RISK ASSESSMENT SYSTEM

Banking is a business of taking risks in order to earn profits. From a supervisory perspective, risk is the potential that events, expected or unanticipated, may have an adverse impact on the bank's capital or earnings. The Supervision and Examination Sector (SES) has, therefore, adopted the risk-based examination approach. To supplement this approach, the Risk Assessment System (RAS) is developed.

Under the RAS, the various risks (Credit, Market, Interest Rate, Foreign Exchange, Liquidity, Operations, Legal, Compliance) are measured and assessed in terms of quantity of risk, quality of risk management and aggregate risk which are defined as follows:

> **"Quantity of risk"** is the level or volume of risk that exists and is rated as low, moderate or high.
>
> **"Quality of risk management"** is how well risks are identified, measured, controlled and monitored and is assessed as strong, acceptable or weak.
>
> **"Aggregate risk"** is the combined assessment of the quantity of risk and the quality of risk management and is characterized as high, moderate or low.

Examiners shall accomplish the **Risk Rating Form** (Annex "A") for every bank examined. The risk assessment results shall be discussed with bank management and/or its board of directors for appropriate action which may include but not limited to reducing exposures, increasing capital, or strengthening risk management processes.

Quantity of Risk

The rating for quantity of risk for each category is determined as follows:

1. Each risk factor is given a rating of low, moderate or high based on set standards shown in the quantity of risk assessment form (Annex "B").

2. The risk rating is assigned an equivalent point of 5, 3 and 1 for low, moderate and high, respectively.

3. The sum of the equivalent points is compared with the given ranges and their corresponding risk ratings of low, moderate or high.

Quality of Risk Management

The rating for quality of risk management for each category is determined as follows:

1. The questionnaire (Annex "C") shall be accomplished by the examiner. Each question is answerable by "Yes", "No". Indicate "N.A." if not applicable.

2. The sum of "No"answers is compared with the given ranges and their corresponding risk ratings of strong, acceptable or weak.

Aggregate Risk

The aggregate risk assessment for each category is determined by computing the aggregate risk score as follows:

1. The *quantity of risk ratings* and *quality of risk management ratings* shall be given equivalent scores of:

Quantity of Risk Rating		Quality of Risk Rating	
Low	5	Strong	5
Moderate	3	Acceptable	3
High	1	Weak	1

2. The average of the two scores (quantity and quality) shall be given an equivalent aggregate risk assessment of:

Average risk score	Equivalent Aggregate Risk Assessment
5	Low
4	Moderate
3	Moderate
2	High
1	High

Annex "A"

RISK RATING FORM

_________(*Name of Bank*)_________
Examination as of ________________

	Risk Rating		
Category of Risk	**Quantity of Risk**	**Quality of Risk Mgt.**	**Aggregate Risk**
Credit	Ex.: High	Acceptable	High
Market	Low	Acceptable	Moderate
Interest Rate			
Foreign Exchange			
Liquidity			
Operations			
Legal			
Compliance			

Attached are the details of the above risk ratings.

Prepared by:

____
Bank Officer-in-Charge

Reviewed by:

____
Manager II

Concurred in:

____
Deputy Director

_____(*Date*)_______

Credit Risk

1. The quantity of credit risk is:

☐ low ☐ moderate ☐ high

2. The quality of credit risk management is:

☐ strong ☐ acceptable ☐ weak

Aggregate credit risk:

☐ low ☐ moderate ☐ high

Examiner's Comments:

The ratings are defined as follows -

Quantity of Credit Risk:

Low – Current or prospective exposure to loss of earnings or capital is minimal. Risk of loss from concentrations is minimal. The volume of past due loans is low relative to total loans and can be resolved in the normal course of business. Credit-related losses do not meaningfully impact current reserves and result in modest provisions relative to earnings.

Moderate - Current or prospective exposure to loss of earnings or capital does not materially impact financial condition. Exposure does not reflect significant concentrations. The volume of past due loans does not pose undue risk relative to total loans and can be resolved within realistic time frames. Credit-related losses do not seriously deplete current reserves or necessitate large provisions relative to earnings.

High – Current or prospective exposure to loss of earnings or capital is material. Exposure reflects significant concentrations. The volume of past due loans may be large relative to total loans and may require an extended time to resolve. Credit-related losses may seriously deplete current reserves or necessitate large provisions relative to earnings.

Quality of Credit Risk Management:

Strong – Management fully understands all aspects of credit risk management. All aspects of credit policies are effectively communicated. The credit granting process is extensively defined, well understood and adhered to consistently. Credit analysis is thorough and timely. Risk measurement and monitoring systems are comprehensive and allow management to proactively implement appropriate actions in response to changes in asset quality and market conditions. Credit risk information systems are sophisticated, effectively integrated into the risk management process and regularly updated. Credit administration is effective. Personnel possess extensive technical and managerial expertise.

Acceptable – Management understands the key aspects of credit risk management. Key aspects of credit policies are effectively communicated. The credit granting process is well defined and understood. Credit analysis is adequate. Risk measurement and monitoring systems permit management to capably respond to changes in asset quality or market conditions. Credit risk information systems are satisfactory. Credit administration is adequate. Personnel possess requisite technical and managerial expertise.

Weak – Management does not satisfactorily address key aspects of credit risk management. Credit policies are not effectively communicated. The credit granting process is not well defined and not well understood. Credit analysis is insufficient relative to the risk. Risk measurement and monitoring systems may not permit management to implement timely and appropriate actions. Credit risk information systems may be deficient. Credit administration is ineffective. Personnel lack requisite technical and managerial expertise.

Market Risk

1. The quantity of market risk is:

☐ low ☐ moderate ☐ high

2. The quality of market risk management is:

☐ strong ☐ acceptable ☐ weak

Aggregate market risk:

☐ low ☐ moderate ☐ high

Examiner's Comments

The ratings are defined as follows -

Quantity of Market Risk:

Low – Exposures represent a well-diversified distribution. As a result, earnings or capital are not vulnerable to significant loss. Exposure involves liquid and readily manageable products and markets.

Moderate – Exposures represent a moderate distribution, limiting the potential for significant loss to earnings and capital. The bank has access to a variety of risk management instruments and markets at reasonable costs.

High – Exposures are not diversified, exposing the bank to a significant loss of earnings and capital.

Quality of Market Risk Management:

Strong – Management fully understands market risk and actively monitors and understands products, market trends and changes in market conditions. Management information at various levels within the organization provides a clear assessment of market risk, aggregate risk levels and addresses limit compliance and exceptions. Models and methodologies are independently validated, tested and documented. There is a sound independent valuation process for all significant positions. Limit structures are reasonable, clear and effectively communicated. Staff responsible for measuring and monitoring market risk is well qualified and independent from risk-taking activities.

Acceptable – Management understands the key aspects of market risk and adequately responds to changes in market conditions. Risk measurement tools and methods may have minor deficiencies or weaknesses. Management information reasonably portrays risk positions and addresses limit compliance and exceptions. Models and methodologies are validated and acceptable. Positions are independently valued. Limit structures are reasonable, clear and effectively communicated. Staff responsible for measuring and monitoring market risk are qualified and independent from risk-taking activities.

Weak – Management does not satisfactorily address key aspects of market risk and is not implementing timely or appropriate actions in response to changes in market conditions. Risk measurement tools and methods are inadequate given the size and complexity of activities. Management information at various levels within the bank does not accurately characterize risk positions or address limit compliance and exceptions. Position valuations are performed infrequently. Models and methodologies are validated and acceptable. Limit structures may not be reasonable, clear and effectively communicated. Staff responsible for measuring and monitoring market risk are not independent from risk-taking activities.

Interest Rate Risk

1. The quantity of interest rate risk is:

   ☐ low ☐ moderate ☐ high

2. The quality of interest rate risk management is:

   ☐ strong ☐ acceptable ☐ weak

Aggregate interest rate risk:

☐ low ☐ moderate ☐ high

Examiner's Comments:

The ratings are defined as follows -

Quantity of Interest Rate Risk:

Low –No significant mismatches exist. Interest rate movements will have minimal adverse impact on the earnings or capital of the bank.

Moderate – Mismatches are managed. Interest rate movements will not have a significant adverse impact on the earnings or capital of the bank.

High – Significant mismatches exist. Interest rate movements could have a significant adverse impact on the earnings or capital of the bank.

Quality of Interest Rate Risk Management:

Strong – Management fully understands all aspects of interest rate risk management, and anticipates and quickly responds to changes in market conditions. The interest rate risk management process is effective and proactive. Measurement tools and methods are appropriate given the size and complexity of bank's exposures. Management information at various levels of the organization is timely, accurate, complete and reliable. Staff responsible for measuring exposures and monitoring risk limits are well qualified and independent from staff executing risk-taking decisions.

Acceptable – Management reasonably understands the key aspects of interest rate risk management, and adequately responds to changes in market conditions. The interest rate risk management process is adequate. Measurement tools and methods may have minor weaknesses. Management information at various levels of the organization is satisfactory, given the nature of the bank's activities. Staff responsible for measuring exposures and monitoring risk limits are qualified and independent from staff executing risk-taking decisions.

Weak – Management may not satisfactorily understand interest rate risk management, and does not take timely or appropriate actions in response to changes in market conditions. The interest rate risk management process is deficient. Measurement tools and methods are inadequate or inappropriate given the size and complexity of bank's exposures. Management information at various levels of the organization exhibits significant weaknesses and may not consolidate total exposures. Staff responsible for measuring exposures and monitoring risk limits are not independent from staff executing risk-taking decisions.

Foreign Exchange Risk

1. The quantity of foreign exchange risk is:

☐ low ☐ moderate ☐ high

2. The quality of foreign exchange risk management is:

☐ strong ☐ acceptable ☐ weak

Aggregate foreign exchange risk:

☐ low ☐ moderate ☐ high

Examiner's Comments:

The ratings are defined as follows -

Quantity of Foreign Exchange Risk:

Low – Positions used to manage foreign exchange risk exposure are well correlated to underlying risks. Foreign exchange rate movements will have minimal adverse impact on the earnings or capital of the bank.

Moderate – Positions used to manage foreign exchange risk exposure are somewhat correlated. Foreign exchange rate movements will not have a significant adverse impact on the earnings or capital of the bank.

High – Positions used to manage foreign exchange risk exposure are poorly correlated. Foreign exchange rate movements could have a significant adverse impact on the earnings or capital of the bank.

Quality of Foreign Exchange Risk Management:

Strong – Management fully understands all aspects of foreign exchange risk management, and anticipates and responds well to changes in market conditions. Exposures are effectively measured, actively managed and monitored independently. Hedging objectives are comprehensive and well communicated. Management information at various levels of the organization is timely, accurate, complete and reliable. Staff responsible for measuring exposures and monitoring risk limits are well qualified and independent from staff executing risk-taking decisions.

Acceptable – Management understands the key aspects of foreign exchange risk management, and recognizes and responds to changes in market conditions. Exposures are adequately measured and controlled. Hedging objectives are reasonable and effectively communicated. Management information at various levels of the organization is satisfactory, given the nature of the bank's activities. Staff responsible for measuring exposures and monitoring risk limits are qualified and independent from staff executing risk-taking decisions.

Weak – Management does not satisfactorily address key aspects of foreign exchange risk and is not anticipating or implementing timely or appropriate actions in response to changes in market conditions. Exposures are not measured, managed effectively and monitored independently. Hedging objectives are not reasonable, clear, or effectively communicated. Management information at various levels of the organization exhibits significant weaknesses and may not consolidate total exposures. Staff responsible for measuring exposures and monitoring risk limits are not independent from staff executing risk-taking decisions.

Liquidity Risk

1. The quantity of liquidity risk is:

☐ low ☐ moderate ☐ high

2. The quality of liquidity risk management is:

☐ strong ☐ acceptable ☐ weak

Aggregate liquidity risk:

☐ low ☐ moderate ☐ high

Examiner's Comments:

The ratings are defined as follows -

Quantity of Liquidity Risk:

Low – The bank is not vulnerable to funding difficulties should a material adverse change in market perception occur. Earnings and capital exposure from the liquidity risk profile is negligible. Sources of deposits and borrowings are widely diversified with no material concentrations. A strong market acceptance of the bank's name offers the bank a competitive liability cost advantage.

Moderate – The bank is not excessively vulnerable to funding difficulties should a material adverse change in market perception occur. Earnings and capital exposure from the liquidity risk profile is manageable. Sources of funding are reasonably diverse but minor concentrations may exist.

High – The bank's liquidity profile makes it vulnerable to funding difficulties should a material adverse change occur. Significant concentrations of fundings may exist. The bank may currently or potentially experience market resistance which could impact its ability to access needed funds at a reasonable cost. Potential exposure to loss of earnings or capital due to high liability costs or unplanned asset reduction may be substantial.

Quality of Liquidity Risk Management:

Strong – Management proactively incorporates all key aspects of liquidity risk into its overall risk management process and anticipates and responds promptly to changing market conditions. Management has clearly articulated policies that provide clear insight and guidance on appropriate risk-taking and management. Management information is timely, complete, focused and reliable. A comprehensive contingency funding plan exists which is fully integrated into overall risk management processes and which will enable the bank to respond to potential crisis situations in a timely manner and to the fullest capacity of the bank.

Acceptable – Management reasonably incorporates most of the key aspects of liquidity risk and adequately responds to changes in market conditions. Liquidity risk management policies and practices are adequate. Management information is generally timely, complete and reliable. Management has a satisfactory contingency funding plan to manage liquidity risk and is generally prepared to manage potential crisis situations.

Weak – Management does not satisfactorily address key aspects of liquidity risk and is not anticipating or implementing timely or appropriate actions in response to changes in market conditions. Liquidity risk management policies and practices have substantial weaknesses. Management information systems may be deficient. The contingency planning process is deficient, inhibiting management’s ability to minimize liquidity problems in a deteriorating scenario or to manage potential crisis situations.

Operations Risk

1. The quantity of operations risk is:

☐ low ☐ moderate ☐ high

2. The quality of operations risk management is:

☐ strong ☐ acceptable ☐ weak

Aggregate operations risk:

☐ low ☐ moderate ☐ high

Examiner’s Comments:

The ratings are defined as follows -

Quantity of Operations Risk:

Low – The volume and complexity of products and services expose the bank to minimal risk from fraud or error, processing disruptions, control failures or system development weaknesses. The bank has a history of sound operations.

Moderate –The volume and complexity of products and services raise potential risks from fraud or error, processing disruptions, control failures or system development weaknesses. The bank has a history of adequate operations.

High –The volume and complexity of products and services significantly raise potential risks from fraud or error, processing disruptions, control failures or system development weaknesses. The bank has a history of transaction processing failures.

Quality of Operations Risk Management:

Strong – Management fully understands all aspects of operations risk and anticipates and responds to key aspects of risk associated with operational changes, systems development and emerging technologies. Management has implemented sound information systems, internal controls and audit coverage, although minor deficiencies may exist.

Acceptable – Management reasonably understands the key aspects of operations risk and adequately responds to risk associated with operational changes, systems development and emerging technologies. Operating processes, information systems, internal controls and audit coverage are satisfactory although deficiencies exist.

Weak – Management does not understand or has chosen to ignore key aspects of operations risk and does not anticipate or implement appropriate actions to respond to the increasing complexity of operations, systems development needs or emerging technology. Significant weaknesses exist in operations, information systems, internal controls or audit coverage.

Legal Risk

1. The quantity of legal risk is:

☐ low ☐ moderate ☐ high

2. The quality of legal risk management is:

☐ strong ☐ acceptable ☐ weak

Aggregate legal risk:

☐ low ☐ moderate ☐ high

Examiner's Comments:

The ratings are defined as follows -

Quantity of Legal Risk:

Low – The bank's history of litigations is good. The volume of accounts with technical defects is negligible.

Moderate – The bank's history of litigations is not a concern. The volume of accounts with technical defects is reasonable.

High – The bank has a history of serious litigations. The volume of accounts with technical defects is substantial.

Quality of Legal Risk Management:

Strong – Management fully understands all aspects of legal risk. Legal risk management policies provide clear insight and guidance. Legal staff are sufficient and well qualified to handle legal cases.

Acceptable – Management reasonably understands the key aspects of legal risk. Legal risk management policies are adequate. Legal staff are sufficient and qualified to handle legal cases.

Weak – Management does not understand or has chosen to ignore key aspects of legal risk. Legal risk management policies show significant weaknesses. Legal staff are inadequate and may not be qualified to handle legal cases.

Compliance Risk

1. The quantity of compliance risk is:

☐ low ☐ moderate ☐ high

2. The quality of compliance risk management is:

☐ strong ☐ acceptable ☐ weak

Aggregate compliance risk:

☐ low ☐ moderate ☐ high

Examiner's Comments:

The ratings are defined as follows -

Quantity of Compliance Risk:

Low – The nature and extent of business activities limit the bank's potential exposure to violations or noncompliance. The bank has few violations.

Moderate – The nature and extent of business activities may increase the potential for violations or noncompliance. The bank may have violations which can be corrected in the normal course of business.

High – The nature and extent of business activities significantly increase the potential for serious or frequent violations or noncompliance. The bank may have substantive violations which could impact the reputation and earnings of the bank.

Quality of Compliance Risk Management:

Strong – Management anticipates and addresses key aspects of compliance risk and takes timely and effective actions in response to compliance issues or regulatory changes. Compliance system is good.

Acceptable – Management addresses key aspects of compliance risk and takes appropriate actions in response to compliance issues or regulatory changes. Compliance system is adequate.

Weak – Management does not satisfactorily address key aspects of compliance risk and does not anticipates or implements timely or appropriate actions in response to compliance issues or regulatory changes. Compliance system is deficient.

Annex "C"

QUALITY OF RISK MANAGEMENT

	CREDIT RISK	Yes	No
1.	Does management fully understand credit risk? [1]/		
2.	Does management understand that the bank and its subsidiaries are exposed to credit risk in both on & off -balance sheet transactions?		
3.	Are credit authorizations conducted by a unit independent of the risk-taking unit and staffed by qualified personnel?		
4.	Are all credit lines subject to an annual review?		
5.	Is there proper coordination between risk-taking unit and credit department to ensure that all parties are informed of a change in the credit line or credit-worthiness of counterparty?		
6.	Does the bank have in place a central liability ledger system for monitoring credit exposures (lending and financial derivatives)		
7.	Are reports on credit exposures (lending and financial derivatives) timely and accurate?		
8.	Are the staff qualified to handle the credit transactions?		
9.	Is the staffing sufficient to operate and manage the Bank's activities?		
	LOANS		
10.	Does the bank have a written credit policy? a) Was this approved by the Board? b) Does it contain the following minimum features – i. guidelines for maximum loan volume relative to bank assets & capital ii. limits in the total exposure allowed for different types of industries or borrowers and related parties iii. credit approval process and criteria for granting loans, collateral requirements, documentation standards and		

[1]/ If the quantitative credit risk assessment is low, then the answer is Yes.

	repayment terms iv. lending authorities of officers and responsibilities v. collection/charged off policy a) Is the credit policy subject to periodic review?		
	CREDIT RISK	**Yes**	**No**
11.	Does the Bank have a loan review system? a) Was this approved by the Board? b) Does it have the following minimum features - i. criteria for classifying loan ii. process for identifying problem loans iii. provisions for loan loss reserves		
12.	Are credit limits strictly monitored to avoid extension of excessive credit to a specific borrower?		
13.	Does the bank review & analyze the individual borrower's credit standing prior to grant/renewal/extension?		
14.	Does the Bank control credit risk exposures of company groups on a consolidated basis?		
15.	Does the Bank monitor the borrower's business performance regularly after loan grant thru financial analysis?		
16.	Does the bank have in place restructuring plans for delinquent borrowers?		
17.	Does the Bank regularly reappraise real estate/chattel offered as collateral?		
18.	Does the Bank constantly monitor collateral value versus credit outstanding?		
19.	Are the problem loans/non-performing loans reported to Management/Board of Directors?		
20.	Are the terms and conditions stipulated at the time of loan approval observed?		
21.	Is a checklist kept of all documentation relative to a given loan?		
	FINANCIAL DERIVATIVES		

22.	Are there written policies and procedures that address concerns on financial derivatives credit risk management?		
23.	Is the bank's credit risk measurement system consistent with the level of activity and degree of risk assumed by the bank in its derivative activities?		
	CREDIT RISK	**Yes**	**No**
24.	Has an approved counterparty list been issued or updated in the last 12 months?		
25.	Are counterparty credit limits approved before the execution of derivative transactions?		
26.	Does the bank have a system for quantifying pre-settlement risk exposure?		
27.	Are limits and monitoring procedures established by bank management for settlement risk exposures?		
28.	Are there reports to senior management on line usage by counterparties?		

Total Number of Unfavorable Answers	=======

Risk Assessment

No. of Unfavorable Answers	Risk Rating
below 13	Strong
13 - 20	Acceptable
over 20	Weak

	MARKET RISK	Yes	No
1.	Does management fully understand market risk? [1]		
2.	Does the bank use valuation methodologies? Are these – a. independently reviewed and tested? b. documented? c. well understood by management? d. adequate considering the complexity of bank's financial products/services?		
3.	a. Are appropriate policies and procedures established to control and limit market risk? b. Are these clearly defined in writing? c. Are these consistent with the nature and complexity of activities? d. Are these applied on a consistent basis? e. Are these reviewed periodically? f. Are there position limits? g. Are these observed?		
4.	Are the strategies, policies and limits with respect to market risk management approved by the Board of Directors?		
5.	a. Is there a process for measuring and analyzing risk in all significant activities arising from market movements using a variety of scenarios? b. Is the process effective based on result of back testing?		
6.	Is the responsibility for the above process given to a unit independent from those executing risk-taking decisions?		
7.	Does the bank have adequate information system for measuring, monitoring, controlling and reporting market risk exposures?		

[1] If the quantitative market risk assessment is low, then the answer is Yes.

	MARKET RISK	Yes	No
8.	Are reports monitoring market risk exposures - a. submitted to the Board of Directors? b. submitted to senior management? c. timely? d. accurate? e. informative?		
9.	a. Does the bank undertake daily mark-to-market of its Trading Account Securities, Available for Sale Securities and Underwriting Accounts as required under BSP Circular No. 161 dated March 30, 1998? b. Does the bank undertake daily mark to market of its outstanding forward contracts and other derivative products? c. Is the mark to market being done by a unit independent from the front office?		
10.	Does the bank book its mark-to-market valuation either everyday or every end of month?		

Total Number of Unfavorable Answers	=======

Risk Assessment

No. of Unfavorable Answers	Risk Rating
below 9	Strong
9 – 14	Acceptable
over 14	Weak

	INTEREST RATE RISK	Yes	No
1.	Does management fully understand interest rate risk? [2]/		
2.	Does the bank have appropriate policies and procedures to control and limit interest rate risk?		
3.	Are interest rate risk policies and procedures – a. clearly defined in writing? b. consistent with the nature and complexity of activities? c. applied on a consistent basis? d. reviewed periodically?		
4.	Is there a process for measuring and analyzing risk in all activities arising from interest rate movements using a variety of scenarios?		
5.	Is the responsibility for the above process given to a unit independent from those executing risk-taking decisions?		
6.	Are the strategies and policies with respect to interest rate risk management approved by the Board of Directors?		
7.	Does the bank have adequate information system for measuring, monitoring, controlling and reporting interest rate risk exposures?		
8.	Are reports monitoring interest rate risk exposures – a) submitted to the Board of Directors? b) submitted to senior management? c) timely? d) accurate? e) informative?		
9.	Are the skill levels of management and staff sufficient to handle the interest rate risk component of bank's various products?		

Total Number of Unfavorable Answers	==========

1/ If the quantitative interest rate risk assessment is low, then the answer is Yes.

Risk Assessment

No. of Unfavorable Answers	Risk Rating
below 5	Strong
5 – 8	Acceptable
over 8	Weak

	FOREIGN EXCHANGE RISK	Yes	No
1.	Are management and department heads fully aware of the risk inherent in foreign exchange transactions? [1/]		
2.	a. Does the bank have a written policy governing activities in foreign exchange transactions? b. Was this approved by the Board? c. Are policies reviewed and updated periodically? d. Are these policies disseminated to all concerned?		
3.	a. Are there limits set for foreign exchange operations? b. Are these limits observed? c. Are these reviewed periodically?		
4.	Is management aware of settlement risk inherent in foreign exchange transactions?		
5.	Are foreign exchange positions revalued in accordance with BSP guidelines?		
6.	Are positions and exposures on a consolidated basis (including subsidiaries) available at any given time?		
7.	Does the bank monitor & manage foreign exchange position gap by each currency?		
8.	a. Does the bank have in place uniform criteria for evaluating country risk? b. Is it reviewed periodically?		
9.	a. Are there stop loss rules for bank financial products/services? b. Are these reviewed periodically?		

[1/] If the quantitative foreign exchange risk assessment is low, then the answer is Yes.

	FOREIGN EXCHANGE RISK	Yes	No
10.	Does the bank draw up its investment policy for foreign securities based on its analysis of country risk?		
11.	Are there emergency measures dealing with excessive losses in foreign exchange derivatives arising from market fluctuations?		
12.	Does the bank have adequate information system for measuring, monitoring, controlling and reporting foreign exchange risk exposures?		
13.	Are reports monitoring foreign exchange risk exposures - a. submitted to the Board of Directors? b. submitted to Senior Management? c. timely? d. accurate? e. informative?		
14.	Are the staff qualified to handle foreign exchange transactions?		

Total Number of Unfavorable Answers

========

Risk Assessment

No. of Unfavorable Answers	Risk Rating
below 8	Strong
8 -13	Acceptable
over 13	Weak

	LIQUIDITY RISK	Yes	No
1.	Does management fully understand liquidity risk? [1]		
2.	Does the bank have a written policy on liquidity risk management ? a. Was this approved by the Board/authorized committee? b. Does it contain the following minimum features? i. Reserve position policy a) buffer position b) desired mix of reserves ii. Borrowing policy a) authorized limit b) authorized signatories c) computation/basis for amount to be borrowed iii. Interbank lending policy a) authorized borrowers b) authorized lending limits c) authorized signatories d) collateral requirements iv. Comprehensive MIS reports to management/Board		
3.	Does the bank have a liquidity/fund management review system? a. Was this approved by the Board/authorized committee? b. Does it have the following minimum features? i. authorized committee/officer to undertake the review ii. process for identifying liquidity risk iii action/procedures for liquidity problems		

[1] If the quantitative liquidity risk assessment is low, then the answer is Yes.

	LIQUIDITY RISK	Yes	No
4.	Are sources of borrowings diversified?		
5.	Does the bank have sufficient funding sources?		
6.	Does the bank conduct regular analysis of sources and application of funds including maturity matching.		
7.	Does the bank have a contingency plan in case bank encounters serious liquidity problems?		
8.	Is the management information system on liquidity risk timely and reliable?		

Total Number of Unfavorable Answers	=========

Risk Assessment

No. of Unfavorable Answers	Risk Rating
below 8	Strong
8 - 12	Acceptable
over 12	Weak

	OPERATIONS RISK	Yes	No
1.	Does management fully understand operations risk? [3]		
2.	Does the bank have a written operations policy? a) Was this approved by the Board? b) Does it contain the following minimum features? i. organization structure ii. personnel policies iii. risk management system iv. insurance on bank assets v. minimum internal control standards vi. management information system vii. accounting/reporting system viii. security system ix. internal audit systems a) Is the operations policy subject to periodic review?		
3.	a) Does the bank's organization structure show appropriate segregation of functions? b) Is it actually followed?		
4.	Has management established a methodology to identify, monitor and control operations risks?		
5.	Does the systems development and capacity support the bank's volume and complexity of transactions?		
6.	Are administrative and accounting control exceptions kept at a minimum?		
7.	Does the bank have a contingency plan in case of operational failures?		
8.	Does management anticipate and respond to market and technological changes?		
9.	Are management reports timely, accurate and complete as to information?		

[3] If the quantitative operations risk assessment is low, then the answer is Yes.

	OPERATIONS RISK	Yes	No
10.	Are there management reports on the financial condition and performance of the Bank submitted to the Board and senior management to assist them in the formulation of policies and plans?		
11.	Is there a feedback mechanism on adherence to set policies, standards and procedures on major activities of the Bank?		
12.	Is there a downward and upward flow of communication within the Bank?		
13.	Are external and internal audit reports as well as BSP reports of examination utilized to improve the bank's performance?		
14.	Is the internal auditor/internal audit department independent of bank management?		
15.	Is financial performance monitored on a consolidated basis?		
16.	Does management give prompt and adequate attention to audit results and take appropriate remedial measures if problems are detected?		
17.	Does management plan and exercise due diligence to ensure that the Bank is not exposed to operational risks arising from the introduction of new products and services or new technology or systems conversions?		

Total Number of Unfavorable Answers	
	========

Risk Assessment

No. of Unfavorable Answers	Risk Rating
below 10	Strong
10-15	Acceptable
over 15	Weak

	LEGAL RISK	Yes	No
1.	Does management fully understand legal risk? [4]		
2.	Does the bank have a written policy on legal risk management? a) Was this approved by the Board/authorized committee? b) Does it contain the following minimum features? i. legal documentation for particular transactions involved ii. unit/division to do the prescribed legal documentation iii. procedures for handling legal cases iv. authorized limits in compromise cases v. approving authorities on legal recommendations vi. provision for contingencies in the event of losses arising from lawsuit vii. legal risk review system		
3.	a. Does the Bank have a legal department outside counsel? b. Does it submit regular status report to Management/ Board? c. Are these reports adequate and timely?		
4.	Are the staff qualified to handle legal cases?		
5.	Is the staffing in the legal department sufficient to handle its activities?		

Total Number of Unfavorable Answers	========

Risk Assessment

No. of Unfavorable Answers	Risk Rating
below 5	Strong
5 – 8	Acceptable
over 8	Weak

[4] / If the quantitative legal risk assessment is low, then the answer is Yes.

	COMPLIANCE RISK	Yes	No
1.	a) Does management fully understand compliance risk? 1/ b) Is the Board/Management aware of the latest regulatory/legal issuances affecting the bank's operations?		
2.	Does the bank have a Compliance Officer?		
3.	Does the bank have a written compliance program? a) Was it approved by the Board? b) Does the compliance program contain the minimum features required under Circular No. 145 dated October 2, 1997? c) Was it submitted to BSP? d) Is it being implemented?		
4.	a) Does the bank's compliance program address all aspects of compliance risk ? b) Is the bank's compliance program disseminated throughout the institution?		
5.	Are financial irregularities and other incidents reported to supervisory authorities within the prescribed period?		
6.	Are business operations conducted in compliance with laws, rules and regulations?		

Total Number of Unfavorable Answers	========

Risk Assessment

No. of Unfavorable Answers	Risk Rating
below 4	Strong
4 – 6	Acceptable
over 6	Weak

1/ If the quantitative compliance risk assessment is low, then the answer is Yes.