The Bank's Response to Salient Risks and Uncertainties

Risk is omnipresent in a banking environment and managing risk is an integral part of every individual. The risk universe is in a constant flux and the challenges are to adapt and evolve in such an environment whilst managing strategic and business goals.

The types of risks and uncertainties so identified by the Bank (some of which are further elaborated in the section on 'Managing Risk at Commercial Bank' on pages 218 to 245) are tabulated below along with the responses to mitigate the negative consequences arising therefrom.

Risks and Uncertainties	Bank's Response
1. Stiff Competition Competition to increase volume and market share will be intense in future. Amid this intense competition within the industry, the Bank is required to maintain its strong competitive position through adopting sustainable growth strategies.	• Product Diversification by introducing new products and sophisticated products for high-end corporate customers. • Market Development by moving into new markets both locally and overseas. • Driving through state-of-the-art technology stemming from its overall business strategy. • Customer attraction and retention through strategic positioning and strong corporate brand image.
2. Thinning Margins Intense competition coupled with the pressure from regulators will cast uncertainties on the margins of the banking business. This will demand the Bank to continuously align its strategies to optimise the margins through maintaining the quality of the loan portfolio and mitigating the possible implications to interest margins due to maturity mismatches.	• The Assets and Liabilities Committee of the Bank continuously aligns its strategies to optimise the maturities of assets and liabilities to mitigate the possible impact to interest margin due to maturity mismatches. • Diversification of the interest income through innovative products, which will enable the Bank to improve interest margins while minimising the associated risks. • Intensified recovery steps and strong monitoring procedures to minimising the non-performing advances. • Concentrate more on new fee-based income sources.
3. Maintaining the Cost Structure of the Bank Maintenance of cost structure and the cost to income ratio are used as measures of efficiency among banks across the globe. The Bank will face tremendous pressure in maintaining the desired cost structure in the midst the competition and the constantly increasing operating costs.	• The Bank has adopted an investment approach in managing its costs and seeks to maintain a balance between cost structure and strategic execution. • Continuous search for internal process improvements of the Bank which will enable the cost efficiencies and increased customer satisfaction. • Cost conscious culture of the Bank which evaluates costs incurred against the value added by respective cost centre.
4. Quality of Assets The quality of Bank's assets, principally loans and advances depends on the borrowers' credit worthiness and the level of non-performing advances.	• Adopt a holistic approach to lending decisions. Executive Credit Policy and Risk Management Committees establish strategic direction, risk tolerance levels and ethics in asset management.
5. Pressure on Capital Banks are required to ensure that they possess adequate financial strength at all times. Capital adequacy is thus a regulatory benchmark.	• Retention of adequate profits to augment growth. • Mobilise adequate Tier II capital to supplement the Core Capital. • Regularly participate in local and regional business forums to attract potential investors.

Risks and Uncertainties	Bank's Response
6. Financial Disintermediation Financial disintermediation is one of the main threats to contemporary financial institutions. This will exist when depositors withdraw their savings from financial institutions and invest the money directly in the marketplace to earn a higher yield even though at a higher risk.	• Adopting a proactive approach in identifying emerging opportunities created by financial disintermediation. • Bolster retail banking through geographical expansion. • Instill confidence through recognitions awarded on stability and performance of the Bank.
7. Limits on Off-Shore Expansion Constraints on capital requirements and other qualitative factors may act as obstacles to the Bank's strategy to expand into international markets.	• Moving into overseas markets through Representative Offices, Business Promotion Officers (BPOs) and exchange houses. • Continue to seek new overseas opportunities while consolidating Bangladesh operation.
8. Adverse Macro-Economic Conditions Macro-economic developments impact disposable income and savings patterns of customers which in turn has a bearing on the Bank's business.	• Corporate plan and the Budget capture some of the future uncertainties in the planning process of the Bank. • A dedicated team engaged in monitoring economic trends and their implications to the industry. • Continually review the suitability of the risk policies and controls. • Monitoring the economic impacts on vulnerable sectors.
9. Change in Socio Demographic Aspects and Different Perceptions of Generation Y	• Availability of New Product Development Committee to develop new products in line with Bank segmentation, targeting and positioning strategies. • Continuous evaluation on changes and developments in the external environment to address issues identified while managing the strategic risk of the Bank.
10. Intensified Requirements of Compliance with Various Local and International Rules, Regulations and Requirements Including new/revised Sri Lanka Accounting Standards.	• Availability of Central Regulatory Corresponding Unit including Anti Money Laundering Unit. • Availability of a Compliance Officer, a member of Corporate Management. • Obtaining external consultancy as and when required with regard to compliance requirements, especially in terms of international requirements. • Having a dedicated team of staff members who are continuously trained/updated on changes in SLFRS/LKAS.