

Board Integrated Risk Management Committee Report

Composition of the Integrated Risk Management Committee

The Board appointed Integrated Risk Management Committee comprised of four (4) Non-Executive Directors, the Chief Executive Officer, Group CFO, Vice President - Group Risk Management, Vice President – Credit, Assistant Vice-President – Operational Risk and Senior Manager – Market Risk. Chairman of the Bank N G Wickremeratne attend meetings by invitation. As at year end Committee comprised of the following:

Name of the Board Sub-Committee Member	Directorship Status	Membership Status
D S P Wikramanayake	Non-Independent	C
Mrs. D M A Harasgama (Appointed w.e.f. 22 April 2015)	Non-Independent	M
D M R Phillips, PC (Appointed w.e.f. 22 April 2015)	Independent	M
K D W Ratnayaka (Appointed w.e.f. 13 May 2015)	Independent	M
N G Wickremeratne (Appointed w.e.f. 15 April 2015)	Independent	I
R Theagarajah	Non-Independent	M
F Ozman (Group CFO)	Non-Directors	M
Mrs. N Rayen (Vice President – Group Risk Management)	Non-Directors	M
Mrs. S Gnanaprakasam (Vice-President – Credit)	Non-Directors	M
P Gamage (Assistant Vice-President – Operational Risk)	Non-Directors	M
Ms. C Chandrapala (Senior Manager – Market Risk)	Non-Directors	M

C – Chairman, M – Member, I – by invitation

Charter of the Integrated Risk Management Committee

The Integrated Risk Management Committee was formed in June 2008, replacing the Risk and Credit Committee of the Board, in compliance with the Section 3 (6) of Direction No. 11 of 2007, on the subject 'Corporate Governance for Licensed Commercial Banks in Sri Lanka', issued by the

Monetary Board of the Central Bank of Sri Lanka, under the powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction.

The Charter of the IRMC was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee reviewed the Charter in May 2015 and

there were no material changes made. As per the Charter, the scope of work include the following:

- Assess all risks of the Bank and Group on a monthly basis through appropriate risk indicators and management information.
- Submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.

- Review the work carried out and decisions made by all management level committees such as the Credit Committee, Asset-Liability Committee, Credit and Market Risk Policy Committee and the Operational Risk Policy Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits.
- Take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee/ Board on the basis of the Bank's policies and regulatory and supervisory requirements.
- Take appropriate action against the officers who fail to identify specific risks and/or take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision. The course of action to be taken against staff would be governed by the HR disciplinary action procedure in force.
- Review and discuss the scope of work of the Group Risk Management Department.
- Receive copies of regulatory examination reports pertaining to matters that are within the purview of the Committee and Management's responses thereto.

Committee Guiding Principles

- Responsible to the Board of Directors and the Committee's role is one of oversight
- Management is responsible for designing, implementing and monitoring an effective risk programme.

- Line business managers are responsible for managing risks in the areas for which they are responsible.
- Each member of the Committee shall be entitled to rely in good faith on the integrity of those persons from whom he or she receives information.

Committee Meetings

The Committee held four meetings, during the year under review to discuss the normal scope of work and one additional meeting to discuss the ICAAP Framework of the Bank. Attendance of Committee Meetings is given on page 135. The proceedings of the Committee meeting have been reported to the Board of Directors.

Key members of the staff participate at the meetings as appropriate.

Methodology Used by the Committee

- Work closely with key management personnel and make decisions on behalf of the board within the framework of the authority and responsibility assigned to the committee.
- Assess all risks faced by the Bank and Group Companies, through appropriate risk indicators and management information.
- Specify Risk Appetite and recommend prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels decided by the Committee on the basis of Bank's/Group's policies and regulatory and supervisory requirements.

Summary of Activities

Credit Risk

- Reviewed and approved policies and operating guidelines related to Impairment, Annual Review of Risk Management Policy on Bank's Exposure to Stock Market Activities
- Reviewed portfolio quality covering
- The amount, characteristics, concentrations and quality of the Bank's loan portfolio, large credit exposures, sector and geographical distribution of portfolio, NPL analysis based on business line, product category, sector wise
- Exposure to Stock Market Activities/ Margin Trading Exposure Reports
- Pawning Portfolio/Raththaran Ithurum
- Collections and Recoveries
- Movements in Commodity Prices
- Portfolio Value at Risk
- Country Risk Exposures
- Top Credit and Market Risks
- Reviewed work carried out by the Credit Committees, Credit and Market Risk Policy Committee by reviewing the decisions taken by each Committee

Operational Risk

- Reviewed and approve policies and operating guidelines related to Operational Risk Policy, Operational Risk Data Collection, Risk and Control Self-Assessment and Key Operational Risk Controls, Key Risk Indicators Methodology, Business Continuity Framework
- Reviewed operational risk issues, including but not limited to:
 - Significant Operational Risks, Risk breakdown by control type, KRIs

related to HR, Operational Losses due to cash shortages and frauds, IT related incidents, Account Reconciliations and Compliance

- The adequacy of the Bank's Business Continuity and Disaster Recovery planning including the review of test results

- Reviewed work carried out by the Operational Risk Policy Committee by reviewing the decisions taken by the Committee
- Reviewed Business Continuity Plan (BCP)/Disaster Recovery (DR) Drill Report

Liquidity and Market Risk

- Reviewed and approved policies and operating guidelines related to Asset and Liability Management (ALM) Policy Manual and ALM Procedures Manual, Haircut Rules for Reverse Repo transactions, Advance to Deposit Ratio, Market Risk Management (MRM)/ALM Limit Excess and Approval Policy, Deposit Concentration Policy, Medium-Term Funding Policy, Foreign Exchange Risk Management Policy, Wholesale Borrowing Policy, Commitment Policy, Market Risk Management and Asset Liability Management Governance Structure, Guidelines and Procedures for the Treasury Front Office
- Reviewed and approved Terms of References of Investment Committee, Asset and Liability Management, Treasury Front Office, Market Risk Management Unit
- Reviewed information and monitored the effectiveness of the management of asset and liabilities, including local and foreign currency maturity mismatches, price sensitivity, FX

Risk Report, Country Risk Report, Debt/equity/commodity exposure, Securities portfolio, MRM/ALM Limit Compliance Report

- Reviewed work carried out by the Asset Liability Committee (ALCO), by reviewing the decisions taken by Committee

Compliance

- Assessed the Bank's compliance with laws, regulations and regulatory guidelines, internal policies in all areas of business operations.
- Reviewed and approved the annual work plan of Compliance function and assessed work carried out

Others

- The Committee reviews the Key Risk Indicators of the group companies on a monthly basis through the monthly KRI statements and quarterly Risk Assessment Report. Group companies covered are NDB Investment Bank, NDB Capital Holdings Ltd., NDB Wealth Management Ltd., NDB Securities (Pvt.) Ltd., and NDB Capital Bangladesh
- Review and approve Annual Review of Internal Capital Adequacy Assessment Process (ICAAP) Document for 2015
- Review performance against Risk Appetite
- Review progress on Integrated Risk Management Framework Implementation and new guidelines issued on Stress Testing and Baseline Security Standard for Information Security Management

- Quarterly updates on the Regulatory Examination Report
- Review and approve Integrated Risk Management Framework, Risk Model Validation Policy, Stress Testing Policy and Framework, Policy on Valuation of Immovable Property and Appointment of Valuers

Appreciation

The Committee wishes to convey its gratitude to former Chairman S G Wijesinha and Ms. G D C Ekanayake for their valuable contribution to the Committee over the years.



D S P Wikramanayake
Chairman

Integrated Risk Management Committee

12 February 2016
Colombo