

**IRAF: QUESTIONNAIRE FOR SELF-ASSESSMENT**  
**QUESTIONNAIRE ON GUIDELINES FOR RISK MANAGEMENT**

**ANNEXURE V**

S #	Particulars	Compliant	Comments
		Scale 1-5	

<b>BOARD AND SENIOR MANAGEMENT OVERSIGHT</b>			
1.	Does the Board/management recognize all the risks inherent in the bank's/DFI's portfolio?	1	
2.	Does the management monitor the implementation of policy and make necessary adjustments and actively involve in sketching strategies for risk management?		
3.	Is there any system in place for business line accountability?		
4.	Is the policy communicated down the line and well understood by all the concerned quarters (risk takers, risk reviewers etc.)		
5.	Does the management set the limits for acceptable level of various risks? Is there a system available to ensure that the risks remain within the established limits?		
6.	Does the management have in place a system for controlling risks on integrated basis?		
7.	Is there any system to quantify the risks on an integrated basis and where it is not possible to quantify the risk; are there any qualitative measures to capture those risks?		
8.	Is the risk review function independent from the risk taking units?		
9.	Do the risk reviewers directly report to the BOD or the senior management who are not involved in risk taking?		
10.	Does the bank/ DFI: <ul style="list-style-type: none"> <li>➤ have business continuity plan duly approved by the BOD?</li> <li>➤ have BOD approved comprehensive contingency plan, capable of assessing the degree of impact of unusual situations in a timely manner, clearly stating the order and method of operations in case of emergency and tested as to the appropriateness of response?</li> <li>➤ secure back up data in a vault and/or distant location?</li> </ul>		

<sup>1</sup> 1 = Fully Compliant, 2 = Significantly Compliant, 3 = Partially Compliant, 4 = Marginally Compliant, 5 = Non Compliant

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<b>CREDIT RISK MANAGEMENT</b>			
11.	Does the BOD approve/ periodically review the credit risk strategy?		
12.	Does the bank/ DFI have the credit policy duly approved by the BOD?		
13.	Is the credit policy commensurate with the overall risk management policy?		
14.	Has the management given due consideration to the target market while devising credit risk policy?		
15.	Does the policy provide continuity in approach and take into account the cyclical aspect of the country's economy?		
16.	Has the credit policy been properly communicated down the line?		
17.	Does the policy clearly spell out the roles and responsibilities of individuals?		
18.	Does the credit policy spell out an appropriate process for reporting and approval of credit extension beyond prescribed limits?		
19.	Does the management of the bank/ DFI: <ul style="list-style-type: none"> <li>➤ have credit limits for different client segments, economic sectors, geographical locations etc. to avoid concentration of credit?</li> <li>➤ periodically review the credit limits set against credit risk exposures to a single borrower or a group?</li> </ul>		
20.	Is credit risk controlled and monitored on an integrated basis and regularly reported to the senior management?		
21.	Does the policy provide details about loan pricing strategy?		
22.	Does the bank/ DFI: <ul style="list-style-type: none"> <li>➤ have in place support system for measuring risk?</li> <li>➤ have policy containing ways and means for quantitative measurement for credit risk?</li> <li>➤ have regular review of methods/ models for measuring credit risk?</li> </ul>		
23.	Are the results of risk review function regularly reported to management?		
24.	Does the management of bank/ DFI: <ul style="list-style-type: none"> <li>➤ have any internal risk rating system which is used for credit approval and follow up monitoring?</li> </ul>		

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	<ul style="list-style-type: none"> <li>➤ periodically examine the consistency and accuracy of risk rating?</li> <li>➤ have in place a separate function independent of loan origination, review risk rating</li> </ul>		
25.	Does the bank/ DFI have a defined minimum exposure limit for credit rating? Does the credit policy define timing of the credit rating?		
26.	Is there an objective standard for internal rating based on quantitative and qualitative factors?		
27.	Is the number of bad loans on the part of highly rated clients nil or few?		
28.	Does the bank/ DFI have credit risk management committee to oversee credit risk management function? Also, does this committee constitute heads of credit department, risk management department and treasury?		
29.	Is there a separate Credit Risk Management Department (CRMD) to ensure compliance with risk management policy? Does the CRMD undertake portfolio evaluations and conduct comprehensive studies on environment to test the resilience of the loan portfolio?		
30.	Is the credit risk management set up commensurate with the size and complexity of credit portfolio?		
31.	Does the bank/ DFI ensure that the <ul style="list-style-type: none"> <li>➤ there is rational delegation of powers to approve the loans and that those are followed effectively as per management policy?</li> <li>➤ There is mechanism for exceptional reporting to the senior management?</li> </ul>		
32.	Does the bank/ DFI have a separate special assets management function for problem loans?		
33.	Are the terms and conditions stipulated in the loan agreements meticulously observed?		
34.	Does the bank/ DFI: <ul style="list-style-type: none"> <li>➤ have manuals for credit evaluation and approval?</li> <li>➤ follow the credit manuals in letter and spirit?</li> <li>➤ periodically review and revise these manuals?</li> </ul>		
35.	With regard to credit administration function, does the function ensure: <ul style="list-style-type: none"> <li>➤ its independence from credit initiation and risk review function?</li> <li>➤ proper approval, completeness of documents/ covenants and receipt of collateral and approval of exceptions before credit disbursements?</li> <li>➤ proper maintenance of credit files?</li> </ul>		

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	➤ safe custody of security and collateral documents?		
36.	Does the bank/ DFI: <ul style="list-style-type: none"> <li>➤ perform its own independent analysis and review in case of syndicate loans?</li> <li>➤ clearly understand risk profiles in case of participation loans?</li> <li>➤ request the original creditor of the loan to provide key information?</li> <li>➤ have any problems with loan participants?</li> </ul>		
37.	Does the bank/ DFI: <ul style="list-style-type: none"> <li>➤ check the credibility of financial statements of borrowers?</li> <li>➤ analyze the financial statements of borrowers to appraise the amount and timing of cash flows?</li> <li>➤ have a clear understanding of borrowers' business skills and condition?</li> <li>➤ gather information on borrowers' credibility from other sources?</li> <li>➤ have a good understanding of borrowers' source of repayment?</li> <li>➤ analyze cash flows to examine debt servicing capacity of borrowers?</li> <li>➤ check end use of funds by analyzing financial statements and through other sources?</li> </ul>		
38.	Does the bank/ DFI regularly monitor the amount of commitments and type of commitments?		
39.	Does the bank/ DFI set credit limits for the counterpart on a consolidated basis for on and off balance sheet credit?		
40.	Does the bank/ DFI evaluate credit risk associated with the off balance sheet transactions?		
41.	Does the bank/ DFI control credit risk exposure of company groups on a consolidated basis?		
42.	Does the bank/ DFI have an automatic calling system to request customers' payments?		
43.	Does the bank/ DFI: <ul style="list-style-type: none"> <li>➤ have a clear policy regarding the collection and disposal of problem loans?</li> <li>➤ monitor the periodical business performance of the problem loans?</li> <li>➤ have clear policy/ procedures on restructuring/ rescheduling of problem loans?</li> <li>➤ ensure enforcement of restructuring plan in letter and spirit?</li> </ul>		

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44.	Does the bank/ DFI: <ul style="list-style-type: none"> <li>➤ have appropriate procedures for appraisal of securities held as collateral?</li> <li>➤ ensure that the worth of collateral is in line with changes in borrowers' business performance?</li> <li>➤ periodically carry out on-site inspection/ survey of the collateral held as security?</li> <li>➤ periodically re-appraise real estate held as collateral and monitor its value against outstanding credit?</li> <li>➤ insure collateral against various risks?</li> </ul>		
	<b>MARKET RISK MANAGEMENT</b>		
45.	Does the board approve market risk strategy?		
46.	Does the bank/ DFI: <ul style="list-style-type: none"> <li>➤ have clear, comprehensive and well documented policies and procedural guidelines relating to market risk?</li> <li>➤ regularly review market risk policy at board meetings in the light of financial results and business performance?</li> </ul>		
47.	Are the market risk limits defined in the policy commensurate with the overall risk management policy of the bank/ DFI?		
48.	Does the bank/ DFI have a market risk management committee? Does the committee ensure that the resources allocated for risk management are adequate given the size, nature and volume of business and possess sufficient knowledge and expertise?		
49.	With regard to risk measurement system/ model: Does the management clearly understand its characteristics? Are the underlying assumptions and data used therein to calculate potential market risk, good enough?		
50.	Do instructions/ policies exist for: <ul style="list-style-type: none"> <li>➤ reporting breach of limits to the top management?</li> <li>➤ clearly defining emergency measures dealing with heavy market fluctuations?</li> </ul>		
51.	Does the bank/ DFI have a middle office to monitor the operations of front and back office?		

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52.	Does the bank/ DFI: <ul style="list-style-type: none"> <li>➤ have an efficient back office capable of reconciling the details of transactions with the front office in a timely manner?</li> <li>➤ have system in place to reconcile the details of transactions with the counterpart in a timely manner?</li> </ul>		
53.	Does the bank/ DFI ensure that the responsibilities of front, middle and back offices are clearly segregated and do not rest with the same person and back and middle offices get data for risk management such as rates etc. directly from the counterpart?		
54.	With regard to the reporting of transactions: <ul style="list-style-type: none"> <li>➤ does the front office report the transactions to the concerned authorities in a timely manner?</li> <li>➤ is there any periodic reporting from middle and back office to the concerned authorities?</li> </ul>		
55.	With regard to internal audit: <ul style="list-style-type: none"> <li>➤ is there a manual in place for auditing of market operations?</li> <li>➤ is the internal audit of all three offices conducted on regular basis?</li> </ul>		
56.	With regard to reporting: <ul style="list-style-type: none"> <li>➤ Does the board receive regular reports on market risk measurement?</li> <li>➤ 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?</li> <li>➤ Are these reports easily understandable and used in decision making by the management?</li> </ul>		
57.	Does the bank/ DFI: <ul style="list-style-type: none"> <li>➤ have exposure limits set by the board for counter parties for different transactions and according to market size and product liquidity?</li> <li>➤ ensure that these limits are commensurate with the overall market risk management policy?</li> <li>➤ review these limits in view of market conditions?</li> <li>➤ set these limits by each currency, net/ gross volume etc?</li> </ul>		

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58.	Does the bank/ DFI: <ul style="list-style-type: none"> <li>➤ use any system/ model for market risk assessment?</li> <li>➤ ensure that the model is appropriate to the size and complexity of the portfolio?</li> <li>➤ ensure that there is a support system to gather information which is necessary for risk management?</li> <li>➤ ensure that the underlying assumptions and data used in the system are back tested?</li> </ul>		
59.	Does the bank/ DFI: <ul style="list-style-type: none"> <li>➤ evaluate profit/ loss on a mark-to-market basis?</li> <li>➤ monitor trading transactions separately from other market transactions?</li> <li>➤ ensure that the position of each trader is normally monitored during the day?</li> <li>➤ have in place manuals for market transactions?</li> <li>➤ periodically revalue its investment portfolio at market value?</li> </ul>		
	<b>OPERATIONAL RISK MANAGEMENT</b>		
60.	Did the board establish operational risk tolerance level and set strategic direction in relation to operational risk?		
61.	Has the senior management developed an operational risk management policy; capable of identifying and assessing the operational risk inherent in all material products, activities, processes and systems, and dealing with the newly recognized risks arising from changes in market conditions?		
62.	Has the bank/ DFI developed systems and procedures to institute effective operational risk management framework?		
63.	Does the bank/ DFI have a separate function for operational risk management, independent of internal audit?		
64.	Does the bank/ DFI ensure that there is neither excessive concentration nor extreme delegation of authority?		
65.	Is due consideration given to staff rotation with in a reasonable time?		
66.	Does there exist a system of regular and timely reporting of pertinent information to senior management and BOD that supports the proactive		

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	management of operational risk?		
	<b>LIQUIDITY RISK MANAGEMENT</b>		
67.	With regard to liquidity risk management policy: <ul style="list-style-type: none"> <li>➤ is there a board approved policy in place?</li> <li>➤ has the management given due consideration to external and internal factors posing liquidity risk while formulating policy?</li> <li>➤ does the policy define general liquidity strategy, both short and long term?</li> <li>➤ is the policy flexible enough to deal with the unusual liquidity pressures including risks stemming from new products?</li> <li>➤ is the policy regularly reviewed by board/ senior management?</li> </ul>		
68.	Has the bank/ DFI established asset and liabilities management committee comprising senior management from each key area of operations?		
69.	Does the bank/ DFI have procedural manuals for liquidity management?		
70.	Does the bank/ DFI analyze on and off balance sheet positions to forecast future cash flows?		
71.	Does the bank/ DFI: <ul style="list-style-type: none"> <li>➤ identify the means and ways to meet its funding requirement?</li> <li>➤ have contingency funding plan for liquidity that clearly defines roles and responsibilities of various functionaries at the time of liquidity crisis?</li> </ul>		
72.	Does the bank/ DFI: <ul style="list-style-type: none"> <li>➤ ensure that there is a system to measure and monitor liquidity risk</li> <li>➤ ensure that the tools used for the liquidity risk management adequate with respect to size, nature and complexity of business</li> <li>➤ have a system to capture liquidity risk ahead of time?</li> </ul>		
73.	Does the bank/ DFI have any system in place that prevents it from relying on few fund providers/ sources?		
74.	With regard to reports for liquidity management does the bank/ DFI ensure that: <ul style="list-style-type: none"> <li>➤ there are standard reports tailored to the bank's/ DFI's needs?</li> </ul>		

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	<ul style="list-style-type: none"> <li>➤ data/ information contained in such reports is focused, accurate and presented in a timely manner?</li> <li>➤ such reports carry information about large fund providers, funding gaps and limits monitoring?</li> <li>➤ due consideration is given to crises monitoring while developing liquidity MIS</li> </ul>		
75.	Are the amounts of commitments drawn and the balance yet to be drawn, properly reported to the ALCO?		
76.	Does the bank/ DFI have any exceptions reporting system for liquidity risk in a timely manner?		
	<b>OTHERS</b>		
77.	Did the bank follow the SBP guidelines/instructions relating to: <ul style="list-style-type: none"> <li>➤ Outsourcing</li> <li>➤ Country risk</li> <li>➤ Infrastructure Project Financing</li> <li>➤ Security standards</li> </ul>		

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**President/CEO**

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**Secretary to BOD**