NATIONAL BANK OF PAKISTAN

ENTERPRISE RISK MANAGEMENT FRAMEWORK

Version Control			
Document owner	Enterprise Risk Management Group		
Version Number	1.0	**Release Date**	*April 17, 2023*
Previous Version Number	-	**Next Review Date ***	*April 17, 2026*
** This Policy will be subject to review at least once in three years unless earlier review is deemed necessary.*			

This Framework shall remain in the permanent custody of all members of the BRCC/ Board of Directors, President – NBP, Chief Risk Officer and RMG and all relevant Groups/Divisions.

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1. INTRODUCTION

Risk is an uncertainty about the achievement of an objective. Risk Management is the name given to a logical and/or systematic method to identify, measure, monitor and control the risks involved in any activity or process. Risk is inherent in all our business activities. If not managed well, risks can result in financial loss, regulatory sanctions and penalties, and damage to our reputation; each of which may adversely impact our ability to execute our business strategies. The Bank has taken a comprehensive approach towards risk management with a well-defined Enterprise Risk Management Framework as well as a well-articulated and calculated Risk Appetite Statement.

In the Bank, it is ensured that risk management framework along with internal controls are adequate and effective in accurately identifying, assessing or addressing risks faced by the Bank. However, there may be other risks that are currently unknown or are deemed immaterial, but which may subsequently become known or material. These risks may individually or in aggregate adversely impact the Bank, which would be mitigated by maintaining additional internal capital as buffer or other mitigating strategies.

NBP plans to continue expanding and diversifying its core business and ensuring sustained growth and profitability amidst increasing competitiveness and challenges in the banking industry. Therefore, the Bank is working to strengthen its risk management functions on an on-going basis.

1.1 Risk Management's Vision & Mission

The Vision and Mission of the Bank's Risk Management function shall be as follows:

Vision:

To be a benchmark in risk management in terms of development of risk culture, implementation of risk framework and its alignment with regulatory guidelines and global best practices.

Mission:

Our mission is to promptly identify, measure, manage, report, and monitor risks enabling the Bank to maximize stakeholders' value through sustainable growth, based on risk-based decision-making and a consistent risk-focused culture across the Bank.

1.2 Scope & Objectives

This is the base document which will govern overall risk management framework within the Bank and will be applicable, where relevant, to all local and international branches and subsidiaries or affiliates. This document is meant to provide strategic guidelines for risk management processes within the Bank. In addition, the broader risk management principles as prescribed by this framework should be adhered to for formulating risk related policies and followed by all the functions of the Bank.

The Bank's risk management strategy has been set with clear objectives and deliverables through multi-pronged risk management processes in order to not only meet regulatory requirements but also to adopt international best practices to manage risks in obtaining better risk rewards.

ERMG has resolved to phase-out the previous Risk Management Policy and in its place has developed a high-level Enterprise-wide Risk Management Framework to serve as a quick reference for the governance and management of risks faced by the Bank. This document should be read in conjunction with the relevant policies of various risks, standards, and guidance referred to herein.

1.3 Ownership & Implementation

The ultimate responsibility of implementation of the ERM Framework lies with the Board of Directors, enforced through the Board Risk & Compliance Committee and various risk management committees. Whereas, Enterprise Risk Management Group is the owner of this framework and has the overall responsibility for maintaining, reviewing, and updating this document, as endorsed through ERC/ BRCC and subsequently approved by the Board.

Basic risk management standards and guidelines prescribed here-in are to be adopted and followed across the Bank. This framework will comply with all regulatory requirements issued from time to time.

In case of banking subsidiaries/ international branches, the Board of Directors and the senior management of the said entities shall consider and incorporate fundamental risk management principles, as prescribed in this document, while formulating their entity's policy and procedures along with their local regulatory requirements.

Revision Frequency

Subsequent to the approval of the ERM Framework by the BoD, this document will be reviewed annually, unless earlier revision is deemed necessary.

Custody & Access

This framework must remain in the permanent custody of all members of the Board, ERC, ERMG and all the Group Chiefs and Divisional Heads.

Copies of the ERM Framework shall not be provided to any external party without the prior written approval of the Chief Risk Officer. However, access to this document shall not be restricted for such external parties who are entitled to such access in accordance with the provisions of any law for the time being in force.

ERM Framework shall be communicated and made accessible by ERMG at the Group Chief/ Divisional Head-level. Therefore, ensuring dissemination to and adherence by all personnel of the Bank will be the responsibility of the respective Group Chief(s)/ Divisional Head(s) and Regional Head(s).

1.4 Risk Culture

The Bank promotes a strong risk culture where employees at all levels are responsible for the management and escalation of risks. To promote this, Bank's policies require that risk-related behavior is considered during the performance assessment and compensation processes. In addition, Board members and the senior management of the Bank frequently communicate the importance of a strong risk culture to provide a consistent tone from the top.

ERM Framework also ensures the enhancement of risk culture that fulfils the Bank's values and delivers responsible growth. It requires Bank to focus on risks in all activities, encourages the necessary mindset and behavior to enable effective risk management and promotes sound risk-taking and managing within our risk appetite. Sustaining a culture of managing risk throughout the organization is critical to our success and is a clear expectation of the management and the Board.

For the purpose of implementation of risk culture adherence to SBP, BPRD Circular No. 1 of 2017 *"Revised Guidelines on Remuneration Practices"* is essential as it would enable the Bank to attract, train and retain specialized human resources in Enterprise Risk Management Group as well as for other critical functions. Furthermore, considering the market has a very small pool of specialized resources, it is imperative that performance reviews be based on a justified recognition and reward system, market competitive compensation, and timely elevation.

In order to embed risk culture in all risk-based activities, ORMD actively facilitates other Groups in self-assessment of risks versus controls in their respective functional areas through the implementation of Risk & Control Self-Assessment exercise (RCSA) and ISD-RMG periodically issues risk advisories on information security. Furthermore, evaluations on conduct risk are also carried out as part of Financial Consumer Protection Framework. As a whole, other functions of the Bank such as Compliance and Internal Audit & Inspection also ensure efforts are made for the presence of a risk aware culture.

1.5 Allied Policies

Allied Policies provide a course of action for managing various risks faced by the Bank. They ensure that Bank's risk profile is consistent with ERM framework, other internal policies and procedures as well as statutory guidelines, external laws and regulations applicable to the Bank. These policies also aim to limit the negative impact of risks on earnings and protect the Bank against high exceptional losses while safeguarding and strengthening its good reputation.

In the application of risk management framework, the following areas/functions are covered in allied policies (Refer Section 5 – Key Risks & its Managements to see in detail):

- Identification and mitigation of risk pertaining to various type of businesses and products in accordance with the vision, mission and strategy of the Bank
- Clear lines of responsibility to manage each type of risk
- Methodology and information management systems used to measure risk and to support the business.
- Determining approval authority and limits/ maximum acceptable risk of loss that is consistent with the Bank's risk appetite and tolerance
- Business continuity management plans
- Policy governing new products and activities

2. GOVERNANCE STRUCTURE

2.1 Enterprise Risk Management (ERM) Framework

The ERM framework is a holistic approach starting from strategy setting, capital and financial planning to managing, monitoring, and reporting of risks inherent in the day to day business of the Bank. It documents the risk management structure and processes driven by the Bank's board of directors, management, and other personnel. All this provides reasonable assurance regarding the achievement of the Bank's strategic objectives.

Following are the main objectives of ERM Framework:

1. Identify and assess significant risks to which the Bank may be exposed to.
2. Maintain the Bank's risk exposure within the Bank's risk appetite.
3. Architecturally equip the Bank with tools & models for effective risk management.
4. Assist Business Groups in optimizing risk / return decisions in line with the corporate goals, mission and the Bank-wide strategy.
5. Improve risk management practices and processes to enhance financial soundness of the Bank.
6. Analyze the overall risk profile of the Bank, track emerging risks and ensure their active mitigation.
7. Ensure that the Bank's risk management policies remain aligned with the regulatory requirements and the Bank's Enterprise Risk Management Framework.

Figure 1 gives an illustration of the Bank's ERM framework.

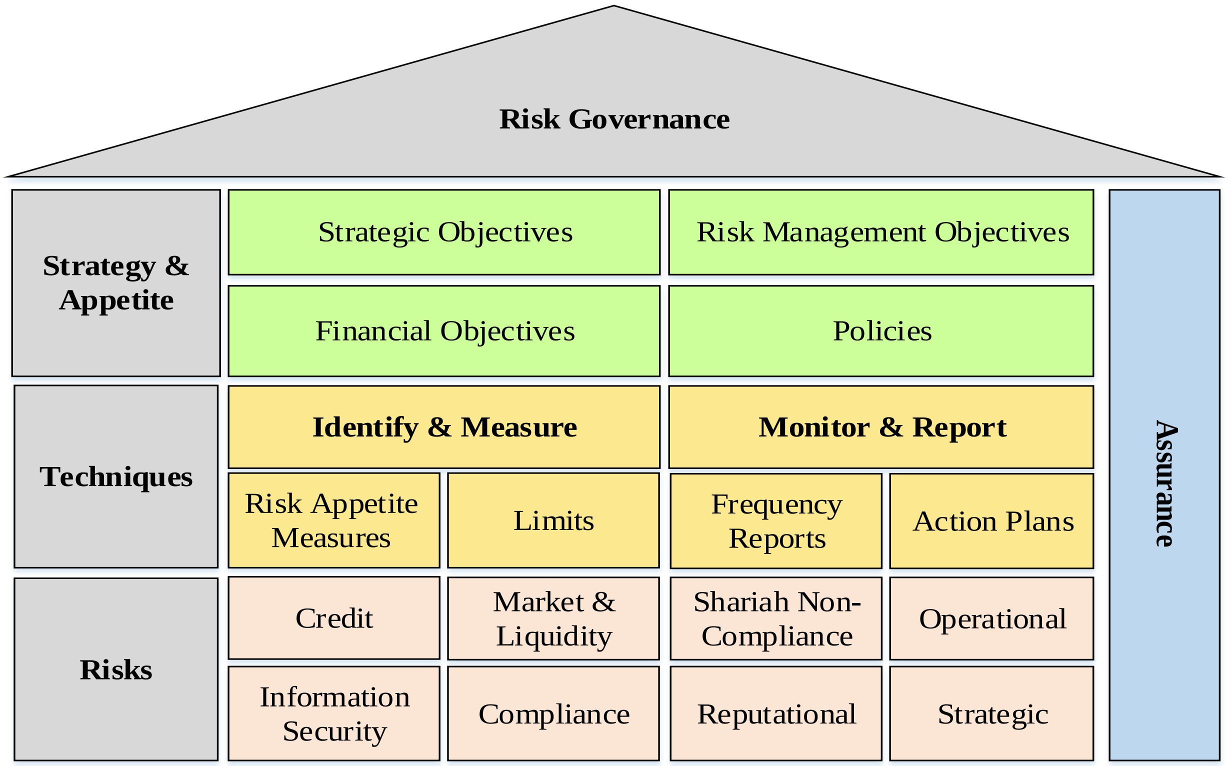

Figure 1: ERM Framework

This document explains the key principles of our ERM Framework, setting out the specific activities, tools and mechanisms. This document helps to ensure that all our material risks are identified, assessed, managed and, where possible, mitigated, enabling us to reach our financial and non-financial objectives.

Based on the Bank's business and strategic goals, the ERM Framework has been embedded in all functions for identifying and reporting of deviations of activities from set standards, review and escalating risks to the senior management and the Board, and proposing mitigating strategies to prevent damage to our stakeholders including shareholders, customers and our staff.

2.2 Corporate Governance

Corporate governance is a process the Board carries out to provide direction, authority, and oversight of management for the Bank's stakeholders. The Board of Directors is the owner of the governance process, providing guidance and oversight based on the information provided by the Management, the Auditors and external sources in order to fulfill its governance responsibilities. The Board takes into consideration all factors such as Bank's financial assets, risk capacity and risk appetite before setting strategic plans/goals.

The Bank has an independent Enterprise Risk Management processes and systems for managing various emerging risks faced during the daily operations of the Bank. It sets clear roles, responsibilities and accountability for the management of various risks by delegation of authority, communicated through its various risk management policies on an on-going basis.

2.3 Board Oversight

Board Risk & Compliance Committee (BRCC)[1] is essentially a Board-level oversight committee to perform the risk management activities on behalf of the Board and is the highest risk-related policy making and supervising body for all types of risks faced by the Bank, notably credit, market, liquidity, operational, and other risks that may have material impact over the Bank's performance. BRCC functions under its Terms of Reference duly approved by the Board of Directors. In addition, similar Board sub-committees such as Board Technology & Digitalization Committee (BTDC) and Board Audit Committee (BAC) are present to provide oversight on relevant matters.

2.4 Risk Management Committees

Risk governance of the bank is being carried out by various management committees where material risks are addressed in more focused terms, i.e. ERC for Operational, Strategic, Reputational, Capital, and other residual risks; MCC for Credit Risk, ALCO for Market & Liquidity Risk, and CCM for Compliance Risk. A brief on the roles of Risk-related Management Committees is given as below (for details, refer to their respective TORs):

2.4.1 Enterprise Risk Committee (ERC):

ERC[1] ensures implementation of risk framework mainly covering risks from an overall perspective of strategy, development of policies and procedures, assessment of risk management tools, MIS reporting and escalations to Board Risk & Compliance Committee, where required; whereas routine aspects in relation to such risks are to be managed by the designated Enterprise Risk Management Group (ERMG). The Committee has representation from all relevant business and support groups to ensure coverage of all risk areas. ERC will also establish an integrated/ enterprise-wide view of all material risks (covered individually in their respective risk committees). ERC functions under its Terms of Reference duly approved by the BRCC/ Board of Directors.

2.4.2 Management Credit Committee (MCC):

MCC is a senior management committee that is responsible for the approval/ review of credit exposures, counterparty/ borrower limits, credit policies and procedures as per the Credit Approval Authority Booklet (CAAB)/ Credit Policy Manual as delegated by the Board Risk & Compliance Committee/ Board of Directors. The Committee has a balanced participation of risk management (CRO & CCO) and Business Groups in the decision making process. MCC functions under its Terms of Reference duly approved by the BRCC/ Board of Directors.

2.4.3 Asset & Liability Committee (ALCO):

ALCO is responsible for ensuring that the Bank has adequate liquidity and monitors liquidity gaps. To execute this responsibility mandatory as well as advanced / optional stress testing and ratio based liquidity assessments are performed to proactively identify and manage liquidity position, needs / requirements. Bank has various limits

[1] *Please refer approved TORs of BRCC and ERC for detailed roles and responsibilities.*

/ ratios, triggers and management actions in place to monitor and mitigate liquidity risk in line with Basel-III Liquidity standards and SBP parameters besides other internal liquidity measures.

2.4.4 Equity Investment Committees (EIC):

EIC provides guidance, governance and approval for equity investments. The EIC's Term of Reference are approved by ALCO, under which the EIC is authorized to make investment decisions on IPOs, Pre-IPOs, underwriting of listed shares of companies, Investment/ divestment in private listed companies, and Marketable Fixed Income instruments, among others. and recommend Substantial or strategic investment over & or above regulatory limit to the Board for approval. EIC also sets Available for Sale (AFS), Held till Maturity (HTM) and other limits as defined under Equity Market Manual.

2.4.5 Compliance Committee for Management (CCM):

CCM acts as a high level forum to discuss and assess the compliance risk issues faced by the Bank in accordance with the requirements of relevant legislation, regulations and standards for the overall management of compliance risk including the risk arising from Terrorist Financing, Money Laundering, Trade Based Money Laundering & Proliferation Financing, Sanctions, non-compliance of Regulatory guidelines on Customer Due Diligence (CDD)/ Enhanced Due Diligence (EDD), FATCA & CRS, keeping in view the regulatory observations in on-site examinations, regulatory enforcement actions, and internal assessments/ feedback from internal audit, compliance reviews of the Bank. The Committee reports directly to the Board Risk & Compliance Committee and its constitution, quorum, frequency and TORs are approved by the Board of Directors.

2.4.6 Technology & Digitalization Steering Committee (TDSC):

TDSC serves as a high-level Committee that monitors and reviews implementation of all technology and Digitalization strategies, policies and related issues/ projects in the Bank. It reports directly to the Board Technology & Digitalization Committee (BTDC). TDSC is also tasked to ensure that technology risk management strategies are designed and implemented to effectively respond on wide-scale disruptions, including cyber-attacks, IT incident and attacks on critical infrastructure, including Pandemic type situations and Work from Home processes.

2.4.7 Executive Committee (ExCom):

ExCom is a discretionary management-level committee that recommends changes in Bank's Vision, Mission and core values; and the periodic revision of Bank's Strategic/ Business plan to the Board for approval. The Committee reviews the performance of various businesses, products, segments and services of the Bank viz-a-viz corresponding period, budget and the competition/ industry and monitors implementation of action plans. It reviews Bank's operations with status update on various non-financial targets including IBR, GL balancing, Data cleansing, regulatory data compliance issues. ExCom also considers the effect of high-impact legal cases or reputational risk events that may require changes in the Bank's strategy, as needed.

2.5 Board Audit Committee (BAC):

In order to maintain the independence of Audit Functions from the Management, Group Chief Audit reports directly to the Board Audit Committee (BAC). The Committee reviews and monitors the matters related to improvement in internal audit, compliance issues, financial reporting and corporate governance. The Committee also reviews the progress of the annual internal audit plan, approves the internal audit manual, AIG & BAC Charters and Audit Policy; recommends the appointment of external auditors and recommends the periodic financial results to the Board of Directors for approval. BAC also reviews the effectiveness of the internal controls of the Bank which need further improvement and recommends steps for strengthening the internal controls and compliance culture within the Bank on an ongoing basis.

2.6 ERM Governance Structure

The Bank implements a risk management framework through a 'Three Lines of Defence' model defines clear responsibilities and accountabilities for various offices and ensures effective & independent oversight and assurance that the activities take place as intended under the risk management framework.

The First Line of Defence: Business groups have primary responsibility for identifying, measuring, monitoring and controlling the risks within their areas of accountability. They are required to implement effective procedures and controls to ensure compliance with the related policy requirements, to maintain appropriate risk management skills, and to act within defined parameters as a set and approved by the Board.

The Second Line of Defence: Risk Management and the Compliance functions in the Bank oversee and independently challenge the effectiveness of risk management actions taken by business groups are further evaluated at Management-level Committees. The recommendations are approved/ escalated to the Board’s sub-Committees as per SBP requirements for deliberation and decision-making.

The Third Line of Defence: Board Audit Committee and Audit & Inspection Group provide independent, objective assurance and consulting activity designed to add value and improve risk management functions of the Bank. A&IG helps the Bank accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Figure 2 provides an illustration of the Bank’s risk governance model covering the second and third lines of defence.

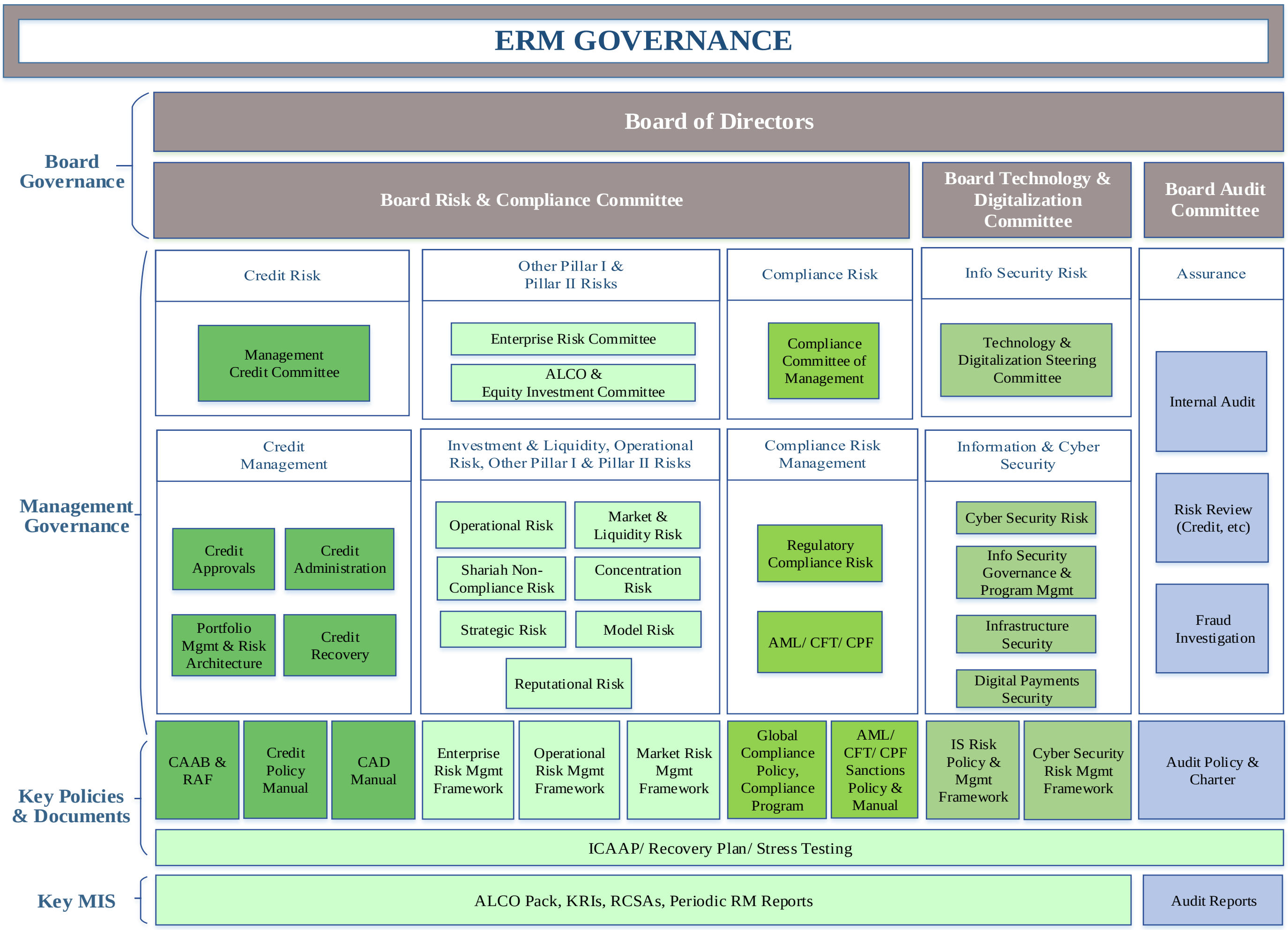

Figure 2: ERM Governance

3. RISK STRATEGY

The Bank's business plans (including financial budgets), risk appetite/tolerance limits and ICAAP encapsulate its risk strategy.

3.1 Business Planning

The Financial Control Group with direct reporting to the President, is responsible for development of Bank-wide business plan in coordination and consultation with other Groups/ Divisions. The Business plan encapsulates performance measures that are monitored on quarterly basis and their results are reported to Executive Committee / Board for further deliberation.

3.2 Risk Appetite

Risk appetite expresses the aggregate level of risk that the Bank is willing to assume to achieve our strategic objectives. This helps in assessing senior management and the Board to clearly indicate the maximum level of risk Bank can assume in alignment with its strategic and capital plans.

Broadly stated, the Bank's risk appetite is to take a measured and defined level of risk, on credit, market and operational parameters. Whereas the appetite levels for Liquidity and Reputational Risks are set as Zero or Near Zero. The Bank's risk appetite is manifested in its business strategy (including financial budgets, target markets, products, segments, and geography), risk tolerance limits, and policies & procedures.

Risk tolerance is the amount of acceptable deviation from the Bank's risk appetite. The Board has defined and set Risk Tolerance Limits that reflect the maximum risk the Bank is willing to take to meet its strategic goals. These limits are monitored on a periodic basis and form the ceiling beyond which management is required to take corrective action. The Tolerance Limits cover all the major risk areas, are reviewed at least annually, and may be amended depending on the business strategy or to reflect changes in market conditions.

3.3 Capital Assessment Strategy

Capital acts as a buffer to absorb unexpected future losses. For proactive management of capital at its disposal, the Bank has in place an Internal Capital Adequacy & Assessment Process (ICAAP) framework to identify and quantify all material risks, including Pillar II risks, and continually re-assess the adequacy of the capital buffer and risk appetite, which is set periodically in order to build a solid platform for business growth. ICAAP is regulated by the State Bank of Pakistan and has to be compliant with the methodologies laid down in its BSD circular # 3 of 2012. The ICAAP report is submitted to the SBP as per regulatory requirements under BPRD circular # 4 of 2018.

The adequacy of the Bank's capital is monitored using, among other measures, through the rules and ratios established by the regulator such as the Capital Adequacy Ratio (CAR) for prudent asset growth. The ICAAP framework also covers a wide range of countermeasures that will mitigate different types of stress scenarios, under stressed market and economic conditions, to maintain strong capital base and buffer. NBP's objectives also include compliance of SBP's instructions related to Domestic Systemically Important Bank (D-SIB).

Additionally, the Bank also develop financial Recovery Plan, which encapsulates the development of plausible stressed scenarios and recovery options, if and when required, under the regime of distressed conditions where the Bank is pronged to the shortage of capital buffer.

Areas	Responsibilities	Responsible Group / Division/ Authority
Capital Management	In addition to bringing in business, they have to ensure that all business transactions initiated by them are as per assigned risk appetite there against.	FCG and all Business/ Support Groups
Capital Monitoring & Performance Review	Develop methodologies and its procedure manual for evaluating capital management. Monitor Bank's capital, determine the overall risk appetite, and risk tolerance limits for capital.	FCG to develop and RMG to review

	Ensures the stress-testing mechanism is in place along with its implementation and D-SIB regulatory reporting.	ERMG to monitor through ICAAP and Recovery Plan
Oversight	ICAAP and Recovery Plan documents are reviewed as per regulatory requirements and findings are presented to respective committees.	ERC & BRCC

4. TOOLS & TECHNIQUES

Various risk management tools and techniques are used to identify and assess the impact of risk realities, as well as to formulate, implement, and monitor appropriate risk management actions by applying coordinated and efficient measures. The following are some of the tools and techniques being used to effectively manage various risks being faced by the Bank.

4.1 Risk Appetite & Tolerance Limits

Risk appetite and risk tolerance are important risk terms that are related but not the same; as differentiated in Section 3.1. While risk appetite is a broad, strategic philosophy that guides Bank's risk management efforts, risk tolerance is a much more tactical concept that identifies the risk associated with a specific initiative and compares it to the Bank's risk appetite.

The Risk Appetite Statement is approved by the Board of Directors annually. It is used for the guidance of management and staff of the Bank, as required. Policies for specific risk areas provide guidance through quantitative ratios, benchmarks, risk tolerance limits, and formal processes that are consistent with the intended risk appetite levels; in terms of capital adequacy, liquidity ratios, market risk ratios, profitability/ efficiency ratios, concentration risks, operational risks and reputational risk ratios.

Template of Risk Appetite and Tolerance Limits is appended as **Annexure A.**

4.2 Risk Reports & MIS/ Tools

Effective risk data aggregation and internal risk reporting practices are essential for systemically important banks and support internal risk management and decision making processes. To combat potential breaches of risk limits that may exceed the Bank's risk tolerance/ appetite, reporting has to convey forward-looking risk assessments/ early warnings, where possible. To give an example, following are some of the risk management tools being used to review the Banking Portfolio (Details are covered in respective risk policies and procedure documents):

Risk Types	Tools
Credit risk	▪ Obligor risk rating (Internal/ External), ▪ Credit concentration limits, ▪ Models/ Scorecards/ Risk Appetite Frameworks for various borrower types, ▪ Credit Portfolio Reviews/ Dashboards.
Market risk & Liquidity risk	▪ Limits on notional amounts, ▪ Sensitivity Limits, ▪ FI Counterparty Treasury Limits, ▪ Regulatory & Internal Liquidity ratios, ▪ Value-at-Risk (VaR) models, ▪ Estimation of additional capital charge on FX, Equity & Fixed Income Securities.
Operational Risk	▪ Key Risk Indicators (KRIs), ▪ Risk Controls Self-Assessment (RCSAs), ▪ Estimation of Operational VaR for operational losses.
Reputation Risk	▪ Estimation of expected maximum reputation loss using Market Capitalization approach.
Strategic Risk	▪ Estimation of Strategic Loss through Capital Asset Pricing Model (CAPM).

For instance, relevant risk Reports/ MIS are appended as **Annexure B.**

5. KEY RISKS & MANAGEMENT

The Bank categorizes material risks into financial risks and non-financial risks, which are as follows:

5.1 Financial Risks

Financial risks typically arise from either our core activities of investment and lending or the ability to fund those. These risks have a direct impact on our Profit and Loss and are managed against our financial goals. Following are the three material financial risks:

1. Credit Risk (including default, migration, transaction, settlement, exposure, country, mitigation and concentration risks),
2. Market Risk & Liquidity Risk (including interest-rate, foreign exchange, equity, commodity and other cross asset risks), and
3. Capital Management (explained in Section #3).

5.1.1 Credit Risk

Credit risk is defined as customer's inability or unwillingness to meet commitments such as:
"Losses stem from outright default due to inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions".

Credit risk analysis is focused on ensuring that risks have been fully identified and that the downside risk is properly understood and assessed. After this analysis is undertaken, limits are set for an acceptable level of potential exposure.

Key Component of Credit Risk Management include areas such as credit origination and approval, credit risk assessment, internal risk rating, Portfolio Review, Credit Documentation. Details are covered in relevant policies, product programs and procedural manuals.

To mitigate credit risk, all limits and ratings are reviewed once a year or on periodic basis if required, whereas, the Bank makes use of margining and other forms of collateral or credit enhancement techniques, including guarantees, letters of credit. Responsibility for approval of credit exposures is delegated to the Management Credit Committee (MCC) by the Board, whereas, Enterprise Risk Committee (ERC) and Board Risk & Compliance Committee (BRCC) are responsible to supervise the proper implementation of the Bank's credit risk management process.

Areas	Responsibilities	Responsible Group / Division/ Authority
Credit Origination	Ensure that all loan applications and other credit requests initiated in accordance with SBP PRs and Bank's Internal Credit Policies (such as CPM, CAAB, RAF).	All Business Groups
Credit Review/ Approval	Assessing and approving loan applications jointly with the business groups, credit policy development and facilitating implementation of credit policies and procedures through provision of appropriate guidance and tools.	As per CAAB, ▪ Business Groups ▪ SCO/ CCO ▪ CRO ▪ MCC ▪ BRCC / BOD
Documentation	Perform Post-sanction formalities such as scrutiny / review & custody of documents, deferrals, issuance of DAC and collateral management.	Credit Administration Division (CAD)
Credit Risk Policies & Performance Review	Review and facilitate implementation of credit risk policies, development of risk rating models and scorecards, review sector wise concentration, Credit Portfolio Review (CPR), and review of credit concentration limits and perform stress-testing	CRMG

	based on the credit portfolio of the Bank as per regulatory requirements.	
Credit Risk Data & Reporting	Collection and consolidation e-CIB data on periodic basis, for Basel-related Credit data reporting and for RMG's internal purposes through Regions/ Corporate Branches and other advances data sources.	e-CIB & Data Management Wing and respective Data Sources.
Credit Rehabilitation & Recovery	"Loss" classified accounts are invariably transferred from the books of business groups to SAMG for asset rehabilitation, rescheduling, restructuring, settlement or recovery.	Special Assets Management Group (SAMG)
Oversight & Review	MCC to review and recommend/ approve Credit Policies, Procedure and Product Programs as per CAAB. BRCC to endorse MCC recommendations to the BoD for final approval as required in CAAB, SBR PRs and RM Guidelines.	MCC/ BRCC

5.1.2 Market & Liquidity Risk

The purpose of this section is to provide guidelines to manage market risk (price, exchange rate, and interest rate risk) and liquidity risk.

Market Risk

One of the primary objectives of Market Risk Management is to ensure that our business units' risk exposure is within the approved appetite and commensurate with the Bank's defined strategy. To achieve this objective, Market Risk Management works closely together with risk takers (business units) as well as other control and support groups.

Market Risk governance structure ensures oversight of all market risks, effective decision-making and timely escalation to senior management. We measure market risks by various internally developed key risk metrics and regulatory defined market risk approaches. The Front Office has the primary responsibility for managing market risk, whereas Back Office is responsible for revaluation, settlement and reconciliation of all transactions and outstanding balances. Middle Office is responsible for day-to-day monitoring and reporting and is responsible for overseeing the market risk measurement and management process. Details of market risk management aspects are covered in Market & Liquidity Risk Policy & Procedure Manual.

Areas	Responsibilities	Responsible Group / Division/ Authority
Market Transactions	To build, maintain & improve the quality of investment portfolio for NBP and to ensure that all investments by are in line with SBP requirements and are set with Bank's Rules & Regulation.	Relevant Business Groups
Middle Office / Monitoring	Monitor Bank's treasury investment activities, Review / Monitor risk tolerance limits for market risk. Perform stress-testing and regulatory reporting, VaR limits and position limits on market instruments.	Market and Liquidity Risk Management Wing (MLRMW - ERMG)
Oversight	Review and approve Treasury Counter party and Market Risk Limits	ALCO/ MCC/ BRCC /BoD

Liquidity Risk

The Bank's liquidity risk management ensures that the Bank can always fulfill its payment obligations and can manage liquidity and funding risks within its risk appetite. It analyzes relevant and significant drivers of liquidity risk and forecasts movement of cash flows based on historical deposit movements.

ALCO defines the liquidity and funding risk strategy for the Bank, as well as the risk appetite and approves/ reviews limits applied to the Bank to measure and control liquidity risk as well as our long-term funding and issuance plan. All relevant stakeholders are engaged in regular and frequent dialogue to understand changes in the Bank's position arising from business activities and market circumstances. Details of market risk management aspects are covered in Market & Liquidity Risk Policy & Procedure Manual.

Areas	Responsibilities	Responsible Group / Division/ Authority
Liquidity Generation	Execution of strategies decided at ALCO aiming at preservation/ enhancement of cost-effective deposit and credit to for consistent and sustainable growth in profitability.	Relevant Business Groups
Liquidity Management	Treasury manages the Banks liquidity by taking positions in money market and other financial transactions. Execution of financial/ hedging strategies decided at ALCO to manage interest rate risk and maturity mismatches besides maintaining liquidity.	Treasury & Capital Markets Group (TCMG)
Liquidity Monitoring	Develop, evaluate, policies/ procedures manuals, MIS for interest rate and liquidity risk management. Analysis of Bank's Liquidity profile, through various measures such as relevant regulatory and internally approved ratios, Stress Testing & Maturity Gaps.	Market and Liquidity Risk Management Wing (MLRMW-ERMG)
Implementation of ALM	To act as focal point of ALM for implementing, defining and leading the entire ALM process within the Bank. Managing the asset and liability is the primary responsibility of the ALCO, which delegates the task of everyday liquidity management to the treasury.	TCMG/ ALCO
Oversight	Approval of TORs of ALCO	BRCC

5.2 Non – Financial Risks

Non-Financial risks arise from people, processes, systems, and external events, which can adversely influence the Bank's daily business activities and valued customers. These risks can also have a direct effect on the Bank's Profit & Loss, and are therefore need to be managed against the Bank's financial goals. Considering that these risks are not incurred intentionally, to combat them, risk mitigation is achieved through better risk assessment and robust internal controls. The risk frameworks to manage below mentioned principal risks are set out in the respective policies. Following are key non-financial risks covered in this document:

1. Operational Risk,
2. Reputational Risk,
3. Strategic Risk,
4. Conduct Risk,
5. Country Risk,
6. Subsidiary Risk,
7. Information Security Risk,
8. Shariah Non-Compliance Risk, &
9. Model Risk

5.2.1 Operational Risk

The Bank has a separate Operational Risk Management Policy Framework (ORMPF) in order to cover the broad range of risk types within the scope of Operational Risk, that are used to identify, assess, measure, monitor and remediate operational risks. Its components have been designed to operate together to provide a comprehensive approach to managing the Bank's most material operational risks. Additionally, Operational Risk Management Division (ORMD) also reviews Bank's different policies and procedure from operational risk perspective.

Areas	Responsibilities	Responsible Group / Division/ Authority
Business/ Operational/ Support Activities	These Groups identify risks and therefore must determine their operational risk profile (including Shariah non-compliance risk), implement risk management and control standards within their domain, take business decisions on risk treatment within the risk appetite and establish and maintain risk & controls owners. RMCs (Risk Management Coordinators) report Operational Risk Incidents/ Losses to ORMD.	All Business Groups & Support Groups/ Divisions/ Wings
Risk Management	Responsible for establishing operational risk management frameworks/ procedures and providing assurance on implementation, including coverage of SNCR, where applicable, managed in line with ORMF and associated procedures. Validation of control testing (where applicable) and recommending/ reporting remediation needs in key-risk areas. Implementation of Loss Data Management, Risk Control Self-Assessment (RCSA), Key Risk Indicators (KRI) & Operational Risk Strategy, Operational Risk Appetite/ Tolerance limits (including those pertaining to Shariah Non-Compliance Risk), Analysis of Ops Risk Events (OREs) such as Fraud Cases, Penalties imposed by Regulators.	ORMD-ERMG
Fraud Risk Management	Fraud risk investigation, root cause analysis, designing and implementation of robust fraud prevention controls and remediation of gaps, timely identification and enquiry of internal or external fraud, and fraud reporting including periodic reporting on Fraud Cases to management and Board/Board Sub-Committee.	ORMD-ERMG , A&IG, ICU-OPG, HRMG, CG. [2]
Regulatory Compliance	Compliance with all regulatory requirements pertaining to operational risk areas.	ORMD-RMG
Control Testing	Testing of controls on sample basis, in light of ORM Procedures Document.	Internal Control Group - Operations Group
Legal	Identifies and control the legal risks attached to products and activities before being introduced to new customers and identifies legal risks contained in any functional activity.	Legal Division
Oversight	Review of reports submitted on Operational Incidents/ Loss data, RCSA, KRI & Operational Risk Strategy, Operational Risk Appetite /Tolerance limits (including those pertaining to Shariah Non-Compliance Risk)	ERC/ BRCC/ BAC/ Shariah Board

[2] *In line with Organizational Circular No. 04/2018*

5.2.2 Reputational Risk

Reputational risk management focuses on combating negative perception regarding incidents/ flaws in Bank's practices/ procedures or system, which could potentially cause decline in the customer base, costly litigation, or revenue reductions indirectly. Reputational risk is addressed mainly in the following two ways;

(i) through media management and
(ii) risk assessment & mitigating controls against incidents/losses.

Areas	Responsibilities	Responsible Group / Division/ Authority
Business Activities	Maintain and generate goodwill on the Bank's behalf through adherence to Bank's policies & procedures and providing service as per business ethics on on-going basis.	All Business and Support Groups
Policy & Procedures	Promote effective communications, specifically in the handling of reputational events, ensuring that the reputation perspective is adequately considered in the risk management processes of the Bank.	Media & External Relations Department - Strategic Marketing Division - LCMG
Risk Management	As part of RSCA analysis, frequency & intensity of reputational risk is analyzed through Materiality Risk Assessment Framework as defined under Operational Risk Procedure Document.	All Business & Support Groups
	Impact on capital is assessed on subjective basis, for the three shock levels (low, medium, and high) to cover any unexpected events beyond the control of the Bank	ERMG
Oversight	Review of reports submitted on subjective assessment of reputational risk based on severity/ impact of adverse events.	ERC/ BRCC

5.2.3 Strategic/ Business Risk Management

Strategic risk management is a process for identifying, assessing and managing risks and uncertainties, affected by internal and external events or scenarios that could inhibit the Bank's ability to achieve its material strategic objectives.

Bank-wide medium to long-term business and strategic plans are developed to face the external and internal challenges to the Bank and the actions planned to counter such challenges, while ensuring the achievement of the Bank's vision and mission. The Bank devises future strategies for the achievement of the Bank's long-term objectives.

To achieve its corporate objectives, the Bank pursues a strategy for growth based on providing excellent service to customers, growth in advances portfolio, mobilization of low-cost stable deposits and their best utilization, prudence in lending, geographical presence in the form of branches, and profitability which emanates from all of the aforementioned factors. These, combined with focus on asset quality and efficient management practices, including emphasis on human resources and IT system, further compliment the Bank's development and progress.

Areas	Responsibilities	Responsible Group / Division/ Authority
Strategic Risk Management	Consolidation of business targets, i.e. medium-term (Action plans) to long-term (projections).	FCG
	Quantification model estimates the worst possible impact on Bank's capital due to strategic/ business risk, within a chosen	ERMG

	time horizon, on three shock levels (low, medium, and high) to cover any unexpected events beyond the control of the Bank. For detail, please refer ICAAP document of the Bank.	
Implementation & Oversight	Approval of Bank-wide Business targets and long term business plans/ projections.	Board of Directors

5.2.4 Conduct Risk

Conduct in banking industry is defined as any action or statement related to the promotion, sale or supply of banking services or products to consumers, including any reference to the third-party products by the bank itself or its agent. It includes any action or statement carried out in an advertisement, product illustration, and statement, promotional or marketing material and written or oral sales presentations.

Conduct risk if not mitigated can have a detrimental impact on Bank's customers, its own growth or market stability. It may also be termed as the non-execution/delivery of Fair Treatment of Customers (FTC)/ Financial Consumer Protection Framework (FCPF). The Bank has in place a Financial Consumer Protection Framework/ Fair Treatment of Customer Policy. This ensures that Bank's customers are not subject to unfair or deceptive practices and they receive timely information to help them make informed decisions and have access to recourse mechanism to resolve any disputes or concerns that they have in respect of delivered or promised products and services.

Areas	Responsibilities	Responsible Group / Division/ Authority
Business Activities	Understand the customers' needs, designing/ imparting product and services with fairness and honesty, provide complete information regarding product disclosures, complaint resolution and maintain service standards set by the senior management.	Relevant Groups (as identified under FCPF/ FTC Policy)
Regulatory Submission	Implementation of relevant scorecards and submission of Conduct Assessment Framework to the regulator.	Quality Assurance Wing, Compliance Group to facilitate.
Framework Implementation	All Groups, field offices, and entire domestic branch network. Individual functions/ Groups to examine the role and responsibility that is implicit or explicit as per policy parameters towards implementation and enforcement to ensure protection of consumer and prevention of any prohibited conduct.	Relevant Groups (as identified under FCPF/ FTC Policy), Service Quality Council
Oversight	Governance, oversight and approval of FCPF/ FTC Policy	Service Quality Council/ BoD

5.2.5 Country Risk

Country risk includes transfer and convertibility risk as well as political risk. It arises from cross-border transactions and direct investments in foreign countries. In addition to the direct risk of doing business in a country, Bank is also exposed to indirect country risks (e.g. related to the collateral received on secured financing transactions or related to client clearing activities). These risks are managed in the normal course of business through credit risk, market risk and operational risk governance.

A Bank-wide country risk policy is in place to measure, monitor and manage international exposures/ potential risks while indulging in diversified needs of the bank's overseas customers. It also sets out guidelines and responsibilities for assigning internal ratings to countries, monitoring & reporting of exposures along with all other credit administrative functions.

Country risk tolerance limits and its exposures are covered under funded (for e.g. regulatory capital exposures, investments, advances, placements, negotiations under LC, purchase/discounting under LC and non LC, Loans) and non-funded (for e.g. LC confirmations, risk participations, guarantees against counter guarantees of foreign banks). The maximum country risk tolerance limits are in accordance with the SBP regulations and further subject to the Bank's own credit policies/guidelines.

Areas	Responsibilities	Responsible Group / Division/ Authority
Business Activities	Development of risk management policies for various countries, where NBP has presence, on the basis of the overall guidelines / principles in ERM Framework. Where laws in the respective countries are more stringent, such applicable regulations must be followed. Policy & Procedures Wing – IFRG in consultation with CRMG shall document such deviations, if any, in the afore-mentioned policy documents. Compliance and monitoring of NBP's Country risk tolerance limits / exposure	Policy & Procedures Wing - IFRG, CRMG & overseas branches CAD
Country Risk Policy, Limit Allocation / Renewal & Monitoring	CRMG reviews the Country Risk Policy after every three years in consultation with stakeholders. Recommend the country risk tolerance limits for approval. Review Bank's exposure with respect to country limits.	FID-IFRG & CRMG FID-IFRG, CRMG, MCC CAD
Oversight	CRMG would review the Country Risk Tolerance Limits in line with the Country Risk Policy and would forward the same for recommendation of approving, reducing or declining the limits to the MCC and BRCC/ BoD (if required) for approval.	CCO/ CRO/ MCC/ BRCC/ BoD

5.2.6 Information Security Risk

Information assets are used to store, process and transmit information such as data, network infrastructure, systems, applications, employees.

Information may exist in many forms across the organization such as digital as well as non-digital (paper based). Various types of vulnerabilities faced by information assets may exploit the confidentiality, integrity and availability of these assets. In order to mitigate these risks, appropriate internal controls need to be implemented to identify and mitigate risks and vulnerabilities in order to ensure business continuity, minimize business losses and maximize return on investments and business opportunities.

The information security risk management includes risk identification, risk analysis, risk evaluation and risk treatment plans. The Bank has in place an Information Security Policy, which is applicable Bank-wide for information security assurance. Information Security Division is responsible for the implementation of IS Policy while taking in loop other relevant stakeholders such as Information Technology Group, Digital Banking Group, Compliance, Operations.

Relevant stakeholders should ensure that any confidential data should be encrypted when transmitted or stored in a non-Bank managed infrastructure. Any employee of the Bank found to be involved in an Information Security breach, may be subject to disciplinary action as per the Bank's rules.

Areas	Responsibilities	Responsible Group / Division/ Authority
Business Activities Information	Ensure implementation of internal controls within their systems and information assets as advised by Information Security Division as per internal policies and guidelines.	All Business & Support Groups
Technology, System and Data Storage	As custodian of information assets, ITG & DBG is responsible for maintenance and protection of enterprise data in line with relevant Information Security Policies and Guidelines.	ITG, Digital Banking Group
Monitoring & Compliance	Develop and communicate appropriate policies and frameworks related IS Incident & Forensics, Information/ Cyber Security awareness and trainings, Digital Payments Security and Internet/Mobile Banking Security reviews.	Information Security Division - RMG
Oversight	Review and approval of Information Security policies and risk reviews.	TDSC, ERC, BRCC

5.2.7 Shariah Non-Compliance Risk (SNCR)

Shariah Non-Compliance Risk (SNCR) is the risk of loss that arises from the failure of the Bank to comply with the Shariah rules and principles determined by the Shariah Board (SB). Islamic banking activities are based on instructions of the SB, which has the sole authority to declare any event/ transaction as Shariah non-compliant or recommend corrective action.

For the assessment of the risk profile of the Bank, the Bank has in place Shariah Non-Compliance Risk Management Framework (SNCRMF), as approved by the Board of Directors.

Internal Shariah Audit Wing (ISAW) – A&IG conducts Shariah audits through field visits in accordance with the professional custom. It also prepares the annual/ quarterly plans, identifies goals, tools and methods of auditing, and updates the Auditing Forms by Shariah standards and controls issued by the Shariah Board on a regular basis. Additionally, the Shariah Compliance Department (SCD) functionally reporting to the Shariah Board conducts reviews as per their annual plan.

Operational risk management activities shall include the coverage of SNCR, where applicable. SNCR events may be identified and reported to ORMD-ERMG by the Compliance & Finance Wing – AIBG (from External Shariah audits and SBP inspection reports); SCD and ISAW-A&IG as per their findings, in light of SBP's instructions regarding Shariah rules and principles, including adopted Shariah standards and decisions, rulings, fatwas of the Shariah Board.

Any SNCR events reported to ORMD-ERMG are made part of the Events Database report which is updated on quarterly basis and presented to the ERC and subsequently BRCC on annual basis in the presence of GC-AIBG.

Areas	Responsibilities	Responsible Group / Division/ Authority
Business Activities	Shariah risk identification and compliance of all Shariah related policies, procedures and regulations. This involves ensuring that all Shariah control procedures are followed on an on-going basis.	All concerned Groups
Review and analysis	Review Aitemaad policies/ procedures/ product programs, and ensure alignment with regulations. Maintain database for actual/ potential losses due to SNCR (based on reported data by SCD/ AIBG/ ISAW-A&IG), and its reporting to senior management and SBP as advised under SNCRMF and ORM Procedures Document.	RMG

Areas	Responsibilities	Responsible Group / Division/ Authority
Shariah Compliance	Ensure that all policies, procedure manuals, product programs and structures, process flows, related agreements and contracts as approved by the SB/ regulator are made available to and understood by everyone working in his/her group or functional area.	All concerned Groups
	Arrange adequate training for his/ her group employees in coordination with Training Department and SCD of the bank.	All concerned Groups/ Divs.
	Conduct Shariah compliance review to ensure conformity of Bank operations with fatwa/ guidelines issued by SB of the Bank and the directives, regulation, instructions and guidelines issued by SBP in accordance with the rulings of SBP's Shariah Board.	Shariah Compliance Department
	Perform Internal Shariah Audit of AIBG Branches and Departmental functions at Regions and Head Office. Ensure that AIBG is discharging its responsibilities in compliance with Shariah rules and principles to minimize Shariah non-compliance risk.	Internal Shariah Audit, A&IG
Monitoring	Observe SNCR events as jointly presented by RMG and SB-nominated Shariah Board member in presence of GC – AIBG	ERC
Oversight	Carry out an oversight of overall aspect of Islamic Banking, SNCR events and Internal Shariah Audit and review all related policies & procedure and also advice on the related matters.	ERC, BRCC, BoD
Compliance of Reports	Compliance of corrective actions determined by SB on the reports of internal & external Shariah audits	BAC

5.2.8 Model Risk

Model Risk is the potential loss the Bank may incur, because of decisions made on the output of the models, due to errors in the development, implementation or use of such models. Model risk could be particularly high, especially under stressed conditions or combined with other interrelated trigger events.

RMG is responsible for the development, documentation, classification, validation, and updating of risk quantification models. There are various quantitative models are available in the Bank which are periodically used to estimate the expected loss under normal and stressed market and economic conditions. However, to ensure the model not to deviate from observed trend, its validation is conducted on periodic basis and calibration, if required, is done to bring accuracy in forecasting of risks.

Areas	Responsibilities	Responsible Group / Division/ Authority
Data Validation	Provision of accurate data from authentic source as required for modeling for specified time-period.	All business and support groups/ RMG
Model Development and Validation	Develop, implement and analyze models to quantify volatilities for various portfolios of Bank. Development of different stress testing scenarios.	Risk Management Group
Approval & Oversight	Newly adopted risk quantification methodology is presented to the relevant risk committees for its approval.	ERC, BRCC

Annexure A – Risk Appetite/ Tolerance Limits

Categories	Risk Metrics	Required (SBP)	Risk Level		
			Low	Medium	High
Capital Adequacy	Tier 1 Capital (Including D-SIBs @ 1.5%)	10.5%	> 14%	13%-14%	< 13%
	CAR	13%	> 17%	16% - 17%	< 16%
	Leverage Ratio	3%	> 3.75%	3.5% - 3.75%	< 3.5%
Liquidity Ratios	Liquidity Coverage Ratio (Basel Required)	≥ 100 %	> 125%	110% - 125%	< 110%
	Net Stable Funding Ratio (Basel Required)	≥ 100 %	> 125%	110% - 125%	< 110%
	Cash Reserve Requirement (CRR)	≥ 6.00%	> 6% or < 6.5%	6.5% - 6.8%	> 6.8% or < 6%
	Liquid Assets to Total Assets	-	> 40%	20% - 40%	< 20%
	Liquid Assets to Total Deposits & Borrowing	-	> 45%	15% - 45%	< 15%
	Gross Advances to Total Deposits (ADR)	-	≥ 50%	60% - 70%	< 50% ≥ 70%
	Net Advances (Net of SBP Refinance) to Total Deposits (ADR)	≤ 70.00%	≥ 50%	60% - 70%	< 50% ≥ 70%
Market Risk Ratios	Price Value Basis Point (PVBP) of Government Securities (PKR in Mn)	-	< 150	150 - 160	> 160
	Duration of Government Securities (in years)	-	< 1.25	1.25 - 1.5	> 1.5
	Balance Sheet Duration Gap	-	< 0.5	0.5 - 0.7	> 0.7
Profitability/ Efficiency Ratios	Return on Equity	-	> 16%	12% - 16%	<12%
	Return on Assets	-	> 1%	0.7% - 1%	< 0.7%
	Earning Asset Ratio	-	> 85%	80% - 85%	< 80%
	Cost to Income Ratio	-	< 45%	45% - 55%	> 55%
	NPL / Advances Ratio (Gross)	-	< 10%	10% - 12%	> 12%
	NPL / Advances Ratio (Net)	-	< 1%	1% - 2%	> 2%
Concentration Risk	Top 20 Borrowers (Corporate/ Commercial, Gross Funded& Non-Funded Advances)	-	< 10%	10% - 25%	> 25%
	Top 10 Groups (Corporate/ Commercial, Gross Funded& Non-Funded Advances)	-	< 5%	5% - 15%	> 15%
	Real estate sector exposure (% of advances and investments, less investments in government securities)	≤ 10%	<6%	6% - 9%	> 9%
	Large Exposure Limit Aggregate % amount of large Exposures to its total gross advances and investments	≤ 50%	< 40%	40% - 48%	> 48%
Market Risk Exposure (1% of Tier-1 Capital)	Total investments in shares and mutual funds (Except NIT)	≤ 30%	< 25%	25% - 28%	> 28%
Other Risks	Reputational Risk *(PKR in Mn)*	-	< 500	500 – 1000	> 1000
	Operational Risk *(PKR in Mn)*	-	< 500	500 – 1000	> 1000
	Bank's Credit Rating *(Long Term)*	-	AAA	AA+, AA	AA-

Note: The abovementioned ratios are subject to regulatory and internal changes.

Annexure B – List of Reports

S. #	Report Name	Prepared By	Reported To	Frequency
1.	Basel III Liquidity Standards	ERMG	SBP, Senior Management	Quarterly
2.	Stress Testing	ERMG	SBP, Senior Management	Quarterly
3.	Investment Dashboard	ERMG	ALCO	Monthly
4.	Consolidated Excess Over Limit MIS	ERMG	ALCO	Monthly, Quarterly
5.	Liquidity & Interest Rate Risk Analysis	ERMG	ALCO	Quarterly
6.	Credit Portfolio Review	ERMG	ERC/ BRCC	Quarterly
7.	Retail Portfolio Review & Dashboard	CRMG & R&PLG	ERC/MCC	Quarterly
8.	Overseas Advances Portfolio Review	CRMG	ERC, BRCC	Quarterly
9.	Borrowers Complaint Log	CRMG	F&M Audit/ SBP Auditors	Annually
10.	MCR Data Preparation & Submission	CRMG	FCG	Quarterly
11.	ICAAP Brief	ERMG	ERC/ BRCC	Half yearly
12.	Risk Appetite Statement	ERMG	ERC/ BRCC	Half yearly
13.	On-going Loss Data	ERMG	ERC/ BRCC	Annually
14.	ORM Tolerance Limit	ERMG	ERC/ BRCC	Quarterly
15.	Analysis of Fraud & Forgeries	ERMG	ERC/ BRCC	Annually
16.	Root Cause Analysis of Operational Risk Incidents	ERMG	ERC/BRCC	As needed
17.	Temporary Extensions Allowed in Expired Credit Limits	CRMG	BRCC	Quarterly
18.	Status of Expired Deferrals	CAD	BRCC	Quarterly
19.	Insurance Policies Accepted	CAD	MCC	Quarterly
20.	Major Observations of Pledge Site Visits	CAD	Relevant Group	Monthly
21.	Limits Expiring within 90 days	CAD	CRMG	Quarterly

Annexure C – Functional Details (Role of the CRO & RMG)

C.1 – Role of Chief Risk Officer:

The CRO shall head and steer the design and implementation of ERM framework across the Bank. The CRO shall report to the President both functionally and administratively. The CRO shall work proactively with senior management and other group entities as well as with BRCC to ensure that Bank's risk profile remains within approved risk appetite. The CRO shall have access to all information that he/she considers necessary for performing his/her duties. He/she shall have, at minimum, following roles & responsibilities:

a. Lead the design and implementation of ERM framework
b. Steer the implementation of risk policies, processes, tools and systems to identify, measure, manage, monitor and report enterprise wide risks.
c. Play central role and assist board and BRCC in development of Bank's risk strategy, risk appetite framework and ERM framework.
d. Translate board approved risk strategy and risk appetite into operational activities and risk tolerance limits in consultation with respective business functions/line departments.
e. Establish a strong, independent and dynamic group risk management function with all required financial, system and physical resources and ensure that it is manned with personnel who possess sufficient experience, qualifications, risk management expertise, technical skills; business knowledge & competencies to perform their risk functions and provide expert opinions. The level of expert knowledge and experience should commensurate with complexity of Bank's business and its risk profile.
f. Participate and actively contribute in key decision-making processes of the Bank i.e. strategic planning, capital and liquidity planning, new products and services development, business expansions.
g. Assist line departments/functions in development of relevant control processes and mechanisms to identify, evaluate, manage and report on material business risks in line with ERM framework.
h. Develop risk management policies and procedures, structures, risk limits and approval authorities; monitor Bank's risk profile on ongoing basis and respond to major and critical risk issues independently and effectively.
i. Ensure that risk communication is made an integral part of ERM activities to create and maintain a robust risk culture in Bank. The CRO should put in place a mechanism to share information with relevant employees on emerging risk issues, trends and how they may impact the Bank.
j. Assist management in development of risk mitigation plans to bring residual risk within target level as determined in risk appetite framework in given timelines without creating other unintended risks.
k. Ensure that risk management officials remain up-to-date on latest trends on risk management through attending seminars, conferences, training sessions and that they are acquiring continuing education to enhance their skills to perform their functions.
l. Must be involved in, and have the authority to provide effective challenge to, activities and decisions that may materially affect the Bank's risk profile.

D.2 – Role of Risk Management Group:

RMG shall be responsible for the following major risk management activities:

1. Developing/ reviewing the risk management strategies, coordinating in the process of finalizing risk appetite, monitoring compliance with the approved strategies and appetite and reporting status of compliance and exceptions to the relevant authorities;
2. Establishing/ compiling the overall risk management framework, ICAAP document and the framework for management of material risks;
3. Develop standards for credit assessment, approval (including credit approval grids and authorities for exceptions), credit risk mitigation, monitoring and reporting relevant to them which the Enterprise Risk Management group and other relevant Group/Division will review and provide their comments/suggestions. Risk Management Group will develop rating policy, rating models, Risk Tolerance/Concentration Policy, ERM Framework, reporting data relevant to them which the relevant Group/Division will review and give their suggestions.
4. To implement uniform CAD Manual throughout the bank and secure the Bank's risk assets (Credit) through perfection of documentation & securities; centralizing the credit administrative functions at Regional level;

and effectively eliminate the back office function from the front office platform and to ensure appropriate use of resources.

5. Establishing and maintaining, with the active support and involvement of other groups/ divisions/ functions, risk measurement/ analysis methodologies as required under the applicable regulations and the SBP Basel Framework;
6. Performing portfolio management and risk architecture functions and MIS, setting portfolio management parameters, determining tolerable concentrations and portfolio mix, in coordination with various groups/ divisions/ functions and performing portfolio review activities. Also overseeing deployment of portfolio management tools and systems;
7. Acting as the focal point in the Bank's stress testing processes in coordination with various stakeholders, establishing the stress testing framework, performing stress tests using reasonable scenarios and in accordance with the regulatory requirements and reporting the results to the relevant internal and external authorities;
8. Review the minimum capital requirements as per the applicable Basel approaches, in coordination with the Finance Division;
9. Introducing procedures for accuracy of data to be used for risk and portfolio management framework and analytics development to ensure consistent implementation of such procedures;
10. Establishing a designated data validation and reconciliation structure and process within the Risk Management Function to facilitate better oversight over data quality and the cleansing exercise performed by the business, credit approval, operations and other groups/ divisions/ functions;
11. Proposing and implementing an MIS/ exception reporting framework for reporting of key credit, market, liquidity and operational risk aspects/ issues to the competent authorities and submitting reports as per this framework;
12. Proposing the risk limits for various risk types and the process for their setting, review, amendments and approval, monitoring the limits and monitoring variances/ exceptions for such limits;
13. Reviewing product policy manuals/product programs and assessing whether such manuals/ programs are in accordance with the risk management policies and appropriately address all the key risks embedded in the related processes/ products;
14. Proposing the Risk Management Function organization and any enhancements/ modifications therein in line with the applicable regulations, generally accepted risk management practices and considering the adequacy/ effectiveness of structure to perform the responsibilities assigned;
15. Advising knowledge management programs including training and awareness sessions for various levels of management on different risk aspects;
16. Performing any other responsibility as assigned by Enterprise Risk Committee, Board Risk & Compliance Committee, President and any other competent authority from time to time.

Annexure D – List of Acronyms

Acronym	Description
A&IG	Audit & Inspection Group
ALCO	Asset & Liability Committee
AML/ KYC	Anti-Money Laundering/ Know Your Customer
BoDs	Board of Directors
BTDC	Board Technology & Digitalization Committee
BRCC	Board Risk & Compliance Committee
CAAB	Credit Approval Authority Booklet
CAD	Credit Administration Division
CCM	Compliance Committee for Management
CFT	Combating the Financing of Terrorism
CG	Compliance Group
CPERAD	Capital Planning & Enterprise Risk Architecture Division
CPF	Countering Proliferation Financing
CRMG	Credit Risk Management Group
CRO	Chief Risk Officer
DCOs	Data Coordinators
DBG	Digital Banking Group
D-SIB	Domestic Systemically Important Bank
ECIB & DMW	Electronic Credit Information Bureau & Data Management Wing
EIC	Equity Investment Committee
ERC	Enterprise Risk Committee
ERMF	Enterprise Risk Management Framework
ERMG	Enterprise Risk Management Group
FCG	Financial Control Group
FID	Financial Institutions Division
GDPR	General Data Protection Regulation
ICAAP	Internal Capital Adequacy Assessment Process
IFRG	International Financial Institutions & Remittances Group
ISD	Information Security Division
ITG	Information Technology Group
KRI	Key Risk Indicators
MCC	Management Credit Committee
MLRW	Market and Liquidity Risk Wing
ORMD	Operational Risk Management Division
RCSA	Risk Control Self-Assessment
PM&CRAD	Portfolio Management & Credit Risk Architecture Division
RMCs	Risk Management Coordinators
RMG	Risk Management Group
R&PLG	Retail & Program Lending Group
SAMG	Special Assets Management Group
SB	Shariah Board
SCD	Shariah Compliance Department
SNCR	Shariah Non-Compliance Risk
TCMG	Treasury & Capital Markets Group