RISK MANAGEMENT ADVISORY
CRRH WORKSHOP

17 – 18 Dec 2018
Lome
Agenda

- Integrated risk management approach
- Why risk management
- Diagnostic assessment
- MEA Team
- Appendix
Risk Management
IFC offers a holistic risk management solution to strengthen financial institutions’ capacity and frameworks.

**Corporate Governance**

- Policies, Processes, Practices
- Reputational, Legal and Strategic Risks
- Capital Adequacy
- Credit Risk
- Market, Liquidity and ALM Risk
- Operational Risk
- People, Training, Culture

**Risk Management Benefits:**
- Increases risk awareness in FIs
- Generates new opportunities
- Guards against substantial losses
- Adds shareholder value
- Ensures regulatory compliance
- Delivers strategic advantage
- Fosters stable financial system and sustainable growth

**Risk Management Tools:**
- Link between strategy and objectives
- Identification of risks and opportunities
- Risk measurement & aggregation
- Monitoring, evaluation & mitigation
- Establishing controls
- Reporting and Communication
A comprehensive Risk Management offering to create value for our clients and investments

<table>
<thead>
<tr>
<th>Risk Governance</th>
<th>ICAAP</th>
<th>Credit Risk</th>
<th>NPL Management</th>
<th>Non Financial Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board, Risk Framework Policy, BRC / ERC, ERM, 3LOD</td>
<td>ICAAP Document / Policy</td>
<td>Policy &amp; framework</td>
<td>Portfolio analysis &amp; reporting</td>
<td>Policy &amp; Framework</td>
</tr>
<tr>
<td>CRO Role / RM department organization, structure</td>
<td>Pillar 1+2 risk assessment and measurement</td>
<td>Lending process end-to-end</td>
<td>Early warning indicators / other analytics</td>
<td>Analysis &amp; reporting</td>
</tr>
<tr>
<td>Board / Exec Risk integrated reporting</td>
<td>Capital Adequacy / Planning / BS analysis</td>
<td>Credit file review / assessment / underwriting</td>
<td>Stress testing</td>
<td>NPL unit organization and management</td>
</tr>
<tr>
<td>Risk Appetite Framework &amp; Statement</td>
<td>Capital / macro stress testing</td>
<td>Rating / scoring models</td>
<td>Credit administration / Collateral</td>
<td>Monitoring &amp; workout activities / restructuring</td>
</tr>
<tr>
<td>Risk Culture / Risk Strategy</td>
<td>Capital allocation / RAROC / RAPM / RBP</td>
<td>Economic capital (PD / LGD modeling) master rating scales</td>
<td>Model validation</td>
<td>Collateral valuation</td>
</tr>
<tr>
<td>Risk limits framework / policy</td>
<td>Economic Capital</td>
<td>Provisioning policy &amp; methods IAS / IFRS9 expected loss</td>
<td>Credit Risk Limit</td>
<td>Impairment / write off / Asset disposal</td>
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<td>Concentration risk analysis</td>
<td></td>
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<td>LMS / Credit risk systems</td>
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**Building Foundations**

- Regulatory risk
- Reputational risk
- Strategic risk
A comprehensive Risk Management offering to create value for our clients and investments (Continued)

<table>
<thead>
<tr>
<th>ALM</th>
<th>Market Risk</th>
<th>Liquidity Risk</th>
<th>Interest Rate Risk (Banking Book)</th>
<th>Operational Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALCO Set-up</td>
<td>Financial instruments classification, use &amp; valuation</td>
<td>Policy &amp; framework</td>
<td>Policy / Framework</td>
<td>Operational Risk</td>
</tr>
<tr>
<td>ALCO Policies and processes</td>
<td>Trading book structure, policy, limits, operations</td>
<td>Liquid asset / funding plan / treasury management</td>
<td>Ratios / gap analysis / reporting</td>
<td>Capital calculation (exclude AMA)</td>
</tr>
<tr>
<td>ALCO Framework</td>
<td>Risk Management &amp; measurement: Interest rate</td>
<td>Ratios / gap analysis / reporting</td>
<td>Dynamic BS &amp; product behavioral modelling</td>
<td>Risk identification and assessment / risk register</td>
</tr>
<tr>
<td>ALM Infrastructure</td>
<td>Risk Management &amp; measurement: FX (+ other e.g. equity)</td>
<td>Full BS cash flow &amp; product behavioral modelling</td>
<td>Interest rate scenario and stress test methods</td>
<td>Risk Control Self Assessment (RCSA)</td>
</tr>
<tr>
<td>ALM Governance</td>
<td>Market risk capital, internal models, VaR, ES</td>
<td>Stress testing</td>
<td>Earnings at risk / Economic value at risk / Economic capital</td>
<td>Business Continuity Plans</td>
</tr>
<tr>
<td>ALCO reporting</td>
<td>Derivatives / hedging</td>
<td>Basel III requirements</td>
<td>Funds transfer pricing</td>
<td>IT Risk / Cyber security</td>
</tr>
<tr>
<td>ALCO tools and practices</td>
<td>Stress testing</td>
<td>Liquidity contingency planning and procedures</td>
<td>Yield curve construction / analysis</td>
<td>New product risk assessment / Business Process Risk Mapping</td>
</tr>
<tr>
<td></td>
<td>Treasury / Market risk systems</td>
<td></td>
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<td>Stress testing, scenario analysis</td>
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</table>

Building Foundations
How We Work: Engagement and Project Cycle

**IFC ENGAGEMENT CYCLE**

1. **DIAGNOSTICS**
   - Preliminary client due diligence
   - Gauging current situation
   - Site visits

2. **PROJECT DESIGN**
   - Objectives
   - Project elements
   - Work Plan
   - TOR Design
   - Phases
   - Conditions

3. **BOARD CLEARANCE & CLIENT AGREEMENTS**
   - Signing Agreements: Advisory Service / Cooperation Agreement with scope and payment terms

4. **IMPLEMENTATION**

5. **RESULTS & MONITORING**
   - Results
   - Monitoring & Evaluation

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**TYPICAL IMPLEMENTATION PROJECT CYCLE**

**DIAGNOSTICS**
- SWOT analysis
- Benchmarking
- Best practice guidelines

**RECOMMENDATION**
- Prioritization of issues
- Implementation plan

**IMPLEMENTATION**
- Global experience and local delivery team
- Supervision of activities
- Project monitoring and supervision
Why Risk Management……

- Supports the development of a stable financial system with increased opportunities for sustainable growth
- Adds shareholder value by optimizing risk/return trade-offs and capital allocation
- Builds a strong competitive advantage by creating new opportunities and attracting new clients
- Leads to increased risk awareness across the organization which benefits overall governance
- Guards against substantial losses and insolvency
- Ensures regulatory compliance, contributes to better decision making and enhances financial performance in a risk–conscious manner
IFC Risk Management advisory enables banks to...

- Define overall governance, structure of the key functions and determine how they should interact
- Identify, quantify, and prioritize their most important risks and also ensure sound risk measurement, reporting, monitoring and management processes
- Gain an understanding of their risks and how they can use this to improve strategic, financial, and operational decision making
- Gauge their risk bearing capacity in order to ensure that their risk choices are aligned with their strategy and their capabilities
- Integrate risk-return related considerations into important decisions such as capital allocation and product pricing
- Support the creation, development and implementation of the core elements of their risk culture
A key component of Risk Management advisory is a diagnostic

- A 360 degree view of key risk management areas
- A snapshot of areas in which risk management might be improved
- Benchmarking to international best practice
- Identification of gaps relative to needs
- Prioritization of recommendations and roadmap
MEET THE RISK MANAGEMENT MEA TEAM

Simba Mabhena
Senior Risk Management Specialist
Global

- Senior Risk Specialist responsible for the management and delivery of RM advisory projects globally but based in Africa.
- Over 17 years of international banking experience working with financial institutions in Africa, Europe and the Middle East.
- Specialization: Treasury risk management, trading, liquidity, ALM, capital, balance sheet risk management and Basel framework.

Patricia Mwangi
Senior Operations Officer
Africa

- Senior Operations Officer responsible for the delivery of risk advisory engagements in Africa
- Over 18 years in the financial sector working with banks and microfinance institutions to serve small businesses and micro enterprises.
- Experienced in project management, financial management and RM
- Specialization: Microfinance, Digital Finance, Risk Management

Amine Benjelloun
Operations Officer
EMENA

- Over 15 years of professional banking experience in Europe, Middle East and North Africa in commercial banking
- Specialties: Organizational transformation, RM & Internal Control, SME banking & Information System Management
- Clients: Amen Bank, Banque Populaire, BMCE, BCP, Attijari wafa Bank

Fahd Diouri
Associate Operations Officer
EMENA

- Over 7 years experience providing advisory and consultancy services for financial institutions in Algeria, France, Morocco and Tunisia.
- Specialties: Risk Management, Processes reengineering and optimization, Product development
- Clients: Amen Bank, Al Barid Bank, Attijari wafa Bank, Banque Populaire, SGA, …
Appendix
Responsible Debt Collection in Emerging Markets:
A global study on existing retail debt collection practices in emerging markets that recommends tangible actions lenders and collectors can take to promote responsible and ethical standards in the field.

Corporate and SME Workouts:
Lessons of experience and best practices for detecting, prioritizing, setting up or strengthening organization arrangement, and resolving distressed corporate / SME loans.

The Risk Management Balancing Act - Developed and Emerging Market Practices:
A review of global risk management practices and recommendations for financial institutions in emerging markets.

Risk Culture, Risk Governance, and Balanced Incentives:
Handbook brings new insights for financial institutions in EMs, defining specific factors that are indicators of culture, governance, & incentives in a strong RM framework; establishing a “maturity matrix” to benchmark these factors; and identify gaps.
Risk Assessment Framework: An in-depth, comprehensive diagnostic toolkit as well as resource for program & project management. The RAF platform contains 400+ documents capturing good practice project implementation deliverables such as risk policies, reports, tools on all spectrum of banking risks.

iFig: FIG knowledge sharing platform with links to the RAF. Content organized by the following structure: Marketing, Execution, Learning & Portfolio
## Selected Risk Management Clients

<table>
<thead>
<tr>
<th>Bank</th>
<th>Country</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credit Moscow</strong></td>
<td>Russian Federation</td>
<td>Support improvements in Treasury/Market, ALM and Credit risk management functions. Development of an integrated RM framework.</td>
</tr>
<tr>
<td><strong>Demir Bank</strong></td>
<td>Azerbaijan</td>
<td>Develop systems and processes in all risk areas from Credit to Operational to enhance organizational structure and ensure proper risk governance.</td>
</tr>
<tr>
<td><strong>BRAC Bank</strong></td>
<td>Bangladesh</td>
<td>Enhance Credit risk management, portfolio analytics and scoring capabilities.</td>
</tr>
<tr>
<td><strong>VietinBank</strong></td>
<td>Vietnam</td>
<td>Upgrade Operational, Treasury/Market and Credit risk management. Establish an integrated Risk division with enhanced policies, frameworks and methods across risk areas.</td>
</tr>
<tr>
<td><strong>Amen Bank</strong></td>
<td>Tunisia</td>
<td>Support improvements in Treasury/Market, ALM and Credit risk management functions. Development of an integrated RM framework.</td>
</tr>
<tr>
<td><strong>FCMB</strong></td>
<td>Nigeria</td>
<td>Guide development and implementation of best practices in credit risk management procedures and processes.</td>
</tr>
<tr>
<td><strong>Equity Bank</strong></td>
<td>Kenya, Uganda, Tanzania, Rwanda, South Sudan</td>
<td>Strengthen overall RM framework to ensure consistent coverage of all risks across the Group. Design policies, processes and methods for credit and market risk and an enterprise wide risk management.</td>
</tr>
</tbody>
</table>
Selected Risk Management Clients: Sub-Saharan Africa

Context & Objective

- IFC support includes substantial term debt funding and various facilities for trade and SME finance to a systemic regional bank based in East Africa
- The client needed to prepare for the upgrade of regulations based on Basel II and to establish a program to improve its risk management capabilities based on international standards and to support its expansion strategy

IFC Involvement

- Detailed diagnostic review of entire risk management framework practices across the Group. Presentation of findings and proposed action plan to Board and Executive committees
- Development of structured program to enable the bank to prioritize and address gaps and reach desired capability
- Comprehensive implementation engagement over 18 months over the full spectrum of the risk management framework to upgrade:
  - Enterprise-wide risk
  - Credit risk:
  - ALM & Market Risk
  - Operational Risk
- Post project monitoring and support to ensure effective implementation of deliverables.

Results

- The project transformed the approach to risk management to design and establish an integrated risk management framework under a Group Chief Risk Officer.
- Construction of the Internal Capital Adequacy Assessment Process (ICAAP) to enable submission of risk based capital plan to the central bank.
- 55 improved procedures/policies/tools introduced (vs. 25 expected), including integrated risk framework, credit procedures, risk rating methods, ALCO framework, ALM / liquidity models, operational risk library and assessment process
- Bank CEO embraced and drove the embedding of risk culture across the organization incorporating it as an additional core value. Risk is a key consideration in strategic planning, particularly in understanding the changes in the organization and market from digitization.
- The central bank acknowledged that the ICAAP was of high quality and helped them to establish standard expected across industry
Selected Risk Management Clients: East Asia & Pacific

**Client:** The second largest bank in Vietnam (in terms of equity), significant mid size/ SMEs portfolio, leader in Trade Finance. 89% stake owned by the government.

**Objective:** Commercialize and grow organically to become #1 bank in Vietnam and grow into a regional player; aim to expand retail business with the support from strategic investor.

**IFC Involvement**
- In-depth advisory to upgrade Risk function, Credit, Operational, Market Risk, Treasury, ICAAP
- Integrated Risk Division established / CRO appointed
- Market Risk department established Treasury reorganized, separate trading vs. banking book
- New Treasury Trading Policy, ORM framework, MR framework issued
- Development of ICAAP and capital management concepts to prepare regulatory application of full Basel II standards

**Results**
- An effective integrated risk division functioning with full oversight of all group activities and all risk types
- RM advisory contributed to better risk assessment, stress testing, capital allocation, risk based performance measurement;
- Leverage: improvement of capital position with new investors, greater consideration of capital and funding strategy to support growth objectives
- B2 Steering Committee, RM seen as strategic importance, competitive advantage;
- Enhanced reputation with market leading development of risk for B2 regulatory upgrade
- Help attract 2nd strategic foreign investor with $743 million (20% stake) through focus on governance and risk advisory programs, hence strengthening capital base.
Selected Risk Management Clients: Europe & Central Asia

Client: Mid size private bank in Azerbaijan with strong focus on MSME segment. Corporate Governance team initiated IFC engagement.

Objective: To ensure that the organization properly managed all risk areas and to provide guidance to the CRO and the Board.

IFC Involvement

- Policy and procedures on liquidity, market and operational risks developed
- Risk Committee and Asset-Liability Committee were put in place
- Board and Chief Risk Officer trained on the management of all risk areas
- Reporting templates for RM department developed
- Credit process improvements introduced (sound underwriting/approval process introduced, scoring upgraded)
- Portfolio monitoring and management tools implemented

Results

- The Bank completely overhauled risk governance structure with a deputy CEO fully controlling risk management area.
- Improved credit risk management has reduced the Bank's OLE from 22% to 6%.
- New operational risk self assessments have uncovered 57 high priority findings which were timely addressed by the management.
- Better management of interest rate risk decreased the Bank's IR gap ratio from 45% to almost 0.
Selected Risk Management Clients: Middle East & North Africa

Context & Objective
- IFC support includes an investment package of equity and debt funding
- In partnership, there is a comprehensive Advisory Service package that supports the Bank’s capacity building in Corporate Governance and Risk Management

IFC Involvement
- Comprehensive CG project covering: Board committees, charters, roles, authority matrices, evaluation, code of corporate governance
- Comprehensive RM project covering: Credit Risk; Market Risk; Asset Liability Management (ALM); Operational Risk; Risk Governance
- Development of structured program to enable the bank to prioritize and address gaps and reach desired capability
- Core modules to deliver the policies, procedures and tools for the bank to implement. Ongoing advice and training

Results
- Since the inception of the project, the bank grew its assets by 29%, increased profit by 26%, reduced NPL rate by 60bps, improved capital adequacy ratio by 80bps and its share price outperformed nearly all region and global sector indices.
- 90 improved procedures/policies/tools introduced (vs. 23 expected), including Board risk framework, credit procedures, risk rating methods, treasury restructure, ALCO framework, ALM models and operational risk function.
- Achieved international best practice standards with adoption of Basel II standards (1st in country)
- Gained global recognition for excellence in banking within the region.
CUSTOMIZED CLIENT RM SOLUTIONS

EXAMPLE: ICAAP AND CAPITAL MANAGEMENT

Tailored support in the development of a Capital Management Framework, Stress-testing, and/or the build of ICAAP and supporting ICAAP capabilities.
The borrower exhibits potential credit weakness or downward trends which deserve close attention. The facility is vulnerable to nonpayment, but The borrower's capacity to meet its financial commitment on the facility is still strong. The facility is in the lower end of the high quality range but The borrower exhibits weakness found in Rating "8" with the added provision that the weakness make collection of debt in full highly questionable The borrower's capacity to meet its financial commitment on the facility is very strong. The facility is judged to be of high quality, both presently The borrower's capacity to meet its financial commitment on the facility is average. The facility is judged to have speculative elements. Its future The borrower's capacity to meet its financial commitment on the facility is better than average. The facility is in the medium quality range,

Credit origination processes, credit risk models, validation, and on-going credit risk management and monitoring, and policies.

Credit Process

Credit Process

Credit origination processes, credit risk models, validation, and on-going credit risk management and monitoring, and policies.
Interest Rate and Liquidity Risk Management, including the development of interest rate risk in the banking book processes and models, liquidity risk assessment, and support in the development of ALCO best practices.