constructed building for credits connected to unprofitable assets; - minimum conditions for credit agreements; <p>Credit policy establishes minimum values for ratio "debt service coverage" – how many times net operating income covers the annual amount for servicing of debt.</p> <p>Debt service coverage ratio is computed as ratio of net operating income to payment of mortgage debt.</p>
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<p>Credit organization analyzes conditions in real estate markets for the purposes of quick reaction to changes in market conditions that are important for credit decisions.</p>	<p>Market factors of supply and demand also include among others the following:</p> <ul style="list-style-type: none"> - demographic indicators including dynamics of population size and employment; - zoning requirements; - current and predicted terms of rent, rent rates and sales prices, including renting parts of premises; - current and predicted operational costs for various types of projects; - economic indicators including tendencies and diversification in the field of crediting; - Estimation tendencies including discount and direct interest rates by capitalization of income; <p>Credits related to real estate reflect all corresponding factors of credit including:</p> <ul style="list-style-type: none"> - value of pledged property; - general credit capacity of the borrower; - presence of secondary sources of debt repayment; - Availability of additional collateral or means for improvement of credit quality (for example, guarantees or mortgage insurance). <p>Credits related to real estate provided to legal entities also reflect the following credit factors:</p> <ul style="list-style-type: none"> - borrower's production capacity or income from base active – for adequate debt service; - volume of shares invested in property.
<p>Credit policy on loans related to real estate, reflects acceptable risk level to management of credit organization and provides the standards allowing credit employees of credit organization to evaluate credit factors.</p>	<p>Standards cover following moments:</p> <ul style="list-style-type: none"> - maximum credit sizes depending on the type of property; - maximum terms of credit repayment depending on the type of property; - schedules of gradual repayment of credit; - structure of establishment of interest rates (compensations) for various types of mortgage credits; - limits on the ratio " credit amount divided by property value" depending on the kind of property.

<p>Credit organization establishes methods for credit management of the real estate portfolio.</p>	<p>Methods for credit management of real estate portfolio contains:</p> <ul style="list-style-type: none"> - form and frequency of financial reports including requirements for verification of information provided by the borrower; - form and frequency of collateral appraisals (official and other types of appraisal of value); - closing of credit deal and transfer of credit funds; - payment procedure including compensations; - management of conditionally deposited sum of money; - management of collateral property; - operations procedure in case of credit default; - terms of implementation of procedures intended for realization of pledged real estate property through court or outside court.
<p>Credit organization carries out an assessment of the probability of a successful conclusion of construction project.</p>	<p>Credit organization estimates ability of developer to complete construction project within the specified cost budget and terms. For assessment of probability of a successful conclusion of the construction project the bank considers the following risks:</p> <ul style="list-style-type: none"> - noncompletion of project within the stipulated terms leads to financial penalties; - rainy weather, shortage of material or labor resources or lower work quality than standard requirements which must be redone for inspection passing can delay the completion of construction, increase interest expenses and lead to excess of total cost of project in comparison with the initial budget; - during construction suppliers and subcontractors start to demand higher payment, that has been agreed on or assigned at the beginning of the project; - labor disputes or inability of general supplier or the subcontractor to supply the goods and to render services; - uninsured destruction, demolition of complete construction or being erected buildings; - general financial potential of the borrower and his experience in the field of development and improvement that is to find out whether the borrower can really finish the project within the budget and according to construction plans; - an assessment of borrower's experience in the sphere of development and improvements; - character, experience and financial position of all participating parties; - rise in price of construction and other materials used in the process of construction involving increase in the budget cost of the construction project;

	<ul style="list-style-type: none"> - delay in registration right to title ownership documents at authorized state authorities (local government bodies, architecture and city planning, land allocation and administration etc.) on the real estate object at final stages of its construction and commissioning; - Replanning, recomedeling of completed construction or buildings under construction. <p>the credit file for construction financing by the credit organization must contain he following documentation:</p> <ul style="list-style-type: none"> - financial information on the borrower reasoning the availability of borrower’s experience and financial potential that are necessary for project completion; - agreement on the financing of construction, where the rights and responsibilities of creditor and borrower are stated, terms of provision of funds and non-payment event; - registered mortgage agreement as a legal basis for the credit organization for recollection of the pledged property or for its transformation as a property of the credit organization in the cases stipulated by the legislation; - legal report (conclusion) on the compliance with the legislation of the title and other legal documents proving the right of ownership (use) to the land, as well as the right to the financed building (in case of pledging the construction object with land plot (right of use) to the bank as collateral security; - insurance policies and evidence of payment of insurance premiums proving that the constructor has a full and realizable insurance coverage including in the cases of: liability, fire, specific risks of constructor and in relevant cases flood insurance; - the corresponding appraisal by the experts possessing the required license for conducting appraisal activity or other type of appraisal indicating current market cost of property in current condition and after completion of the building as well as achievement of stable occupation level of premises; - project blueprints, feasibility study and construction budget indicating construction plan, construction expenditures, marketing plans and share on investments; - Property survey, additional buildings and soil (bed rock) inspection.
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<p>Credit organizations conduct appraisal of collateral with engagement of independent appraiser for credits related to real estate.</p>	<p>Criteria used by credit organizations for appraisal of collateral for credits related to real estate are regulated by internal documents of credit organization defining the credit policy.</p> <p>Internal documents of credit organization concerning appraisal of collateral for loans related to real estate contain:</p> <ul style="list-style-type: none"> - Criteria and procedures for selection of appraisers who carry out appraisal of the collateral security for credits related to real estate; - Procedures for ensuring the independence of appraiser; - Procedures for carrying out of an adequate appraisal; - Criteria for the contents of appraisal. <p>Appraisal:</p> <ul style="list-style-type: none"> - Conforms to generally accepted standards of appraisal. The appraisal is carried out by an appraiser who does not have financial interest on the collateral object; - It is made out in writing and contains well-founded analysis according to which the decision on issuance of credit related to real estate is made; - Includes the analysis and the report with conclusions, in case if the collateral is in the form of a building, under construction or reconstruction or is partially leased according to nonmarket conditions of lease agreement, and contains unsold areas; - It is carried out by appraisers possessing the license for implementation of appraising activity.
<p>Credit organization carries out annual revaluation of collateral for credits related to real estate.</p>	<p>Following the results of revaluation, the credit organization reclassifies the credit and the size of provisions (reserves) created on it. Revaluation isn't carried out in cases:</p> <ul style="list-style-type: none"> - house repair; - Revision of credit agreement terms as well as presentation of new or additional security collateral for credits related to real estate that can reduce risk of losses for credit organization. <p>The criteria used by credit organizations for revaluation of collateral for credits related to real estate are regulated by internal documents of credit organization defining the credit policy.</p>

Appendix 5
to the Instruction on requirements
to risk management and internal control systems
at credit organizations

Requirements to carrying out of operations with financial instruments

Name of requirement	Requirement criterias
Supervisory board has approved the internal policy on management of operations related to purchase/sale of financial instruments and price risk.	<p>Internal policies on operations management involving the purchase/sale of financial instruments regulate:</p> <ul style="list-style-type: none"> - Identification of interest rate risk connected with structure of assets (liabilities) of credit organization; - Identification of currency risk connected with structure of assets (liabilities) of credit organization; - Identification of risks inherent in operations with derivative financial instruments; - methods for establishing the limits for price risk, capital adequacy on market risk; - models used for measuring the market risk in the credit organization; - Frequency of presentation by risk management division the report about the positions of the credit organization on market risk to the Supervisory board and the Board.
Supervisory board has approved the policy on double control of the front and back offices based on distribution of functional duties particularly between front-office that carries out transactions and back office which is involved in reflection of specified operations in the accounting.	<p>Double control system stipulates:</p> <ul style="list-style-type: none"> - separation of front and back offices; - possibility in due time to check conditions of operations in the front office; - measures for restriction of possible arrangement between participants of system of double control; - prohibition of performance of duties by the same person at the same time both at the front and back offices and the divisions that carry out monitoring of risks and custodial activities.

<p>The board has approved procedures for security of credit organization's operations.</p>	<p>The internal audit service inspects the operations of the credit organization with the purpose of identification and prevention of income manipulations and acceptance of risk that is unequal to size of regulatory capital and the income of the credit organization.</p>
<p>Credit organization possesses an automated system (management of financial instruments portfolio, operations maintenance, accounts processing and conducting calculations, risk management).</p>	<p>Credit organization employs the technical system for provision of operations related to the purchase/sale of financial instruments; Credit organization uses the system for collection of information that is necessary for risk management; Credit organization employs technical systems for calculations of money and financial instruments; Internal audit service and external auditors check the accuracy of data provided by divisions of credit organization that are responsible for conducting accounting and reporting in risk management division.</p>
<p>Credit organization has risk management system for operations with financial Instruments, providing the possibility to trace risks in real time including on the consolidated basis.</p>	<p>Credit organization conducts processing of trading operations separately from other market transactions; Credit organization traces incomes/expenses and risks on on-balance sheet and off-balance sheet operations subject to price risk, including on the consolidated basis taking into account the affiliated credit organizations;</p>

<p>Credit organization periodically evaluates the potential market risk and incomes/expenses taking into account the current market prices for financial instruments.</p>	<p>Credit organization regularly during each operational day carries out an appraisal of income/expenses from operations with financial instruments;</p> <p>Risk management division monitors the accuracy of credit organization's valuation of fair price on financial instruments;</p> <p>Supervisory board of credit organization has approved procedures for determination of the value of financial instruments taking into account risk;</p> <p>Credit organization carries out evaluation of the value of financial instruments based on risk assessment model and bringing the current prices to market, including conducting of stress tests (stress-testing) and back-tests (back-testing);</p> <p>Credit organization uses risk assessment results and regular stress tests (stress-testing) for making decisions regarding the implementation of operations with financial instruments.</p>
<p>The Supervisory board has approved the policy on decision-making for determining the position on price risk, including by breakdown of financial instruments, taking into account size of the market and liquidity of the financial market.</p>	<p>Risk management division carries out analysis of adequacy of limits in regards to financial instruments, that is according to scope and dynamics of the market of financial instruments and liquidity of a financial instrument;</p>
	<p>The Supervisory board has approved the investment policy which defines:</p> <ul style="list-style-type: none"> - purposes of investment, authority for approval of investment operations as well as plans and investment limits; -procedures on separation of functions in carrying out of investment operations from lending functions, for the purpose of exclusion of operations with use of confidential information; -investment criterias by types financial instruments, to the purposes of investment activity.

<p>Risk management division at least once in a quarter analyzes volume of the investments the results of which are periodically presented at least once in a quarter to the Board and at least once in a half-year to the Supervisory board.</p>	<p>The Board has approved procedures on daily monitoring of investment operations of the credit organization; Monitoring results along with the report on incomes/expenses of the investments portfolio are presented to Board and the Supervisory board of the credit organization on monthly basis; Risk management division carries out monitoring of the credit organization's investment portfolio, by type of financial, issuer, terms of maturity, currency types and investment purposes.</p>
<p>The supervisory board has established the policy on prevention of excessive expenses from purchase/sale of financial instruments and to control the observance by the credit organization of the given policy. Approves the plan for emergency circumstances.</p>	<p>The credit organization carries out the analysis of the changes of incomes/expenses of operations with financial instruments taking into account dynamics of their market cost.</p>
<p>Asset and liability management division and/or collegial body with corresponding functions and authorities carries out monitoring of liquidity risk, interest rate risk and currency risk.</p>	<p>Asset and liabilities division and/or collegial body with corresponding functions and authorities: - reviews the matters concerning the management of assets and liabilities; - cooperates with risk management division; - keeps track of liquidity risk, interest rate risk and currency risk on on-balance and off-balance operations on weekly basis; - informs the Board on weekly basis and Supervisory board on monthly basis regarding the credit organization's position on liquidity risk, interest rate and currency risks, by dynamics and by types of purchase/sale operations; - Makes recommendations on establishment of interest rates for issued credits and attracted deposits.</p>
<p>Asset and liability management division carries out monitoring of liquidity risk, interest rate and currency risks on consolidated basis.</p>	<p>Asset and liability management division at least once in a quarter carries out monitoring of cash management at affiliated credit organizations and management of assets and liabilities of the credit organization and the affiliated credit organizations is carried out on consolidated basis.</p>

<p>The board has approved the action plan in case of operative formation of liquid assets caused by negative factors in the financial market or decrease in solvency of the credit organization.</p>	<p>Board or other collegial body with corresponding functions and authorities receives and analyzes information influencing the ability of the credit organization to create the necessary size of liquid assets;</p> <p>Assets and liabilities management division and/or other collegial body with corresponding functions and authorities continuously maintains the necessary level of liquid assets for their fast delivery as security pledge for provided credits;</p> <p>Asset and liability management division carries out constant monitoring of sources of liquid assets including for attraction of national and foreign currencies as a result of carrying out of internationally accepted operations and practices such spot, forward and swap operations.</p> <p>Draws up a plan for contingency circumstances (emergence of crisis situations which can result in unforeseen/contingent expenses).</p>
<p>Asset and liability management division and/or collegial body with corresponding functions and powers controls the necessary money through cash flow schedule and schedule of maturity dates of assets and liabilities for ensuring stable attraction of money in the market.</p>	<p>Asset and liability management division and/or collegial body with corresponding functions and authority:</p> <ul style="list-style-type: none"> - regularly draws up the schedule on cash flow daily and conducts monitoring of gap-position on cash for the next ten working days; - regularly (for example, weekly) composes a schedule of maturity dates for assets and liabilities according to dates of settlement as well as carries out monitoring of gap-positions on cash on daily, weekly and monthly basis; - exercises monitoring and management of gap-positions on cash by each currency without conversion to national currency or other foreign currency; - credit organization performs the control of liquidity considering the assumed volume of repayment of off-balance banking operations.

<p>Asset and liability management division controls gap-positions on cash by means of establishment of limits.</p>	<p>Board or other collegial body with corresponding functions and authorities establishes limits on gap-positions on cash considering the possibility of mobilization of liquid assets from other credit organizations; Asset and liability management division regularly conducts the overview of limits on gap-positions for cash taking into account change in the ability of the credit organization to mobilize liquid assets.</p>
<p>Credit organization carries out daily operations taking into account the need for curbing the liquidity risk by thorough analysis of its ability to provide necessary collateral as well as the credit risk when investing in securities.</p>	<p>The credit organization carries out daily bank operations in the way that, the necessary sums of money that are mobilized for each working day not by far exceed the daily sum of attracted liquid assets; - the credit organization regularly carries out the monitoring of diversification of sources for attraction of liquid assets (internal and external sources) and the types of operations through which they are involved; - the credit organization routinely conducts monitoring the ability to create liquid assets in foreign currency necessary for repayment of its obligations in foreign currency.</p>
<p>Supervisory board has approved policy on risk assessment with the use of methods including the international practice for evaluation of financial instruments by presumed risk (VAR-method).</p>	<p>Asset and liability division and/or collegial body with corresponding functions and powers regularly, at least once in a quarter determines levels of interest rates by maturity dates; Interest rate levels are composed taking into account the influence of factors: share of doubtful with high risk and non-performing assets, size of regulative capital and provisions (reserves), share of demand deposits.</p>
<p>Asset and liability management division has a system for collection and analysis of data for assessment of interest rate risks.</p>	<p>Asset and liability management division and/or collegial body with corresponding functions and powers carries out monitoring of interest rate risk, the main sources of interest rate risk (differences in maturity dates, rates in the borrowings market, built in options); Supervisory board approved the policy on making decisions on currency positions according to the analysis of changes in exchange rates.</p>

<p>Asset and liability management division and risk management division take measures for reduction of risk in those cases where in quantitative sense risks become excessive in comparison with the capital and income of credit organization.</p>	<p>Risk management division carries out:</p> <ul style="list-style-type: none"> - an integrated management of risks with the use of various analytical techniques; - an assessment of interest rate sensitivity, regularly carries out gap analysis, analysis of the model in which assessment of cost of risk is conducted (or risk income); - stress testing, the results of which are used in adoption of strategic decisions in the field of risk acceptance and risk control; - analyzes and controls the interest rate risk from the point of view of changes in volumes of periodically repeating income (expenses); <p>The Board:</p> <ul style="list-style-type: none"> - has approved procedures for hedging of interest rate risk through derivative instruments or other market operations; - establishes limits for gap and the size of interest rate risk by taking into account the adequacy of regulative capital on risks.
<p>Asset and liability management division and/or the collegial body with corresponding functions and authority to evaluate and analyze the level of currency risk with use of techniques approved by the Board.</p>	<p>Asset and liability division and/or collegial body with corresponding functions and powers:</p> <ul style="list-style-type: none"> - uses auxiliary system for the analysis of changes in exchange rates; - regularly analyzes open currency positions or models where evaluation of the value of currency instruments considering risk is effected in order to determine the sensitivity to changes in exchange rates.
<p>Supervisory board has approved the policy on reduction of risk in case when currency risks in a quantitative sense can exceed the size of regulative capital and income of credit organization.</p>	<p>Risk management division no less than once in a half-year carries out stress-testing and uses its results in adoption of strategic decisions for risk acceptance and risk control;</p> <p>Credit organization uses procedures for adequate and timely hedging of currency risk with the help of transactions with derivative instruments or other market operations in accordance to the policy on asset and liability management;</p> <p>Supervisory board establishes limits on open currency positions and a limit on currency net - positions.</p>

Appendix 6
to the Instruction on requirements
to risk management and internal control systems
at the credit organizations

**Requirements to provision of operational activity
of the credit organization, functioning of informational
systems and management information systems**

Name of requirements	Requirement criterias
The board has approved procedures on operational techniques for rendering banking services and their accounting.	Internal procedures regulate: - divisions providing the management of production operations in credit organization; - technical procedures for carrying out banking operations; - accounting of credit organization's operations; - double control of credit organization's operations and their accounting;
Credit organization employs information systems to handle hard cash.	Credit organization carries out verification of cash at its cash desks with journal entries that are stored in safe (vault); Credit organization checks the cases of surplus (shortage) of cash at the cash desk; Credit organization controls the work of employees who are in charge of providing of cash money to credit organization.
The board has established procedures restricting the possibility of incorrect entry and invalid reflection in the accounting of received and paid out deposits, receivables and payables.	Internal audit service no less than once in a half year carries out audits of divisions with the purpose of assessing their observance to operational equipment for carrying out operations on reception/placement of deposits, accounts receivable / accounts payable.
The credit organization uses internal rules and manuals for planning, development and functioning of electronic data processing systems.	The credit organization has rules and the manuals concerning the planning, development and functioning of electronic data processing systems.

<p>Board of the credit organization has approved procedures on internal control of electronic processing system.</p>	<p>The employee of the credit organization in charge of controlling of the electronic data processing system and responsible for data processing matters has qualification and the experience corresponding to the profile of work; Inspections are carried out by internal audit service according to the inspection plans approved by the board; Internal audit service regularly reports the results to the Board and the Supervisory board based on audit results.</p>
<p>The board has approved policy on prevention of unauthorized access.</p>	<p>Information support division employes a system for verification of access level for entering and exiting from the automated banking system; The board has approved the procedures and responsibility of information support division for control of important keys including electronic for information databases.</p>
<p>The board has approved the procedures for implementation of planned actions intended to ensure the security of information database systems including force-majeure circumstances.</p>	<p>Procedures stipulate the obligatory availability of :</p> <ul style="list-style-type: none"> - certificated software program, the manufacturer of which provides subsequent technical servicing of the equipment; - separate premises for technical complexes of information databases meeting the requirements of fire safety and seismic stability; - autonomous and independent power sources; -reserve computers and network communications; <p>The credit organization regularly creates backup copies of system-important program files and data files.</p>
<p>The board has approved procedures delegation of powers and responsibilities in case force -majeure circumstances.</p>	<p>Procedures of force-majeure circumstances involves rules and instruction manuals for computer center and branches in case of extreme failure in the work of the system.</p>

<p>Information support division maintains a record of real system problems against which immediate security measures are taken for the purpose of preventing the recurrence of the problems.</p>	<p>The information support division fills out sheets for keeping records of technical problems and prepares reports based on them; The information support division tracks the causes for occurrence of problems, notifies the maker of information system and takes remedial measures for prevention of their recurrence; The information support division regularly analyzes the nature of such problems; Information support division collects and records data on actually received damage due to system problems and takes measures for preventing of their future recurrence.</p>
<p>The Board approved procedures on preventing the leakage of confidential information and distortion of information details.</p>	<p>Procedures cover: - a list of information with limited access; - procedures for receiving access; - procedures for controlling access to information; - a list of entities/persons with access to information.</p>
<p>The board approved procedures on prevention of failures through regular inspections of equipment and verification of work statements.</p>	<p>Information support division no less than once a quarter conducts the inspection of technical complexes that allow the functioning of the automated database system; Information support division once every quarter submits to the Board information on the condition of technical complexes.</p>
<p>The board approved procedures on prevention of unauthorized use of automated database management terminals.</p>	<p>Information support division monitors and identifies the users of automated database management terminals as well as controls the types and volumes of operations carried out by them in terms of their conformance to functional duties of the user.</p>
<p>The credit organization evaluates risks associated with provision of new banking services or with the application of new information technologies.</p>	<p>The credit organization employs the system, that allows to identify the identity of the user; The credit organization exercises a set of security measures used in providing services for transfer through Internet communication lines.</p>

Appendix 7
to the Instruction on requirements
to risk management and internal control systems
at credit organizations

Report « _____ » on fulfillment of requirement criterias
Name of credit organization

**Instructions to availability of risk management and internal control
systems for « _____ » year**

	Name of requirement criterias to risk management and internal control systems	List of internal documents and implemented procedures (document details and body/entity that approved this document)	Evaluation of conformance by the credit organization to the requirement criterias of the Instruction	Notes by the credit organization
1				

Evaluation of conformance to the requirements of the Instruction: _____

Chief executive of credit organization (or person substituting him/her)

_____ _____
signature date

Head of risk management division

_____ _____
signature date

Head of internal audit service

_____ _____
signature date

Head of compliance - office

_____ _____
signature date

Explanations to fill out the form:

Evaluation of conformance to the requirements of the Instruction is necessary to be carried out by three-point system in the following way: "conformance", «partial conformance», «non-conformance».

1. The value "conformance" is assigned when the credit organization has performed all the required criterias to the Instruction without any considerable shortcomings.
2. The value «partial conformance» is assigned when the detection of shortcomings are not considered sufficient for emergence of any serious doubts concerning the ability of the credit organization to achieve the compliance with a specific required criteria.
3. The value "non-conformance" is assigned by non-fulfillment by the credit organization of the requirement criterias to the Instruction.
4. In case, if any of particular criteria to the requirement of the Instruction cannot be applied in relation to a credit organization, the evaluation of the conformity to given required criteria isn't carried out and marked by corresponding record "not applicable".