

IRAF: QUESTIONNAIRE FOR SELF-ASSESSMENT

Annexure 5

QUESTIONNAIRE ON RISK MANAGEMENT GUIDELINES

S #	Particulars	Compliant		Comments <i>(In case of fully compliant tick yes. ¹However, in case of 'NO' describe the status as either non compliant or partially compliant with reasons)</i>
		YES	NO	
BOARD AND SENIOR MANAGEMENT OVERSIGHT				
1.	Did the Board of Directors approve risk management policy?			
2.	Does the management recognize all the risks inherent in the bank's/DFI's portfolio?			
3.	Does the policy clearly define the roles and responsibilities of various functionaries of the bank/DFI?			
4.	Does the management monitor implementation of policy and make necessary adjustments?			
5.	Is there any system in place for business line accountability?			
6.	Is the policy communicated down the line and well understood by all concerned quarters (risk takers, risk reviewers etc)?			
7.	Does the management recognize internal and external factors posing potential risks to the bank/DFI?			
8.	Does the management set limits for acceptable level of various risks?			
9.	Is the management actively involved in sketching up strategies for risk management?			
10.	Is the risk management strategy flexible enough to deal swiftly and adequately, with all risks?			
11.	Does the management have in place a system for controlling risks on an integrated basis?			

¹ **Fully Compliant:**

When all the requirements of the relevant segments of the Guidelines on Risk Management have been met without any significant deficiencies.

Partially Compliant:

When some shortcomings are observed significant to raise doubts about the bank's ability to fully comply with the relevant segments of the Guidelines on Risk Management.

Non-Compliant:

When no substantive progress has been achieved with regard to implementation of risk management guidelines.

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12.	Does the management regularly monitor the effectiveness of its risk management system?			
13.	Is there any system to quantify the risk profile and where it is not possible to quantify the risk, are there any qualitative measures to capture those risks?			
14.	Is there a system to ensure that the risks remain within the boundaries established by the BOD?			
15.	Does the organizational structure clearly define roles and responsibilities of different functionaries regarding risk management?			
16.	Does the structure of the bank/DFI strengthen monitoring and control over risks being taken?			
17.	Is the risk review function independent from risk taking units?			
18.	Do the risk reviewers directly report to the BOD or senior management who are not involved in risk taking?			
19.	Does the structure support the swift and smooth flow of information from operational level to top management?			
20.	Does the bank/DFI have any business continuity plan duly approved by the BOD?			
21.	Has the bank/DFI drawn up a comprehensive contingency plan?			
22.	Does the board of directors approve the plan?			
23.	Is the plan capable to assess the degree of impact of unusual situations in timely and effective manner?			
24.	Does the plan clearly state the order and method of operations in case of emergency?			
25.	Does the bank/DFI secure backup data in a vault and/or distant location?			
26.	Are the contingency plans tested to the appropriateness of response, escalation and communication channels?			
CREDIT RISK MANAGEMENT				
27.	Does the BOD approve the credit risk strategy?			
28.	Does the bank/DFI have the credit policy duly approved by the BOD?			
29.	Is the credit policy commensurate with the overall risk management policy?			
30.	Does the Board periodically review the credit risk strategy and credit policy?			

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31.	Does the management clearly understand the credit risk that the bank/DFI is exposed to in on- and off-balance sheet transactions?			
32.	Has the management given due consideration to the target market while devising credit risk policy?			
33.	Does the policy provide continuity in approach and take into account the cyclic aspect of the country's economy?			
34.	Has the credit policy been properly communicated down the line?			
35.	Does the policy clearly spell out the roles and responsibilities of individuals?			
36.	Does the credit policy spell out an appropriate process for reporting and approval of credit extension beyond prescribed limits?			
37.	Has the management set out credit limits for different client segments, economic sectors, geographical locations etc to avoid concentration of credit?			
38.	Are credit limits set against credit risk exposures to a single borrower or a group?			
39.	Are these limits periodically reviewed?			
40.	Is credit risk controlled and monitored on an integrated basis and regularly reported to the senior management?			
41.	Does the policy provide details about loan pricing strategy?			
42.	Does the bank/DFI have in place a support system for measuring credit risk?			
43.	Does the policy contain ways and means for quantitative measurement of credit risk?			
44.	Are methods/models for measuring credit risk reviewed regularly?			
45.	Are the results of risk review function regularly reported to management?			
46.	Has the bank/DFI introduced any internal risk rating system, which is used for credit approval and follow-up monitoring?			
47.	Is the consistency and accuracy of risk rating examined periodically?			
48.	Does a separate function, independent of loan origination, review risk rating?			
49.	Does the bank/DFI have a defined minimum exposure limit for Credit Rating?			

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50.	Does the credit policy assign the authority for and define a timing of the Credit Rating?			
51.	Is there an objective standard for internal rating based on quantitative and qualitative factors?			
52.	Is the number of bad loans on the part of highly rated clients nil or few?			
53.	Does the bank/DFI have Credit Risk Management Committee to oversee credit risk management function?			
54.	Do the heads of credit department, risk management department and treasury constitute this committee?			
55.	Is there a separate Credit Risk Management Department (CRMD) to ensure compliance with risk management policy?			
56.	Does the CRMD undertake portfolio evaluations and conduct comprehensive studies on the environment to test the resilience of the loan portfolio?			
57.	Is the credit risk management set up commensurate with the size and complexity of the credit portfolio?			
58.	Is the delegation of powers to approve the loan rational and followed effectively?			
59.	Is there any mechanism for exceptional reporting to the senior management/BOD?			
60.	Does the bank/DFI have a separate special assets management function for problem loans?			
61.	Are the powers delegated to different levels, to approve credit, appropriate and in line with the management policy?			
62.	Does the bank/DFI have pre-disbursement audit system for the credit facilities?			
63.	Are the terms and conditions stipulated in the loan agreement meticulously observed?			
64.	Has the bank/DFI compiled manuals for credit evaluation and approval?			
65.	Does the bank/DFI follow the credit manuals in letter and spirit?			
66.	Are the manuals periodically reviewed and revised?			
67.	Is there any early warning system to alert the management about the loans going to be bad?			

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68.	Is the credit administration independent from credit initiation and risk review function?			
69.	Does the credit administration (CAD) ensure proper approval, completeness of documents/covenants, receipt of collateral and approval of exceptions before credit disbursement?			
70.	Does the CAD ensure proper maintenance of credit files?			
71.	Does the CAD ensure safe custody of security and collateral documents?			
72.	Does the bank/DFI perform its own independent analysis and review in case of syndicate loans?			
73.	Does the bank/DFI check the credibility of financial statements of borrowers?			
74.	Does the bank/DFI analyze the financial statements of borrower to appraise the amount and timing of cash flows?			
75.	Does the bank/DFI have a clear understanding of borrowers' business skills and condition?			
76.	Does the bank/DFI gather information on a borrower's credibility from other sources?			
77.	Does the bank/DFI have a good understanding of a borrower's source of repayment?			
78.	Does the bank/DFI analyze cash flows to examine debt-servicing capacity of borrower?			
79.	Does the bank/DFI check end-use of funds?			
80.	Does the bank/DFI clearly understand risk profiles in case of participation loans?			
81.	Does the bank/DFI request the original creditor of the loan to provide key information?			
82.	Does the bank/DFI have any problem with loan participants?			
83.	Does the bank/DFI regularly monitor the amount of commitments by type of commitment?			
84.	Does the bank/DFI set credit limits for the counterpart on a consolidated basis for on- and off-balance sheet credit?			
85.	Does the bank/DFI conduct financial analysis for each settlement period and monitor changes in the client's financial condition?			
86.	Does the bank/DFI confirm the usage of borrowed funds through financial			

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	statements analysis?			
87.	Does the bank/DFI evaluate the credit risk associated with off-balance sheet transactions?			
88.	Does the bank/DFI control credit risk exposure of company groups on a consolidated basis?			
89.	Does the bank/DFI have in place a financial analysis system?			
90.	Does the bank/DFI regularly record the latest data for follow-up?			
91.	Does the bank/DFI obtain information about the borrowers from credit information bureau?			
92.	Does the bank/DFI have an automatic calling system to request customer payments?			
93.	Does the bank/DFI have a clear policy regarding the collection and disposal of problem loans?			
94.	Does the bank/DFI monitor the periodical business performance of problem loans?			
95.	Does the bank/DFI have clear policy/procedures on restructuring/rescheduling of problem loans?			
96.	Is the restructuring plan enforced in letter and spirit?			
97.	Are the procedures for appraisal of securities held as collateral, appropriate?			
98.	Is the worth of the collateral in line with changes in a borrower's business performance?			
99.	Does the bank/DFI periodically carry out on-site inspection/survey of the collaterals held as security?			
100.	Does the bank/DFI periodically re-appraise real estate held as collateral and monitor its value against credit outstanding?			
101.	Are collaterals insured against different risks?			
MARKET RISK MANAGEMENT				
102.	Does the board approve the market risk strategy?			
103.	Does the bank/DFI have clear, comprehensive and well-documented policies and procedural guidelines relating to market risk?			

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104.	Do the market risk limits defined in the policy commensurate with the overall risk management policy of the bank/DFI?			
105.	Does the bank/DFI have a market risk management committee?			
106.	Does this committee ensure that resources allocated for risk management are adequate given the size, nature and volume of business and possess sufficient knowledge and expertise?			
107.	Does the management clearly understand the characteristics of risk measurement system/ model?			
108.	Are the underlying assumptions and data used in system/models, to calculate potential market risk, good enough?			
109.	Is the market risk policy regularly reviewed by the management and at board meetings in the light of financial results?			
110.	Is business performance taken into account while reviewing policy?			
111.	Is there any explicit policy for reporting breach of limits to the top management?			
112.	Are emergency measures dealing with heavy market fluctuations defined in writing?			
113.	Is there a Middle Office in treasury?			
114.	Are the responsibilities of front, middle and back offices clearly segregated?			
115.	Is the back office able to reconcile details of transactions with the front office in a timely manner?			
116.	Is the bank/DFI able to reconcile details of transactions with its counterpart in a timely manner?			
117.	Does the middle office monitor the operations of front and back offices?			
118.	Has the bank/DFI ensured that the administration of all the three offices does not rest with the same person?			
119.	Does the back and middle offices get data for risk management such as rates, etc., directly from the counterpart?			
120.	Is the internal audit of all the three offices conducted on regular basis?			
121.	Is there any manual in place for auditing of market operations?			
122.	Does the front office report the transactions to the concerned authority in a timely manner?			

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123.	Is there any periodic reporting from middle and back offices to concerned authorities?			
124.	Does the Board receive regular reports on market risk measurement?			
125.	Do these reports include realized and unrealized profit/loss, risk exposure, and sensitivity in comparison with position limits, and, when necessary, profit/loss estimates and loss limits?			
126.	Are these reports easily understandable and used in decision making by the management?			
127.	Has the bank/DFI set any exposure limits for counter parties for different transactions?			
128.	Does the BOD decide the exposure limits?			
129.	Are exposure limits set according to market size and product liquidity?			
130.	Do these limits commensurate with the overall market risk management policy?			
131.	Does the bank/DFI review these limits in view of market conditions?			
132.	Are exposure limits set by each currency, net/gross volume etc?			
133.	Does the bank/DFI use any system/model for market risk assessment?			
134.	Is this system/model appropriate to the size and complexity of the portfolio?			
135.	Is there any support system to gather information which is necessary for risk management?			
136.	Are the data and underlying assumptions, used in system/model to quantify market risk, back tested?			
137.	Is the profit/loss evaluated on a mark-to-market basis?			
138.	Does the bank/DFI monitor trading transactions separately from other market transactions?			
139.	Is the position of each trader normally monitored during the day?			
140.	Does the bank/DFI have in place manuals for market transactions?			
141.	Does the bank/DFI periodically revalue its investment portfolio at market value?			
	OPERATIONAL RISK MANAGEMENT			
142.	Did the board establish operational risk tolerance level and set strategic direction in relation to operational risk?			

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143.	Did the senior management develop the Operational Risk Management Policy?			
144.	Is the policy capable to identify and assess the operational risk inherent in all material products, activities, processes and systems?			
145.	Is the policy capable to deal with the newly recognized risks arising from changes in market conditions?			
146.	Has the bank/DFI developed systems and procedures to institute effective operational risk management framework?			
147.	Does the bank/DFI have procedural manuals in all areas of operations of the bank/DFI?			
148.	Are roles and responsibilities regarding business operations and risk management clearly defined?			
149.	Are the responsibilities of risk management clearly defined among different functionaries?			
150.	Does the bank/DFI have in place any set up for compliance function?			
151.	Are the responsibilities of compliance officer clearly narrated?			
152.	Does the bank/DFI have any internal audit function?			
153.	Is the internal audit independent from all operational functions?			
154.	Is the scope and frequency of the internal audit adequate with respect to the bank's/DFI's business?			
155.	Does the bank/DFI have a separate function for operational risk management, independent of internal audit?			
156.	Has the bank/DFI confirmed that there is neither excessive concentration nor extreme delegation of authority?			
157.	Is due consideration given to staff rotation and compulsory leave within a reasonable time?			
158.	Do the authorized personnel only have access to information regarding various transactions?			
159.	Does there exist a system of regular and timely reporting of pertinent information to senior management and the Board of Directors that supports the proactive management of operational risk?			

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160.	Does the bank/DFI have a consistent reporting format with easy comprehension and logic of contents?			
161.	Are the decisions made by the authorities communicated to all concerned quarters?			
162.	Are the findings of compliance officers, in respect of any unusual event, promptly communicated to the competent authority?			
LIQUIDITY RISK MANAGEMENT				
163.	Is there any policy in place, duly approved by the BOD, for liquidity risk management?			
164.	Has the management given due consideration to external and internal factors posing liquidity risk while formulating the liquidity policy?			
165.	Does the policy define general liquidity strategy (short and long term)?			
166.	Is the policy flexible enough to deal with the unusual liquidity pressures?			
167.	Does the BOD/senior management review the liquidity policy regularly? If yes please indicate the frequency of review?.			
168.	Does the management communicate the policy down the line through out the bank/DFI?			
169.	Is the policy flexible enough to deal with the liquidity risk stemming from new products?			
170.	Has the bank/DFI established assets and liabilities management committee (ALCO)?			
171.	Does ALCO comprise of senior management from each key area of operations?			
172.	Does the structure define roles and responsibility of all individuals, performing liquidity risk management function?			
173.	Does the bank/DFI have procedural manuals for liquidity management?			
174.	Does the bank/DFI analyze on and off balance sheet positions to forecast future cash flows?			
175.	Has the bank/DFI identified the means and ways to meet its funding requirements?			
176.	Does the management have full understanding of the factors that could give rise to liquidity risk?			
177.	Is there any system to measure and monitor liquidity risk?			

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178.	Are the tools used for liquidity risk management adequate with respect to size, nature and complexity of business?			
179.	Has the bank/DFI established a system to capture liquidity risk ahead of time?			
180.	Does the bank/DFI regularly review the format of the standard reports to make it more meaningful?			
181.	Does the bank/DFI have any contingency funding plan for liquidity? If yes summaries the plan in general terms?			
182.	Does the contingency plan clearly define the roles and responsibilities of various functionaries at the time of liquidity crises?			
183.	Has the bank/DFI any system in place, which prevents the bank/DFI from relying on few fund providers/ sources?			
184.	Are there any standard reports, tailored to the bank's/DFI's needs, for liquidity risk management?			
185.	Are the reports generated to manage liquidity risks easily comprehensible?			
186.	Is the data/information contained in the above reports focused, accurate and presented in timely manner?			
187.	Has the management given due consideration to crises monitoring while developing liquidity MIS?			
188.	Do these reports carry information about large fund providers, funding gaps and limits monitoring?			
189.	Are the amounts of commitments drawn and the balance yet to be drawn properly reported to the ALCO?			
190.	Does the bank/DFI have any exceptions reporting system for liquidity risk in timely manner?			

Chairman
Board of Directors