नेपाल एसबिआई बैंक लिमिटेड
NEPAL SBI BANK LTD.

Risk Management

Dec 13, 2011

RISK MANAGEMENT

Risk management in the bank includes risk identification, measurement, monitoring and controlling, and its objective is to minimize negative effects that risks can have on the financial result and capital of the bank. Risk management strategies include the transfer of risk, avoidance of risk, reduction of the negative effect of the risk and acceptance of the consequences of a particular risk. The design of a risk management system depends among other things, on its size, capital structure, complexity of functions, technical expertise, and quality of Management Information System (MIS) and is structured to address both banking as well as nonbanking risks to maximize shareholders' value.

Deregulation and globalization of financial services, together with the phenomenal increase in the complexity and volume of financial transactions, high degree of structural changes and complex technological support systems are making the activities of banks and their risk profiles more complex. Recent regulations, industry trends, new types of threats and exposures have underscored the importance of Risk management as a comprehensive discipline.

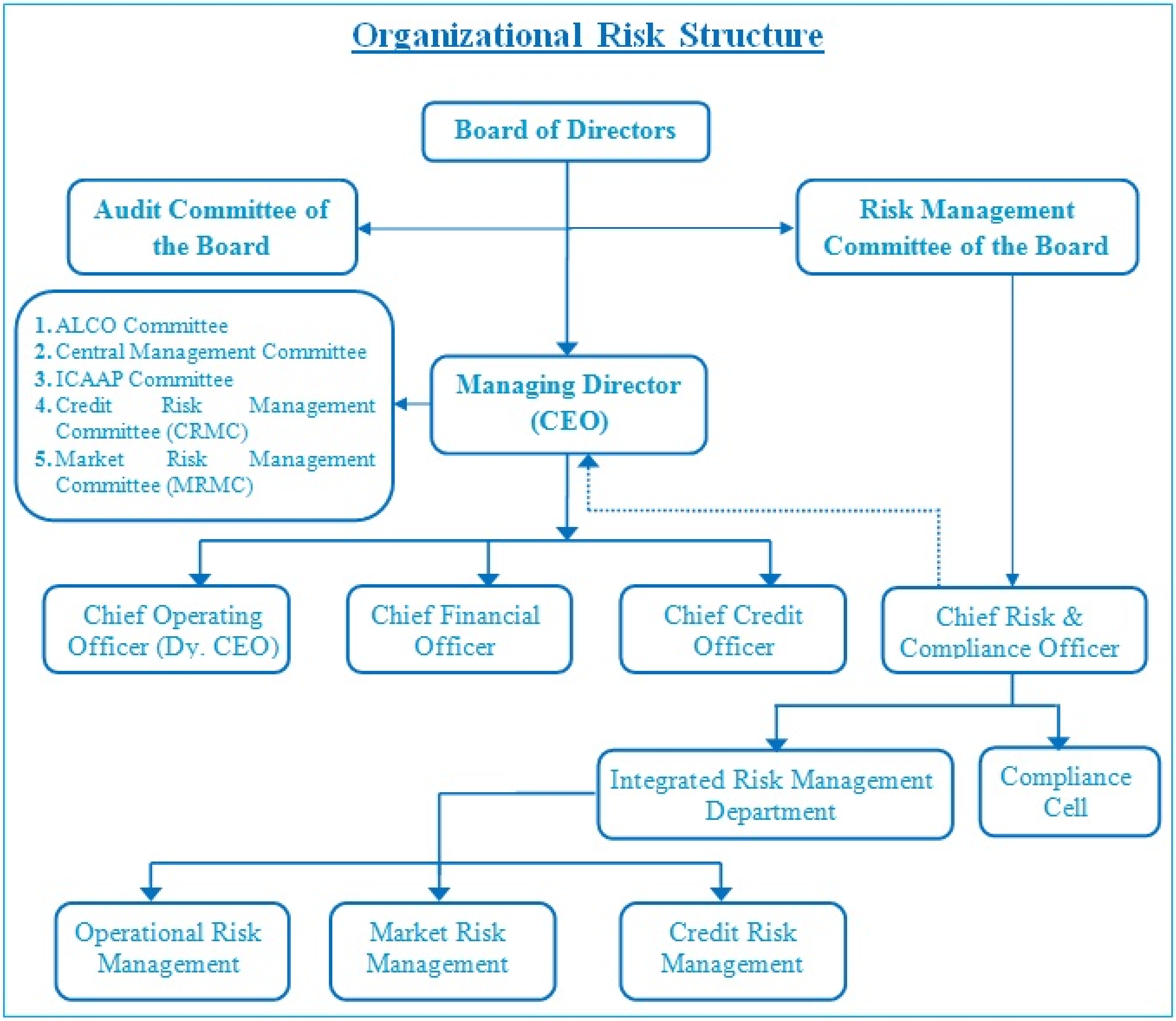
Well defined Risk Management Systems are put in place at the Bank and Risk Management Committees such as Credit Risk Management Committee, Operational Risk Management Committee, Market Risk Management Committee and ICAAP Committee, review the various components of risks in detail, insuring adequacy of appropriate risk mitigation practices to control the material Risks. Similarly, ALCO Committee meets at least monthly intervals, reviews liabilities and assets growth, assets liability mismatch, liquidity scenario, SLR investment, CRR, CDC ratio, CAR, retail assets share, interest rate movement etc.

Risk Governance Structure of the Bank

In keeping with the need for a separate and independent Risk Governance Structure, the following risk management structure is in place. The Board has the ultimate responsibility for monitoring and managing the risk profile of the Bank. For the purpose of convenience, the Board may delegate the responsibility to a separate sub-committee viz. to the Risk Management.

Integrated Risk Management Department has been created for overall risk management of the Bank which includes managing, assessing, identifying, monitoring and reducing pertinent business risks that could interfere with the Bank's Objective and Goals. Chief Risk & Compliance Officer (CRCO) is responsible for Enterprise Level Risk Management, Credit Risk Management, Market Risk Management and Operational Risk Management.

CRO is the Member/Secretary and convener of Credit/Operational/Market Risk Management Committee of the Bank.



RISK MANAGEMENT COMMITTEE

1. Risk Management Committee of the Board (RMCB)

The RMCB has the overall responsibility for overseeing the risk management processes in the Bank. In the area of Risk, the RMCB shall:

- Vetting of overall risk policies, provide necessary guidance and direction and recommend the same to the Central Board for approval. Establish a management structure capable of implementing the Bank's Risk Management Framework.
- Constantly review the level of risks associated with the business activities, risks bearing capabilities, strategies that have been formulated to manage the risks, policy arrangements and guidelines and recommend to the Board as to the appropriateness and adequacy thereof.
- Review of risk profile the Bank.
- Establish clear lines of management responsibility, accountability and reporting. In addition, separate responsibilities and reporting lines between risk control functions, business lines and support functions in order to avoid conflicts of interest.
- Ensure that the Bank has in place adequate internal audit coverage to satisfy itself that, policies and procedures have been implemented effectively.

- Approve risk capital methodology and resulting attribution.
- Set and approve the risk appetite of the Bank, within the overall parameters set by the Board.
- Analyze and reviews the Capital adequacy as per the risk assets, Internal Capital Adequacy Assessment Process (ICAAP), appropriateness of the policies as per the business strategy, maximum level of risk that the organization may assume and submit necessary recommendation, opinion to the Board.
- Obtain reports from the Management on matters related to risk management on regular basis; deliberate on the progress held towards assessment, evaluation, control and monitoring of the risks and submit necessary recommendations to the Board.
- Periodically review the risk framework.
- Awareness of risk management throughout the organization.

RMCB provides the necessary guidance in carrying out the above functions by the following Management Level Risk Management Committees:

2. Credit Risk Management Committee (CRMC)

Credit Risk is defined as the possibility of losses associated with the diminution in the credit quality of borrowers or counterparties from outright default or from reduction in portfolio value. Credit Risk emanates from a bank's dealings with an individual, non-corporate, corporate, Bank, financial institution or sovereign.

Credit Risk Management Committee (CRMC) of the Bank is headed by the Managing Director with Chief Credit Officer as the functional head and CRCO as a Member Secretary. The committee prepares policies and issues guidelines relating to group exposure, credit concentration, sector wise flow of credit, period wise assets mix, deprived sector lending, productive sector lending, Single Obligor Limit etc.

CRMC meets at quarterly intervals. The role of the CRMC is:

- Implementation of Credit Risk Policy/Strategy approved by the Board.
- Monitoring of Credit Risk on a Bank wide basis and ensuring compliance.
- Incorporation of Regulatory compliance in Bank's Policies and Guidelines in regard to Credit Risk.
- Ensuring compliance with the Risk Parameters / Prudential Limits.
- Monitoring of quality of Loan Portfolio on a periodical basis, identify problems and correcting deficiencies.
- Monitoring of Risk Concentrations

Bank has risk assessment practices in place for identification, measurement, monitoring and control of the credit risk exposures. The Bank uses internal Credit Risk Assessment Models and score cards for assessing credit risk under different exposure segments.

3. Market Risk Management Committee (MRMC)

Market Risk is the possibility of loss a Bank may suffer on account of changes in values of its trading portfolio, due to change in market variables, such as exchange rates, interest rates and equity price, among others.

Market Risk Management Committee (MRMC) of the Bank is headed by the Managing Director with Chief Financial Officer as the functional head and CRCO as the member secretary. MRMC has the overall responsibility to monitor / manage various market risk exposures of the Bank through Market Risk limits, stop loss limits, etc., at a more granular level. It reviews the structured liquidity, interest rate risk, open position of currencies and risk associated investment risk etc.

MRMC meets at quarterly intervals. The role of the MRMC is:

- Identification, assessment, monitoring, reporting and analysis of Market risks associated with Treasury Operations
- Development of policies, setting of risk parameters, overseeing compliance with risk parameters & developing hedging strategies.
- Granular allocation for all categories of risk assets, of the overall risk limits.
- Putting up to RMCB, the risk profile, analysis of trends, etc.
- Risk research and analysis, development of risk mitigation strategies
- Identification, monitoring and measuring risk profile of the Bank.
- Monitoring compliance by concerned departments of various market risk parameters.

- Ensure appropriate internal controls are in place;
- Ensure that appropriate Market Risk Management systems are implemented;

4. Operational Risk Management Committee (ORMC)

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Operational Risk Management Committee (ORMC) of the Bank is headed by Chief Operating Officer (COO) with CRCO as the member secretary. The ORMC meets at quarterly interval and review the operational risks associated with banking, system, employees, income, exchange fluctuation etc. The role of ORMC is:

- Review the risk profile, understand future changes and threats, and concur on areas of highest priority and related mitigation strategy.
- Assure that adequate resources are being assigned to mitigate risks as needed.
- Communicate with business units and staff about the importance of operational risk and assure adequate participation and cooperation.
- Review and approve the development and implementation of operational risk methodologies and tools including assessments, reporting, capital and loss event databases.
- Receive and review reports/presentations from various business groups, support departments (IT, HR etc.) and business units, processing cells about their risk profiles and mitigation programs.
- To discuss and recommend suitable controls/mitigations for managing operational risk.
- Analyze frauds, potential losses, non compliance, breaches etc. and recommend corrective measures to prevent recurrences.
- Discuss any issues arising / directions in any one business unit/product which may impact the risks of other business/products.
- Continually promote risk awareness across all business units so that complacency does not set in.
- Monitor and ensure that appropriate ORM frameworks are in place.
- Review the reports presented by Central Operations Department (COD) with respect to operational risk profile of the Bank. Approve policy-related mitigation plans.
- Review roll-out plans for implementation of ORM initiatives.
- Proactively review and manage potential risks which may arise from regulatory changes/or changes in economic /political environment in order to keep ahead.

5. ICAAP Review Committee

The committee is headed by the Managing Director with CFO as the functional head. The ICAAP review process is intended to ensure that we have adequate capital to support all the risks in business, to improve upon them over time and achieve better risk management techniques in monitoring and managing risks. ICAAP Committee meets at monthly intervals to review the internal capital assessment commensurate with the risk profile and review the portfolios which require capital charge. ICAAP Committee also reviews strengthening of risk management, applying internal limits, strengthening the level of provisions and reserves, and improving internal controls.

ICAAP Review Committee meets at monthly intervals. The Member secretary and functional head will ensure regulatory compliances.

6. Assets Liabilities Management Committee (ALCO)

The committee is headed by the Managing Director. ALCO is responsible for managing the on balance sheet, off balance sheet exposures and capital within the performance and risk parameters laid down by the investment and other relevant policies of the bank. It provides direction to the bank's treasury and other businesses regarding short term business strategy taking into account market variables in relation to the bank's exposure and the bank's corporate plan.

The committee approves the liquidity and funding plans of the bank and assesses the liquidity risk facing the bank while articulating interest rate views. It also monitors key market and operations risk indicators, reviews the potential impact of concentrations and various scenarios on the bank's business and gives directives to mitigate and manage the related risk while ensuring adherence to tolerance/risk limits set by the board of directors.

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