

## Risk management

### Risk management philosophy

Owing to the unique role and functions of the Bank, risk management is not simply based on institutional risk and return considerations, but also takes into account national interest, in line with the statutory and constitutional responsibility of the Bank. The Bank also functions within an environment characterised by continuous change and uncertainty, which requires constant monitoring and analysis of, and appropriate response to, potential and actual risks emanating from the global political and economic environment.

In common with most central banks, the Bank is a risk-averse institution, which basically reflects the view that satisfactory fulfilment of its role and responsibilities could be seriously jeopardised if there were to be significant disruptions to its operations and/or damage to its reputation.

The executive management of the Bank is intensely aware of the high performance standards that all role-players outside the Bank expect of the central bank. The Bank views risk management as an integral part and an essential element of good corporate governance.

### Risk management policy

The Bank has established a risk management policy to ensure that risks are managed in a co-ordinated, comprehensive and systematic manner that is consistent with internationally accepted standards and guidelines.

This policy regulates all risk management initiatives and activities, and facilitates their alignment with the Bank's strategic and operational objectives to ensure that the risks threatening the achievement of these objectives are adequately and effectively managed at acceptable levels. The policy governs the full spectrum of strategic, financial (including credit, market and liquidity), reputational and operational risk management in the Bank. Furthermore, it specifies the risk management governance structures, general risk management principles, the Bank's risk appetite and tolerance, impact and likelihood requirements, risk management framework and processes, and the roles and responsibilities of all stakeholders.

## Risk management governance structure

The Bank's Board is responsible for the oversight of the entire process of risk management. The Board Risk Committee, which is a subcommittee of the Board, assists the Board to ensure a dedicated focus on risk management in the Bank.

The Governors' Executive Committee (GEC) has overall executive responsibility for risk management in the Bank and is accountable to the Board for ensuring adequate risk management structures and processes. The Risk Management Committee, which is a subcommittee of the GEC, assists the GEC with regard to its executive responsibility for risk management in the Bank.

## Risk management framework

All risk management processes and activities are conducted in terms of the Bank's risk management framework. This framework details the governance processes, risk management universe and the support structures and processes.

## Risk Management and Compliance Department

A centralised risk management co-ordination function is performed by the Risk Management and Compliance Department (RMCD). The role of the RMCD is to facilitate risk management ownership by management; to provide a standardised strategic and operational risk management methodology and process; to validate that the risk management processes are adequate and effective and comply with internationally accepted risk management standards; and to ensure standardised and integrated reporting on all risk management activities and exposures to the GEC via the Risk Management Committee, as well as to the Board Risk Committee.

The RMCD is also responsible for the co-ordination and facilitation of specialised operational risk management processes, including business continuity management, occupational health and safety management as well as compliance risk management. Reporting on these risk management activities to the aforementioned committees is also co-ordinated by the RMCD.

## Risk management processes

Four distinct risk management processes are used by the Bank for the management of strategic, financial, reputational and operational risk:

The strategic risk management process is integrated into the strategic planning process of the Bank, during which risks at a strategic level are identified and assessed.

Financial risk is managed by the Financial Markets Department. Specialised financial risk management systems and procedures, based on best practice standards, are in place to manage financial risks pertaining to domestic and foreign-exchange market operations.

Reputational risk is managed by the executive management and heads of department of the Bank, while the Head of Strategy and Communications has a specific responsibility in this regard, from a communication perspective.

Operational risk emanating from all the operational activities of the Bank is managed by the heads of department and their management teams, whereas specialised types of operational risk or operational risks with a Bank-wide impact are managed by specific structures or committees established for that purpose. These types of operational risk include business continuity risk, information security risk, and occupational health, safety and environmental risk.

## Risk management approach and methodologies

### Strategic and operational risk management

The Bank's strategic and operational risk management approach and methodology are largely based on the principles contained in the Committee of Sponsoring Organizations (COSO) Enterprise Risk Management (ERM) Framework and is consistent with widely accepted standards, guidelines and best practice. The methodology includes the following components:

Objective setting – Establishing the context for risk analysis and assessment

Risk identification – Identifying potential risks that could threaten the achievement of objectives

Risk assessment – Assessing the potential impact of identified risks on the operations, financial resources and reputation of the Bank

Risk mitigating measures – Consideration of the adequacy and effectiveness of risk mitigating measures and assessing the likelihood of risks materialising

Areas for improvement – Identifying areas where existing risk mitigating measures can or should be improved

Action plans – Formulating action plans to implement new or enhance existing risk mitigating measures

Follow up – Monitoring the status of implementation of action plans

Reporting – Reporting to the risk management oversight committees on the results of risk assessments and the status of implementation of action plans

Monitoring – Monitoring the adequacy and effectiveness of the risk management process

Facilitated works sessions are conducted by the RMCD, in conjunction with management of the Bank, for the purpose of completing the Bank-wide and departmental risk assessments.

### Business continuity risk management

The Bank's business continuity management programme is based on the BCM lifecycle model, as defined by the Business Continuity Institute UK, widely recognised as the international good practice guideline for BCM development and management. The Business Continuity Institute's lifecycle model consists of the following elements:

BCM policy and programme management

Embedding BCM in the organisation's culture

Understanding the organisation

Determining BCM strategy

Developing and implementing a BCM response

Exercising, maintaining and reviewing

### Information security risk management

The Bank has adopted the ISO 27002 Information Security standard and the Information Security Forum's (ISF) "Standard of Good Practice for Information Security". This standard covers six distinct aspects of information security:

Security Management, which deals with topics related to high level direction for IS, arrangements for IS across the organisation and establishing a secure environment.

Critical Business Applications, which deals with topics related to requirements for securing business applications.

Computer Installations, which deals with topics related to the design and configuration of computer systems

Networks, which deals with topics related to network design and implementation

Systems Development, which deals with topics related to the application of IS during all stages of the systems development life cycle; and

End User Environment, which deals with topics related to local security management and the protection of desktop applications.

Financial risk management

Comprehensive and specialised financial risk management methodologies and systems are in place to manage financial risks pertaining to domestic and foreign-exchange market operations. Refer to the Bank's Annual Report for more information in this regard.