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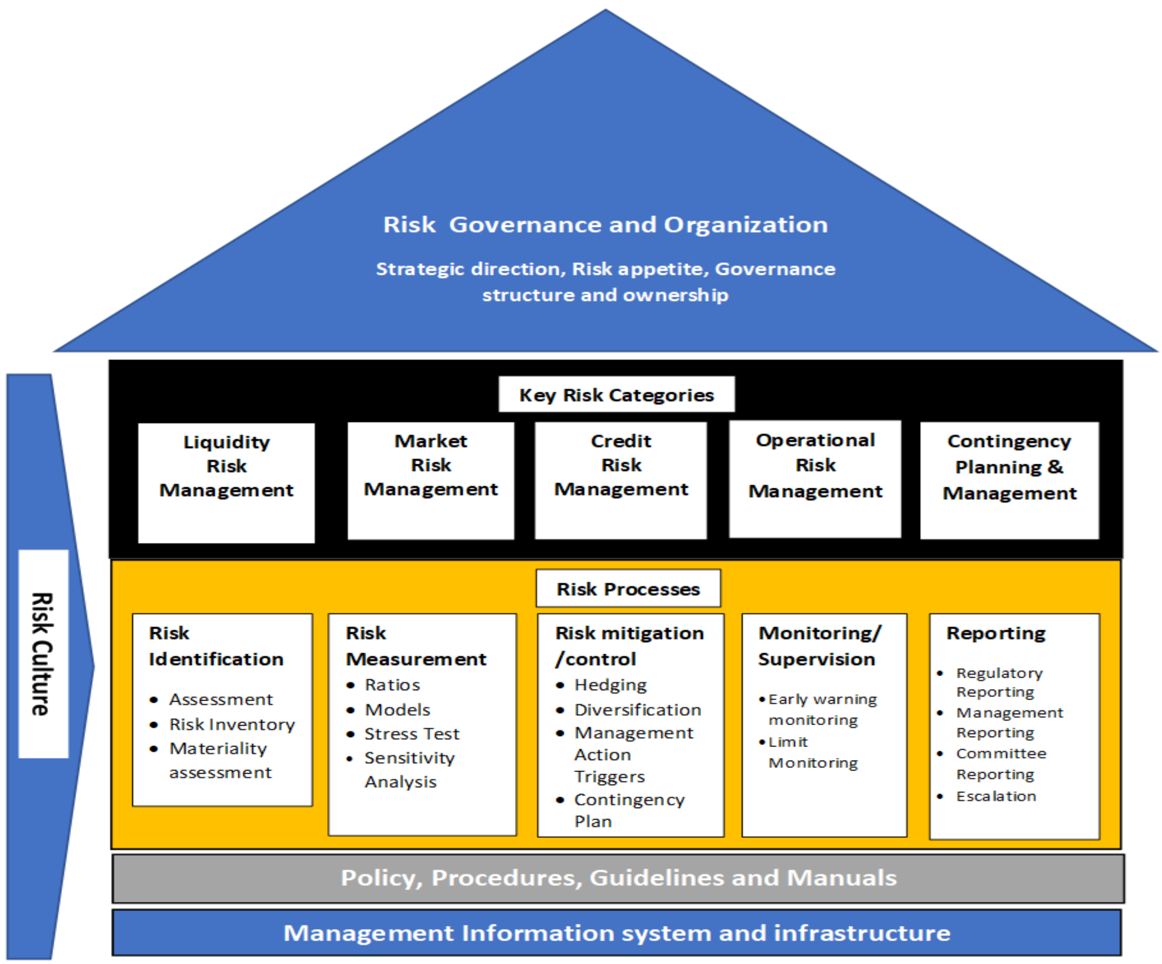
RISK MANAGEMENT FRAMEWORK

Introduction

Risk Management is a discipline at the core of the Bank and encompasses all the activities that affect its risk profile. It involves identification, measurement, monitoring and controlling risks to ensure that:

a. The individuals who take or manage risks clearly understand it.
b. The Bank's Risk exposure is within the limits established by Board of Directors (BOD).
c. Risk taking decisions are in line with the business strategy and objectives set by the BOD.
d. The expected payoffs compensate for the risks taken.
e. Risk taking decisions are explicit and clear.
f. Sufficient capital as a buffer is available to take risk.

uab bank's risk management structure is illustrated in the following diagram and it is designed to ensure appropriate governance and action:



Risk governance begins with the Board of Directors and risk is managed within the levels established by the Senior Management and approved by the Board of Directors. Various sub-committees within the

Bank govern and monitor the risk levels at the Bank and ensure that it operates within the levels established.

Within the Risk Management Framework, the Bank ensures that all key risk elements are categorized and that appropriate planning for contingencies are in place.

Processes are set in place to identify, measure, mitigate and monitor risk. Reports are made to various management and board committees and a process for escalation is available where risk levels require such escalation.

Policies, procedures, guidelines and manuals are issued and a Management Information System which is sufficiently robust provides support to risk governance.

The overarching influence within the Risk Management Framework is the Risk Culture and this is the set of encouraged and accepted behavior towards taking and managing risk. The Board and Management sets the tone for uab bank's risk culture in its deliberations, managers conferences, training programs and written statements.

The scope of the Risk Management Framework encompasses the following measures:

(a) Corporate Governance

(i) Board of Directors

(ii) Senior Management

(b) The Risk Management Function

(c) Policies and Procedures

(d) Internal Controls

(e) The Compliance Function

(f) Risk Monitoring and Reporting

(g) Training

(h) Risk Management process

(i) Risk Classification

(j) Risk Tolerance

(k) Contingency Plans

I. Corporate Governance

The Bank has adopted a Corporate Governance Framework to set the governance structure of its organization. This ensures a balance of policies and functions to also ensure effective functioning of internal control and risk management.

A Code of Conduct and Ethics has also been adopted to ensure transparency, accountability and high ethical conduct of all employees and personnel involved in the Bank

II. Role of the Board

The Board of Directors (‘the Board”) is responsible for the overall governance, management and strategic direction of the Bank.

The Board is ultimately responsible for the Bank’s operations, management of the risk to which the Bank is exposed and the compliance with all laws, regulations and guidelines to which the Bank is subject to.

Board members will have the following attributes:

- A good understanding of the Bank’s business model and operations and the general business climate in which it operates.
- The qualifications and experience necessary to understand the Bank’s business model and operations and how these relate to Myanmar’s general economic and social environment.
- A combination of both executive and nonexecutive directors to ensure a desirable level of independence from the bank’s management function.

The Board will establish the following mechanism to mitigate risks:

- Set the overall risks appetite and ensure that mechanisms are in place to effectively mitigate risk.
- Ensure that appropriate policies, procedures and controls are in place to manage such risks and
- Ensure that arrangements are in place for the effective reporting on all issues related to the functioning of the risk management framework.

To assist in the managing of risk, the Board will have 5 sub-committees namely:

- Board Audit Committee
- Board Advisory & Strategy Committee
- Board Risk Committee
- Board Credit Committee
- Board Nomination and Remuneration Committee

Each Board committee will have its Terms of Reference.

III. Role of Senior Management

Senior management which is headed by the Chief Executive Officer is responsible for implementing the corporate vision, strategy and business model approved by the Board and the effective functioning of the corporate governance framework on a day-to day basis.

In risk management the Senior Management is responsible to:

1. develop the components of the risk management framework;
2. ensure that the bank has all the resources necessary to effectively manage risk;
3. ensure that effective communication and reporting arrangements are in place to support good risk management practices;
4. ensure that all staff members are aware of the requirements of the risk management framework and their specific roles and responsibilities;
5. ensure that internal reporting mechanisms, including reports to be sent to the Board, are developed to provide accurate and timely information relevant to the effective management of risks.

Key Sub- Committees supporting Senior Management are:

- Management Committee
- Asset Liability Committee
- Credit Committee
- Disciplinary Committee
- Product Committee
- Management Audit Committee

Each Sub-Committee will have its Terms of Reference

In the day-to-day operations, Key Business Line Managers supporting the CEO and Deputy CEO are the following Heads of Departments:

- Finance
- Credit Management
- Administration
- Human Resources
- Technology
- Digital Banking
- Branch Operations
- Banking Operations
- Risk & Compliance
- Treasury
- Trade Finance
- Corporate Banking
- SME Banking
- Premier Banking
- Marketing & Public Relations

- Administration

IV. The Risk Management Function

The Risk and Compliance Department (RCD) is the business unit with day to day operational responsibility for ensuring that the Bank effectively identifies, measures, monitors, and controls and mitigates risks.

The risk management function is responsible for ensuring that effective processes are in place for:

i. Identifying current and emerging risks;
ii. Developing risk assessment and measurement systems;
iii. Establishing policies, practices and other control mechanisms to manage risks;
iv. Developing risk tolerance limits for Senior Management and board approval;
v. Monitoring positions against approved risk tolerance limits; and
vi. Reporting results of risk monitoring to Senior Management and the Board

From a day-to -day operational perspective, RCD supports Senior Management and the Board to ensure that the objectives set above are achieved.

Specifically, RCD will monitor Operational, Liquidity and Market risks while Credit Management Department will monitor Credit risk.

V. Policies and Procedures

The Policy and Procedures should be made up in the following manners:

i. Frameworks
ii. Policies
iii. Procedure
iv. Guidelines
v. Manuals
vi. Other documents

Senior Management will ensure that Frameworks, Policies and other documents are drawn up to cover the entire operations of the Bank including Risk Management matters

Further all policy and procedures should be periodically reviewed to ensure that they are current and appropriate.

All Policies and Procedures should be effectively communicated to the employees.

VI. Internal Controls

An on-going system of internal controls is an essential component of a risk management framework.

The internal control in the form of systems, policies, procedures and processes have been implemented to safeguard the assets of the Bank, control risk and achieve the Bank's objectives. Segregation of duties, dual control, limit control, training and staff rotation are some of the many techniques employed.

Separation between operational and control functions such as front office and back office activities are also important to avoid conflicts of interest.

Preventive Controls and Detective Controls are some techniques used in Internal Control.

The Bank ensures 3 (three) Lines of defence to further enhance control:

- 1st line of Defence – Business units, departments and retail branches who own and manage risk as part of their day-to-day activity
- 2nd line of Defence – Independent risk functions including Risk and Compliance Department, Finance Dept and other functions overseeing risks.
- 3rd line of Defence – Internal audit, external audit and other 3rd party specialists who provide independent assurance

The Bank's internal control environment includes 3 (three) control functions namely:

- Risk Management function
- Compliance function
- Internal Audit

The Bank ensures that the above functions are adequately staffed and resourced to carry out their responsibilities independently.

VII. Internal Audit

Bank shall establish an Internal Audit unit which will provide independent assurances to the Board and the Management on the quality and effectiveness of the Bank's internal control.

In the context of Risk Management, the internal audit function will periodically assess the effectiveness of the Bank's risk management framework and practices paying specific attention to the Bank's adherence to established policies procedures and limits and applicable laws, regulations and guidelines

VIII. The Compliance Function

The compliance function will on an-ongoing basis assess the extent to which the Bank is complying with established policies, procedures and limits and obligations arising from applicable laws, regulations and guidelines.

On a regular basis, the compliance function will provide guidance and oversight to the Bank and provides assurance the Board and relevant Board Committees to the level of compliance.

Further and equally important, a corporate culture of compliance is encouraged throughout the Bank through corporate statements and policy, training and disciplinary measures.

IX. Risk Monitoring and Reporting

To effectively control and mitigate risk, the Bank has developed and continues to improve on a robust MIS system that provides a reliable data base to enable identification, measuring, controlling, monitoring and mitigating risk in all aspects of the Bank.

Reports are also prepared on daily, weekly and monthly basis and submitted to Senior Management and the Board indicating how well the Bank is managing risk and highlighting instances of breaches of risk management policies, procedures and limits and obligations arising from applicable laws, regulations and guidelines.

X. Training

uab bank Training School provides training facilities and courses to train staff on all issues relating to the effective operating of the Bank. Courses are both general and specialized in nature targeted to needs of employees and the nature of the work of the employees.

Training is provided to all levels of the Bank and starts from the on-boarding of staff into the Bank.

Board members are also engaged in receiving training.

XI. The Risk Management Process

The Risk Management Process includes the followings:

- Identification
- Measuring
- Controlling
- Monitoring
- Mitigation

i. **Risk Identification**: Almost every product and service offered has a unique risk profile composed of multiple risks which must be identified. For example, in most loans, at least four types of risks are usually present: credit risk, interest rate risk, liquidity risk and operational risk. Risk identification should be a continuing process and risk should be understood at both the transaction and portfolio levels.

ii. **Risk Measurement**: Once the risks associated with a particular activity have been identified, the next step is to measure the significance of each risk. Each risk should be viewed in terms of its three dimensions: size, duration and probability of adverse occurrences. Accurate and timely measurement of risk is essential to effective risk management.

iii. **Risk Control**: Once risks have been identified and measured for significance, there are basically three ways to control significant risks, or at least minimize their adverse consequences: avoiding or placing limits on certain activities/risks, mitigating risks and/or offsetting risks. It is a primary management function to balance expected rewards against risks and the expenses associated with controlling risks. Once risk limits are established, they are communicated through policies and procedures that define responsibility and authority.

iv. **Risk Monitoring**: This activity includes developing reporting systems that monitor the specific risks and control items that had been identified and also adverse changes in the risk profiles of significant products, services. An MIS that accurately identifies and measures risks in important in this process.

XII. Risk Classification

Various types of risks arising can be classified into the following**:**

- **Credit Risk**: The risk of financial loss in credit assets (including off-balance sheet instruments) caused by deterioration in the credit conditions of counterparties.
- **Market Risk**: Market risk is the risk of financial loss where the value of our assets and liabilities could be adversely affected by changes in market variables such as interest rates, securities prices and foreign exchange rates.
- **Liquidity Risk**: The risk or inability to meet funding requirements or necessitates fund procurement at interest rates markedly higher than normal.
- **Operational Risk**: The risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. This may be caused by negligence of correct operational processing, or by incidents or misconduct by either officers or staff, as well as other similar risks. Risk of legal action and factors affecting the reputation of the Bank, may also be classified as Operational Risk. Operational risk includes fraud risk, legal risk, compliance risk, reputational risk, outsourcing risk and technology risk

XIII. Risk Tolerance

The Board of Directors will set risk tolerance levels annually in conjunction with the strategic planning process of the Board of Directors and Management.

In this regard, the Annual Business Plan of the Bank will include a Risk Appetite Statement. Specific levels of risk tolerance within key business units, such as credit/lending (i.e., concentration risk, geographical risk, sector wise exposures, margin norms, etc.), interest rate and liquidity, will be set annually and where necessary reviewed in the course of the year.

Risk levels are measured against tolerance limits by the Risk & Compliance Dept and/or Business units and tabled at the relevant sub-Committee meetings such as ALCO, Credit Committee, Management Committee and reviewed at Board sub-committee meetings.

XIV. Capital Adequacy

Within the Risk Management Framework, Capital adequacy will also be set annually as a strategy planning process and the Board of Directors and Management will review this in the context of being able to act as a buffer to risk.
The Bank will set its capital adequacy ratio in compliance and consultation with the regulators.

XV. Contingency Plans

To manage contingency and emergency situations, the Bank will have alternative courses of action to handle disruptions in various Continency Plans and Business Continuity Plan.