



Requirements for Formulation of Policies by Banks / DFIs

The policies to be formulated by banks/DFIs should cover, as the minimum, the following points as enumerated under each policy:

1- Risk Management Policy:

- i. Definitions, scope and parameters for risk assessment
- ii. Risk appetite of the bank
- iii. Reporting of exceptions to BOD / senior management
- iv. Organizational set up, role / responsibilities of BOD / Senior Management
- v. Management Information System
- vi. Integration of risk management, overall assessment of risk profile of the bank with respect to different risks i.e. risk matrix.
- vii. Desired level of Capital
- viii. Business line accountability
- ix. Independence of risk review function from risk taking function
- x. Communication of the policy down the line

a) Market Risk:

- Scope of the policy
- Organizational structure (Risk management committee, ALCO, Middle Office etc.)
- Responsibilities for market risk control limit setting and limit excesses and Provisions for the measurement of the risk.
- Roles and responsibilities of the senior management and also for individuals responsible for measuring, managing and monitoring the risk
- Risk measurement techniques to be used
- MIS for generating management reports and exception reports
- Provisions for mark to market the exposure

b) Liquidity Risk:

- Scope of the policy
- Early warning indicators
- Exposure limits and liquidity ratios with qualitative data
- Liquidity risk management structure for monitoring, reporting, and reviewing liquidity
- Guidance regarding sources of funding the day-to-day liquidity requirements & diversification in sources of funds
- Contingency plans for handling liquidity crisis
- MIS system for measuring and reporting the liquidity position
- Effective internal controls over the liquidity risk management process.



c) Operational Risk:

- Scope of the policy
- Systems and procedures to institute effective operational risk management framework
- Structure of the operational risk management framework & roles and responsibilities of the individuals to manage operational risk
- Risk assessment and quantification
- Risk management and mitigation/monitoring
- Contingency planning
- Responsibility for reporting of critical operational risk facing, or potentially facing, the institution

d) Country Risk:

- Scope of the policy
- Clear line of responsibility and accountability
- Existence of bank internal risk assessment framework to establish country risk ratings or the bank reliance on external ratings
- For given level of cross border exposure, appropriateness of reliance on external rating or internal country risk rating system and presence of detailed country risk assessment procedures laid down for guidance of the risk management staff (in case of internal ratings).
- Maximum exposure limits established for both fund based and non fund based exposures, and authority levels for approving breaches.

2- Credit Policy

Areas related to credit risk management are to be covered either under overall Credit policy under the Risk Management Policy at serial 1 above. Furthermore, Risk Management at micro level may be covered under Credit Policy and Risk Management at Strategic Level under the Risk Management Policy.

- i. Scope of the policy
- ii. Define role of the Board, Board sub-committee on credit, and the management in credit extension
- iii. Provide purpose of lending policy, Bank's lending objectives, lending criteria, target market, perceived market niche and its periodic review/revision
- iv. Types of products/facilities offered – fund based & non-fund based facilities
- v. Structure of credit risk management department and its role
- vi. Independence of risk taking and risk review functions
- vii. Identification of means for qualitative and quantitative measurement of credit risk



- viii. Various credit limits and periodical review, industry risk concentration / diversification, single party/ group exposure, geographic concentration, regular risk monitoring and control
- ix. Credit appraisal process and all considerations /rules governing extension of new credit/ expansion of existing ones, credit assessment on consolidated/group basis
- x. Desired collateral/security types, ongoing administration of credit portfolio including periodic examination of collateral & loan covenants, frequency of site visit
- xi. Responsibilities at various levels, delegation of authority and powers
- xii. Loan classification and provisioning, periodic reviews of classified portfolio, various classification categories and its documentation, identification of deterioration of loan, loan recovery guidance, legal action against delinquent borrowers and follow-up
- xiii. Criteria for Write off, rescheduling/restructuring of stuck-up loans (in line with SBP guidelines)
- xiv. Guidance on dealing with NPLs, review of cases with court for expeditious disposal of the same etc.

3- **Treasury & Investment Policy:**

i. **Scope / Objectives of the Policy**

- This document and encompassed policies should govern management of the Balance Sheet and activities performed by the Treasury Function to that end vis-à-vis identifying roles, responsibilities and limitations therein.

ii. **Role of Treasury Function**

- Organization Structure / Segregation of Duties
 - Dealing Room Structure/ responsibilities / reporting lines
 - Mid-Office Structure / responsibilities / reporting lines
 - Treasury Operations (Back Office) Structure/ responsibilities / reporting lines
- Authority Level / Operating Guidelines
- Definition of Treasury's Role in
 - Market & Liquidity Risk Management
 - Balance Sheet Management

iii. **Investment Policy Framework**

- Investment Objectives / Guidelines
- Authorities / Decision Making Grid
- Investment Portfolio Parameters
 - Classification of Portfolios
 - Discretionary Investments



- Mandatory Investments
 - Permissible Investments/Products, Duration and Tenor guidelines for each portfolio
 - Portfolio diversifications/limits
 - Credit & Market Risk Management / Parameters
 - Accounting Issues/ Policies
 - Classification of Securities
 - Held for Trading
 - Available for Sales
 - Held to Maturity
 - Reconciliation & Reporting
 - Documentation and record keeping
- iv. **Guidance on Funds Transfer Pricing**
- v. **Guidance on Liquidity Management**
- vi. **ALCO**
- Objectives / Structure / Composition of ALCO
 - Responsibilities / Policy Statement regarding
 - Exposure Management
 - Liquidity & Funding Decisions
 - Investment Decisions
 - Contingency Plans
 - ALM information system
 - Product Pricing Approvals
 - New Product Approvals
 - Transfer pricing mechanism
 - MIS for generating management reports and exception reports
- 4- **Internal Control System and Audit Policy:**
- i. Broad Structure of the Internal Control Systems
 - ii. Plan/systems for Identification/prevention/ remediation of Control deficiencies
 - iii. Framework of internal controls to be adopted
 - iv. Any other relevant policy points
- a) **Internal Audit Policy**
- Objective, scope and frequency of internal audit
 - Line of reporting of audit chief, posting of resident auditors or alternate arrangements
 - Reporting mechanism for rectification & corrective actions, accountability system



- Periodic reporting to Board / Board Audit Committee
- For checking frauds, the policy should provide for any special Fraud deterrence program; Management's responsibilities; Employee guidance if fraud is suspected, Confidentiality and Reporting procedures

b) Compliance Policy:

- Objectives of Compliance Policy, objective / Role of compliance function
- Compliance defined, role & responsibilities of compliance officer
- Reporting line & independence of compliance function
- Relationship with internal audit, regulatory bodies & framework to follow, requirements of SBP regulations etc.

c) KYC/AML Policy:

- Purpose of policy and its scope
- Policies to deal with: new customer, documentation requirements, introduction of accounts, KYC questionnaire, customer details for various types, verification of identity, authenticity of identity documents, approval of account opening, letter of thanks, issuance of cheque book, correspondent accounts, accounts operated by attorneys, transactions with non accountholders, Dormant accounts, responsibility of branch managers
- Record retentions, customer identification records, records of individual transactions and retention period
- Guidance for on going due diligence and enhanced due diligence i.e. Procedure for handling suspicious transactions; transaction filtering and transaction surveillance (Transaction Monitoring).
- AML trainings and awareness

5- **I.T. Security Policy:**

- i. Overview of risks relating to IT security
- ii. Steering committee composition and its Role and responsibilities
- iii. IT risk management process
- iv. Risk identification/assessment, controls implementation, measurement, evaluation and assessment/reassessment and monitoring/mitigation of IT risks
- v. Management considerations for technology service providers
- vi. Awareness and training
- vii. Internal audit and external certifications
- viii. System log in precautions
- ix. Email and internet usages
 - Password security/privacy
 - Email and attachments



- Anti virus soft wares
- x. Electronic banking and management of related risks

6- **Human Resource Policy:**

- i. Desired corporate culture and values
- ii. Organizational chart and delegation of authority
- iii. Classification of employees, pay scales, salaries review policies
- iv. Job analysis/description
- v. Board policy on recruitment
- vi. Promotion policy defining the competent authority, minimum eligibility criteria/considerations & timings
- vii. Policy guidance on transfer/rotation, retirement, separation, etc.
- viii. Grievance handling & Disciplinary Action Policy
- ix. Guidance for performance management, annual increment and employee recognition programs
- x. Employee training and development
- xi. Succession planning

7- **Expenditure Policy:**

- i. Define objective/scope of the policy
(Policy statement, including the areas to be broadly covered)
- ii. Requirement for preparation of annual expense budget (separate budgets for the revenue and capital expenditures)
- iii. Defined approval levels of the authority, delegation of powers for approval/sanction duly approved by BOD
- iv. Segregation of duties related to initiating/incurring and approving expenditure
- v. Approval of expenditure other than budgeted along with relevant authorities and dealing with exceptions to the budget
- vi. Expense processing system & expense management, periodic comparisons between actual/budget & corrective measures and enabling controls
- vii. Broad guidelines for making donations
- viii. Policy guidelines for acquisition / disposal of fixed assets

8- **Accounting & Disclosure Policy:**

- i. Significant Accounting Policies, which are adopted and changes thereof, if any,
- ii. The disclosures required under IAS/IFRS and SBP requirements
- iii. Statement as to adoption of regulatory/mandatory disclosures (as per SBP guidelines)
- iv. Identification of areas where additional voluntary disclosure will be made
