RISK MANAGEMENT SUMMARIZED POLICY STATEMENT

SECTION 1: SCOPE OF RISK MANAGEMENT

The prime objective of Risk Management Policy document is to formalize all the risk assessments, measurements, and management, monitoring, review and mitigation policies for the management to follow. It clearly defines the scope and structure of the Bank, with respect to the roles and responsibilities, and spells out risk management policies in the areas of credit risk, market risk, liquidity risk, operational risk and country risk.

Risk management is a discipline at the core of every bank/financial institution and it encompasses all the activities that affect the Bank's risk profile. It involves the identification, measurement, monitoring, mitigation and controlling of risks to ensure that:

a) The individuals who undertake or manage the risks clearly understand them.
b) Bank's risk exposure is within the limits established by the BOD.
c) Risk-taking decisions are in line with the BOD's business strategy and objectives.
d) The expected payoffs compensate for the risks taken.
e) Risk taking decisions are explicit and clear.
f) Sufficient capital, as a buffer, is available to take risk.

This document is envisaged to spell out the risk management policy guidelines in all the aforementioned areas and to objectively define the responsibilities, with an aim to effectively manage the overall risk function of the Bank. The scope of the Risk Management Policy document broadly covers SBP risk management guidelines and consists of the following:

a. To define the risk management policies of the Bank, in the areas of credit risk, market risk, liquidity risk, operational risk and country risk.
b. To define the structure of the Bank, keeping in view the guidelines of Code of Corporate Governance, and ensure high level of transparency and independence.
c. To define the role and responsibilities of the BOD and Senior Management to manage and address the overall risk of the Bank.
d. To define a broad risk appetite level of the Bank and spell out the risk assessment, measurement, management, and mitigation policies of the Bank.

Risk Management shall responsible to define Market, Credit, Liquidity and Operational Risk Appetite under the supervision of BOD, where for future road map RMG will work in tandem with the Core Business System team to automate the entire process and Integrate all the aspects of Risk Management.

SECTION 2: RISK DEFINITIONS

2.1: RISK MANAGEMENT

Broadly, risk can be defined as the uncertainty of an event occurring that will have an impact on business objectives. Risk is assessed as the combination of the likelihood of occurrence of the event and the magnitude of the impact which arises if it does actually happen.

Risk Management is a system that includes identifying and assessing inherent risks and then responding to them. Risk is unavoidable, and every organization needs to take actions to take manage risk to an acceptable level. The amount of risk which an organization accepts or is willing to accept is referred to as "risk appetite".

2.2: MARKET RISK

Market Risk is the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices. There are three major types of Market Risk.

a) Interest rate risk is risk to the earnings or market value of a portfolio due to uncertain future interest rates.
b) Equity price risk is the risk that the value of a security or portfolio of securities will decline in the future. It is risk to earnings or capital that results from adverse changes in the value of equity related portfolios of a financial institution.
c) Foreign exchange risk is the exposure of an institution to the potential impact of movements in foreign exchange rates. The risk is that adverse fluctuations in exchange rates may result in a loss to the institution.

2.3: OPERATIONAL RISK

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

Operational risk is associated with human error, system failures and inadequate procedures and controls. Significant potential operational risks include inadequate information system technology failures, breaches in internal controls, fraud, unforeseen catastrophes, or other operational problems may result in unexpected losses or reputation problems. Operational risk virtually exists in all banking products and business activities."

2.4: LIQUIDITY RISK

Liquidity risk is the potential for loss to an institution arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable / extraordinary cost which might impact directly on profitability or increase losses of the bank.
Liquidity risk is usually categorized in to the following:

Assets liquidity (Marketable)

A sub-set of market risk, where an asset cannot be sold due to lack of liquidity in the market.

Funding liquidity

The risk that those liabilities:

a. Cannot be met when they fall due
b. Can only be met at an uneconomic price

2.5: CREDIT RISK

Credit Risk is the risk to earning or capital arising from an obligor's failure to meet the term of any contract with BOP, or otherwise their failure to perform as agreed. Credit risk is inherent in traditional banking product (loans and advances, letter of credit, guarantees etc.) and in traded product (such as forward, swap, bought options and treasury derivatives), repurchase agreement and securities borrowing and lending transactions. It also arises indirectly through guarantor performance. Credit risk may arise in Corporate Banking, Retail and Consumer Banking and the Treasury Business Group.

2.6 Commodity Risk

Commodity risk refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities

SECTION 3: RISK APPETITE

Various risks emanate from the Bank's exposure due to external or internal risk factors while conducting its business activities. BOP, like all businesses, faces uncertainty and the challenge for management is to determine the acceptable level of uncertainty as it strives to grow stakeholder value.

Uncertainty presents both downside and upside risk (opportunity), with the potential to erode or enhance value, respectively. Enterprise-wide risk management enables management to effectively deal with uncertainty and enhance the capacity to build value. Tools such as Stress Testing, Ratios, Obligor Ratings, Industry Concentration Limits and other analytics are used by the management in the decision making process.

BOP aims to strike an optimal balance between risk and return, and effectively deploy resources to achieve the Bank’s strategic goals and objectives.

3.1: MARKET RISK APPETITE

BOP employ standard techniques for market risk measurement. Stress Testing of Fixed Income and Equity portfolio is performed on regular basis to gauge the market risk. Equity buying and selling decisions are based on fundamentals of individual scripts, rather than on market perception or speculation.

Risk appetite of ECM and Interest rate shall be defined on the basis of percentage of its estimated loss expected in the investment of Pakistan Stock Exchange scripts and Bonds while FX risk appetite is calculated using volatility in SBP revaluation rates.

Bank shall calculate Risk Appetite on the basis of Value at Risk model or any other model / formula approve from ALCO. After the proper deliberation of ALCO members, Bank shall present risk appetite for the approval of BRMC and BOD. Limit shall be monitored on monthly basis and reported in ALCO and incase of breach, ALCO shall approve the breach and any significant deviation / breach shall be reported to BRMC. Risk Appetite limit attached as Annexure “A”

3.2: OPERATIONAL RISK APPETITE

All types of decisions on operational risk management and operational risk appetite must always be taken on the basis of cost-benefit analysis. It may capture historical losses data and future aspects, if possible, to determine the risk appetite and threshold limits and capital assessment. The analysis of past events helps in the identification and finding of the intermediate event or root cause event which led to the loss. The relevance of historical data is documented in Operational Risk Appetite document.

a. Business Continuity Plan (BCP) exists for critical areas of business. The Plan aims to ensure that, following a business disruption due to: (a) natural disasters, such as fires, storms, explosions and earthquakes; (b) technical and environmental interruptions, such as hardware or software failures, computer viruses, utility disruptions, communications or postal disruptions, and transportation disruptions; and (c) human causes, such as human error, labor disputes, security breaches, and civil unrest; the Bank is open for business on the next working day and addresses the timely resumption of business as usual.

b. There is no appetite for reputational risk. Risk threshold shall be defined on the basis of last three years analysis of operational losses. After the proper deliberation of ALCO members, Bank shall present risk appetite for the approval of BRMC and BOD. Limit shall be monitored on quarterly basis and reported in ALCO and incase of breach, ALCO shall approve the breach and any significant deviation / breach shall be reported to BRMC. Risk Appetite limit attached as Annexure “A”

c. All outward announcements are to be cleared by Corporate Communication Department and the final wording is to be approved by the top-line Management.

d. The Bank has no appetite for fraud and forgery related matters and will use every effort to ensure a zero tolerance risk culture for fraud and forgery. All the losses irrespective of amount are reported.

e. The bank shall ensure approval and review of risk appetite and tolerance statement for operational risk depending on nature, size, and complexity of business, current financial condition and the bank’s strategic direction from board

3.3: LIQUIDITY RISK APPETITE

BOP’s liquidity model is based upon self-reliance. In order to have a self-funded portfolio, BOP has created a branch network to mobilize deposits and diversify the deposit base. A diversified deposit base gives the Bank much needed stability. Bank does not overly rely on the corporate or institutional deposits and keeps a minimum dependence on inter-bank funds, though the option and arrangements for procuring funds from inter-bank market are always there. This keeps liquidity risk at inherently low levels. Limits are in place to monitor and restrict Bank’s exposure. Bank shall set Liquidity risk appetite on the basis of deposit and ADR volatility. After due deliberation and finalization by ALCO, Bank shall submit proposal of liquidity risk appetite for discussion and approval of BRMC and BOD. Limit shall be monitored on monthly basis and incase of breach, ALCO shall approve whereas any significant deviation / breach shall be reported to BRMC.

3.4: CREDIT RISK APPETITE

BOP’s policy is to keep credit risk at inherently low level through broad diversification in terms of geography, product mix and by spreading the Bank’s credit and trade finance activities over a wide range of customers with emphasis on secured, short-term, self-liquidating lending.
Bank shall set Credit Risk appetite on the basis of historical trend of Watch List Accounts (net of provision, if any), Volatility of ADR ratio and peer analysis of ADR.

Bank shall submit the proposals of risk appetite for discussion and approval of BRMC and BOD. In due course limits shall be monitored on quarterly basis and incase of breach, ALCO shall approve whereas any significant deviation / breach shall be reported to BRMC.

SECTION 4: EXCEPTION REPORTING TO BOD

Exceptions to this policy must be reported to the BOD, through Board Risk Management Committee (BRMC), in a timely manner. Delegation levels for exception and deviations have already been defined under respective risk management policies (refer to Annexure ‘F’).

SECTION 5: ORGANIZATIONAL SETUP AND RESPONSIBILITIES OF THE BOD AND SENIOR MANAGEMENT

5.1: RESPONSIBILITIES OF THE BOARD OF DIRECTORS

It is the overall responsibility of Board of Directors (BOD) to approve the Bank's risk strategy as well as significant policies relating to various risks and their management, which should be based on the Bank's business strategy. To keep it current, the risk strategy has to be reviewed by the Board as and when deemed necessary. The responsibilities of the Board with regard to risk management shall, inter alia, include:

a. Delineate Bank's overall risk tolerance in relation to various risks.

b. Ensure that Bank's overall risk exposures are maintained at prudent levels and consistent with the available capital, as approved by BOD from time to time.

c. Ensure that top management as well as individuals responsible for risk management possess sound expertise and knowledge to accomplish the risk management function.

d. Ensure that the Bank's management implements sound fundamental principles that facilitate the identification, measurement, monitoring and control of various risks.

e. Ensure that appropriate plans and procedures for risk management are in place.

f. Define Bank's Risk Appetite.

g. Delineate threshold limits in relation to various risks/indicators/loss.

h. Delineate bank's approach for establishing and monitoring thresholds/ exposure limits for inherent and residual risk exposure & indicators once the sufficient data is available.

i. The board will regularly review the appropriateness of threshold or limits for specific operational risks and an overall operational risk appetite and tolerance.

j. Providing leadership and direction for the formulation, maintenance and review of a Bank-wide ORM Framework.

k. Implementation of ORM framework and ensuring its implementation (including maintenance of adequate technological infrastructure and management resources)

l. Establishment, review and approval of the Bank-wide operational risk strategy, management authority and responsibility.

m. Ensuring that the Bank has robust business continuity and disaster recovery plans, which are consistent with the Bank's current operations and business strategies.

n. Periodically reviewing critical risk issues highlighted by the BRMC, to determine their impact on the Bank's strategy and, if required, aligning the strategy to address the existing / potential risks.

o. The ultimate responsibility and accountability rests with the board of directors for a strong risk management culture.

p. The board of directors should oversee senior management to ensure that the policies, processes and systems are implemented effectively at all decision levels.

The primary purpose of Bank's risk strategy is to determine the risk appetite of the Bank. Once it is determined, the Bank could develop a plan to optimize return while keeping risks within acceptance levels.

5.1.1: RESPONSIBILITIES OF THE BOARD RISK MANAGEMENT COMMIITTEE (BRMC)

In addition to existing roles as per TORs of BRMC, following roles will be performed by BRMC

i) Assisting the BOD in the review of the key components of the ORM Framework. To ensure robustness in identifying, assessing, monitoring and reporting significant operational risks that Bank might be exposed to.

ii) Reviewing the profile and adequacy of the resources/ technological infrastructure pertinent for implementing the ORM Framework.

iii) Evaluating critical risks and exposures identified by the ORM and approving the appropriate mitigation strategy e.g. insurance, outsourcing etc.

iv) Periodic review of the Bank's business continuity and disaster recovery plans, to see if they are consistent with the Bank's current operations and business strategies. Reviewing the results of the periodic testing of these plans.

v) Ensuring robustness of financial models and Management Information systems, for quantification of risks and efficient reporting.

5.2: RESPONSIBILITIES OF THE SENIOR MANAGEMENT

The Senior Management of the Bank should develop and update, as necessary, policies and procedures as part of overall risk management framework and get policies approved from the Board of Directors. Such policies and procedures should provide guidance to the staff on various types of risk-taking activities include lending, investments, inter-bank borrowing and placements, operational risk, liquidity management etc.

At minimum, the policies should include:

a. Detailed and formalized evaluation/ appraisal processes.
b. Approval authority at various hierarchy levels including authority for approving exceptions.
c. Risk identification, measurement, monitoring and control procedures
d. Risk identification is vital for the development of a robust operational risk monitoring and control system. Effective risk identification should consider both internal and external factors which could adversely affect the achievement of the bank's objectives.
e. Risk Acceptance Criteria.
f. Roles and responsibilities of units/staff involved in origination and management of risk exposure of various types.
g. Guidelines on remedial management of problematic exposures.

Significant deviation/exception to these policies must be communicated down the Senior Management/Board in a timely manner and corrective measures should be taken. It is the responsibility of the Senior Management to ensure effective implementation of these policies.

The following Risk Management Committees to discharge the above responsibilities:

a. Board Risk Management Committee (BRMC)
b. Credit Risk Management Committee (CRMC)
c. Asset Liability Management Committee (ALCO)
d. Basel Implementation Steering Committee (BISC)

The key responsibilities of the above committees include overseeing the proper execution of the various risk management activities and procedures. Detailed responsibilities with respect to each committee are laid down in their Terms of Reference (TORs).

5.3: RISK MANAGEMENT GROUP

For risk identification, assessment, treatment, control and effective implementation of risk management policies and guidelines, the Bank has a dedicated Risk Management Group with the following key departments:

a. Head Policy and Risk Analytics
b. Corporate Credit Risk
c. Small and Medium Enterprises (SME) Credit Risk, Consumer & Agriculture Credit Risk and Special Assets Management (SAM) Credit Risk
d. Corporate and Syndicated Credit Risk
e. Enterprise Risk Management (ERM)
    a. Market Risk Unit (TMO and Liquidity)
    b. Operational Risk Unit
    c. Integrated and Basel Unit

SECTION 6: MANAGEMENT INFORMATION SYSTEM

An effective management information system that ensures flow of information from operational level to top management is essential to addressing any exceptions observed in a timely manner. The Bank shall have an explicit procedure regarding measures to be taken to address such deviations.

Risk Management Group (RMG) shall utilize the MIS to prepare various analytical reports for presentation to the respective committees (ALCO, IC, CRMC, BISC etc.) using ADAMs, IPAMS, Flex cube, PCS(Swift) and Basel Engine etc.

RMG shall liaise with the I.T Division to jointly review the available MIS, as and when needed, and devise an action plan to bridge gaps from the desired level, if any.

RMG shall also liaise with the I.T Division to develop Operational Risk Management System and quantification model in due course.

The operational risk measurement system (ORMS) is a subset of an operational risk management framework. The ORMS consists of the systems and data used to measure operational risk in order to estimate the operational risk capital charge. The ORMS must be closely integrated into the day-to-day risk management processes.

SECTION 7: INTEGRATED RISK MANAGEMENT (IRM)

Sound risk management contributes to the achievement of a Bank's strategic objectives; BOP believes that it should gravitate towards Integrated Risk Management (IRM). This approach favors a shift from a view of risks as “silos” to a holistic view where the interrelation and interdependence of risks become important variables in managing all risks faced by the Bank.

Integrated risk management (IRM) is a set of practices and processes supported by a risk-aware culture and enabling technologies that improves decision making and performance through integrated view of how well an organization manages its unique set of risks.

An IRM framework increases the effectiveness with which the cascading effects of risks with multiple consequences are handled. With this in focus, strategies, human resources, technologies and knowledge must be aligned to manage risks across the Bank.

Enterprise Risk Management (ERM) is responsible for implementing the IRM approach by ensuring that the risk management process is applied at all relevant levels and functions of the Bank as part of its practices and processes. ERM would aim to serve as a central hub within RMG, undertaking efforts to consolidate risk into a cohesive picture

SECTION 8: DESIRED LEVEL OF CAPITAL

The objectives of the Bank's capital management are to ensure that the Bank complies with the regulatory capital requirement and maintain healthy capital ratios in order to support its business and maximize shareholders' value. Further, Capital Management aims to ensure that there is sufficient capital to meet the requirement of the Bank, as determined by the underlying business strategy, and the minimum requirements of the State Bank of Pakistan (SBP). Bank’s Capital Management shall be performed by ALCO and BISC, ERM under supervision of CRO shall assist both Committees.

SECTION 9: BUSINESS LINE ACCOUNTABILITY

Because line personnel, owing to their close interaction with various businesses, well understand the risks they are taking. Therefore, business lines shall act as the first level of risk management, being equally accountable for the effective management of risks they are taking. Keeping in view the same, the risk management framework shall be based on four tiers of review:

Tier 1:
Business line –with responsibility for initial risk identification and mitigation

Tier 2:
Risk Management function – with responsibility to analyze business proposals for detailed risk identification, assessment, evaluation, treatment, and mitigation

Tier 3:
Control & Monitoring functions–Compliance & Internal Control and Audit & RAR Divisions

Tier 4:
Oversight from Senior Management and supervisory committees

SECTION 10: INDEPENDENCE OF RISK REVIEW FUNCTIONFROM RISK TAKING FUNCTION

One of the most important aspects in risk management philosophy is to ensure that those who take or accept risk on behalf of the institution are not the ones who measure, monitor and evaluate the risks. The managerial structure and hierarchy of risk review function may vary across banks, depending upon their size and nature of the business, the key is independence.

To be effective, the review functions should have sufficient authority, expertise and corporate stature, so that the identification and reporting of their findings could be accomplished without any hindrance. The findings of their reviews should be reported to the Senior Management and, where appropriate, the Board.

At BOP, the Risk Management function shall be completely independent from all business units that initiate risk exposure. Further, the Risk Assets Review function shall also be separate from the Risk Management function, as part of the Audit Division.

SECTION 11: OWENRSHIP, REVIEW FREQUENCY AND COMMUNICATION

11.1: RESPONSIBILITY AND OWNERSHIP

The Document shall remain the property of the Policy Department in RMG. Copies of the document must not be provided to any external party without the prior written approval of CRO.

11.2: REVIEW FREQUENCY

The policy document shall be reviewed annually or earlier, if deemed necessary.

11.3: EFFECTIVE DATE

This Policy shall be effective upon its approval from the Board and shall supersede earlier policy approved by the Board.

11.4: COMMUNICATION

The policy will be communicated to all concerned through BOP - Web Portal and via email to the concerned Department Heads. Besides, onsite training, seminars will be conducted in coordination with HR and Business Units to promote risk management culture and awareness in the Bank.

SECTION 12 : KEY AREAS COVERED IN RISK MANAGEMENT POLICY

The prime objective of Risk Management Policy (RMP) document is to spell out risk management guidelines covering Market Risk, Liquidity Risk, Operational Risk, Country Risk, Interest Rate Risk, International Financial Reporting Standard (IFRS) 9, Financial Institution (FI) Risk Management, Anti Money Laundering (AML), Trade Based Money Laundering (TBML) and Combating Financing of Terrorism (CFT) and Integrated Risk Management" to ensure:

1. The individuals undertaking/managing the risks have a clear understanding of these risks.
2. Bank's risk exposure remains within the prescribed limits established by the BOD.
3. Risk taking decisions are aligned with the Bank's business strategy and objectives.
4. The expected payoffs adequately compensate for the risks being undertaken.
5. Sufficient capital, as a buffer, is available to take risks.

Market Risk is the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by the movements in equity and interest rate markets, currency exchange rates and commodity prices. Three major types of Market Risk are Interest Rate risk, Equity Price risk and Foreign Exchange risk.

Operational Risk is the risk of losses resulting from inadequate or failed internal processes, people, system, and / or external events.

Liquidity Risk is the potential for loss to an institution arising from either its inability to meet its obligation or to fund increases in assets as they fall due without incurring unacceptable cost or losses.

Country Risk is the risk that economic, social, political conditions and/or Government actions in a foreign country might adversely affect an organization's financial condition primarily through impaired credit quality or transfer risk. It may arise from deteriorating economic conditions, political and social upheavals, nationalization or expropriation of assets, government abrogation of external indebtedness, exchange controls and currency devaluation. The Bank can exercise little direct influence on Country Risk. The Bank should therefore ensure having adequate systems and expertise to manage their cross-border exposures and avoid taking undue risks on such exposures. Factors primarily responsible for exposing the Bank to Country Risk are Foreign Exchange Deals, Placements, Nostro Accounts, Foreign Bills Purchase / Discounting, Guarantees (Issuance against a Foreign counter guarantee) and LC Confirmation.

Interest Rate Risk is the exposure of a bank's financial condition to adverse movements in interest rates. It is the potential that the value of the on-balance sheet and the off-balance sheet positions of the bank would be negatively affected with the change in the market interest rates.

The vulnerability of the Bank towards the adverse movements of the interest rate can be gauged by using duration GAP analysis. The main components of interest rate risk are repricing or maturity mismatch risk, yield curve risk, basis risk, options risk and price risk.
Interest Rate Risk Management Policy was a separate document but is incorporated in this document as part of the entire RMP.

INTEGRATED RISK MANAGEMENT (IRM) POLICY

Integrated risk management (IRM) is a set of practices and processes supported by a risk-aware culture and enabling technologies, that improves decision making and performance through an integrated view of how well an organization manages its unique set of risks.
The value of IRM program rises as more risk activities are brought into view because it allows management to make enterprise-level decisions about which risks to mitigate and which to accept or transfer.
Many risk areas included in IRM program often have connections and interdependencies amongst them. The breaking down of siloes and improved control and visibility over one risk area will also result in better decision-making and business intelligence in other areas.

INTERNAL CREDIT RISK RATING MODELS FOR CORPORATE AND SME

According to Basel guidelines, Internal Risk Based (IRB) approach is further divided into F-IRB (Foundation IRB) and A-IRB (Advanced IRB). Foundation IRB Approach means that, in applying the IRB framework, banks must provide their own estimates of PD and use regulator provided estimates of LGD, EAD and effective maturity. Advanced IRB Approach means that, in applying the IRB framework, banks use their own estimates of PD, LGD and EAD, and are required to take into account the effective maturity of credit facilities.
The bank shall develop PD models based on BOP customer's financial and business related data along with macro-economic indicators which is the first step towards implementation of A-IRB approach for its credit portfolio as prescribed by Basel. Web based Internal Credit Risk Rating (ICRR) model for Corporate and SME already stands approved by Board Risk Management Committee (BRMC) and Board of Directors (BoD).

INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) 9

IFRS 9 introduces the expected credit loss model in order to replace the previous incurred loss model under IAS 39. Under the expected credit loss model, credit losses are recognized prior to a credit event occurring, as against the incurred loss model of IAS 39. The impairment model requires more timely and forward-looking information that will allow for a more accurate reflection of the credit risk inherent in the exposures.

Financial Institution Risk :

Financial Institution Risk is the risk that financial, economic, social, political conditions and/or Government action might adversely affect a Financial Institution. FI risk may arise from deteriorating economic conditions, political and social upheavals, nationalization or expropriation of assets, government abrogation of external indebtedness, exchange controls and currency devaluation. The Bank should therefore ensure that they have adequate systems and expertise to manage their FI risks exposures and avoid taking undue risks

ANTI MONEY LAUNDERING (AML), TRADE BASED MONEY LAUNDERING (TBML) AND COMBATING FINANCING OF TERRORISM (CFT)

Money laundering ("ML"), terrorist financing ("TF") and trade based money laundering are economic crimes that threaten a country's overall financial sector reputation and expose financial institutions to significant operational, regulatory, legal and reputational risks, if used for ML and TF. An effective anti-money laundering and countering the financing of terrorism ("AML/CFT") regime requires financial institutions to adopt and effectively implement appropriate ML and TF control processes and procedures, not only as a principle of good governance but also as an essential tool to avoid involvement in above risks.

The RMP is meant to formalize the assessment, measurement, management, monitoring, review and mitigation of the risks that the Bank has to encounter in the context of the above-mentioned areas.

The document is foreseen to arrange and delineate the essential roles and responsibilities for effective management of the overall risk management function of the bank whilst also ensuring high level of accountability. Methodology of Risk appetite limits and new quantitative and qualitative criteria is introduced in revised policy for broker enlistment and renewal. Marginal elaborations in the role of Committees and departments are also incorporated in the revised RMP along with elaborate Operational risk scope and polices as per SBP guidelines and audit. The purview of MIS covering individual and integrated risks is explained in the document too.

The salient features of the RMP are mentioned hereunder.

1. The risk management framework is based on four tiers of review, as follows:

    a. Business Line: responsible for initial risk identification and mitigation.

    b. Risk Management: responsible for analyzing business proposals for detailed risk identification, assessment, measurement and mitigation.

    c. Control & Monitoring: Compliance & Internal Control and Audit & RAR Divisions.

    d. Oversight of the Senior Management and Supervisory Committees.

2. The Board of Directors will approve the Bank's risk strategy as well as significant policies relating to various risks and their management, in line with the Bank's business strategy.

3. Delegation levels for exception and deviations have been defined under the respective risk management policies.