Syrian Arab Republic

Monetary and Credit Council

الجمهوريَّة العربيَّة السوريَّة

مجلس النقد والتسليف

Decision No. (390/M.C.C)

Monetary and Credit Council,

Pursuant to:

The provisions of the Law of Central Bank of Syria and the Basic Monetary Law No. /23/ dated 17/03/2002, And;

The Monetary and Credit Council's Decisions Nos. 74/M.C.C/B4 dated 19/09/2004, 93/M.C.C/B4 dated 19/12/2004, 106/M.C.C/B4 dated 13/02/2005, 107/M.C.C/B4 dated 13/02/2005, and 120/M.C.C/B4 dated 15/03/2005 concerning the management of liquidity, insurance, operational and interest rate risks, as well as the banking internal control systems.

For the purpose of standardizing the risk management methodology of banks operating in the Syrian Arab Republic and in line with the requirements of Basel II and in view of the importance of risk management and the identification, measurement, follow-up and control of risks,

The memorandum submitted in its session held on 03/12/2008,

Decided the following:

Article 1 – The instructions on the board of directors' responsibilities of risk management are as follows:

<u>Board of Directors' Responsibilities of Risk Management</u>

The board of directors shall be primarily responsible to shareholders and stakeholders for managing banks' risks as follows:

- Form an independent risk management unit.
- Understand and promote the culture of risk management in all its forms at all levels of banking staff, and work to form a risk management committee whose members are mostly non-executive board members, in addition to the bank's risk management director.
- Identify the levels of tolerable or acceptable risks.
- Approve the Risk Management Procedures Manual.
- Approve, annually, the risk authorities to be determined for the risk committee, which primarily include risk strategies and risk levels and limitations.

- Approve, annually, the general policy for managing the bank's risks of all kinds as developed by the above-mentioned risk management committee.
- Confirm the bank's senior management's responsibilities in establishing and maintaining:
    - An adequate and appropriate infrastructure including organizational structure, operations, policies and procedures, efficient staff and technologies that continuously ensure the management (identification, measurement, follow-up, control) of risks in alignment with the approved risks' limits and policies.
    - An independent infrastructure for risk management; a task of which shall be submitting reports directly to the board of directors on the exposures and violations of the established limits.
- Receive periodic reports prepared by the risk management on exposures to risks with a view to assessing the senior management's performance regarding the approved risk authorities.
- Keep following up on the effectiveness of senior management and risk management, relying on an independent review or audit body. Furthermore, the board of directors shall take and follow up on all appropriate corrective actions to improve and increase the effectiveness of the risk management system based on the observations and recommendations contained in the reports of the bank's risk management unit or management officer, the internal audit reports, and the reports of the Government Commission observers on the results of exercising their duties.

Risk Management Committee's Responsibility

- A risk management committee is formed comprising non-executive members of the board of directors, in addition to the director of risk management unit. Members of this committee should be knowledgeable and experienced in banking risk management.
- Work continuously with the bank's risk management unit or directorate to develop and define risk management policies related to the bank's existing activity, in addition to those related to any new banking activity or product.
- Ensure and follow up that senior management immediately addresses any violations reported by the risk department.
- The committee is responsible for providing contingency plans and managing crises to which the bank may face, in coordination with the bank's senior management.

Senior Management's Responsibility of Risk Management

- The bank's senior management works to find all the necessary structures to manage and follow up on all risks frequently occur to the bank.
- Work on developing policies, procedures, and organizational plans that help to clearly define responsibilities and authorities to ensure the separation of tasks and authorities in order to avoid any conflict of interest between the various departments on one hand, and activate the internal control system on the other hand through identifying administrative communication channels, which directly contributes to addressing all types of risks that the bank may be exposed to.
- Work to implement the risk strategy approved by the board of directors in accordance with the specified risk ceilings.

Risk Manager's Responsibility

- Work on administering the risk management independently of the executive management of the bank.
- Work on following up and determining the capital adequacy to face the risks to which the bank is exposed and in line with the adequacy ratio of private funds determined in accordance with the Monetary and Credit Council's Decision No. (253/M.C.C/1/2007/B4) dated 24/1/2007.
- Develop the risk management policy and risk authorities, in consultation with the senior management, and submitting the same to the board of directors for approval. **The risk management policy should:**
  - Be clearly defined and specific, and commensurate with the nature and size of the bank's business.
  - Create a common risk language that applies harmoniously to all units and departments.
  - Consider any new product or activity of the bank, so that adequate procedures and controls are in place before introducing or starting it.
  - Be documented and binding.
- Prepare action plan for risk management in line with the Monetary and Credit Council's Decisions Nos. 74/M.C.C/B4 dated 19/09/2004, 93/M.C.C/B4 dated 19/12/2004, 106/M.C.C/B4 dated 13/02/2005, 107/M.C.C/B4 dated 13/02/2005, and 120/M.C.C/B4 dated 15/03/2005, follow up on the implementation of these procedures in coordination with the bank's internal auditing department, and report the results of this follow-up to the risk management committee, which reports the same to the bank's board of directors and executive management/senior management.
- It is the responsibility of the risk management unit or directorate to daily follow up all work and activities, ensure compliance with the ceilings and levels specified in the general risk management policy, and control violations and immediately reporting and addressing the same with the senior management.

- In addition to risk measurement under normal market conditions, risk management should work measuring risks under different stressful conditions through conducting stress testing to examine the impact of various incidents that lead to significant changes in market data on the bank's conditions.
- The risk management submits and presents periodic reports at the board meeting at least every three months. These reports should:

  - Be prepared by the risk management unit in complete independence.
  - Be distributed at all administrative levels in the bank, and presented before the board of directors.
  - Be inclusive of all types of risks the bank is exposed to (credit, market, operational, liquidity, reputation... etc.).
  - Present exposures to actual risks against the defined limits or ceilings, at various levels and within normal market conditions.
  - Include the results of measuring risks under unusual or stressful working conditions.
  - Include the results of analyzing the information system and the credibility and validity of the used methodologies.
  - Include suggestions and recommendations to address all existing weaknesses.

Responsibility of Internal Audit Directorate in Risk Management

- It is the responsibility of the internal audit directorate to ensure that the necessary infrastructure for risk management is in place, and how this directorate is independent.
- Verify the compliance with regulations and procedures provided for in the general risk management policy.
- Evaluate the adequacy and effectiveness of risk identification systems and their measurement mechanisms used for all bank's activities and operations.
- Evaluate the adequacy and effectiveness of internal control systems and oversight procedures set for controlling risks that have been identified, and validate the risk measurement.

- Evaluate the reports prepared by the risk manager on the application of the general risk management framework, the rapid reporting of deviations, deciding to address them and the corrective actions taken.
- Submit periodic reports to the audit committee or the board of directors to assess the efficiency and effectiveness of risk management in the bank as a whole, and to evaluate all activities, employees and weaknesses, and any deviations from the established systems, policies and procedures.

Article 2 - This Decision shall be communicated to all competent bodies to put it into force.

In Damascus, on 05/05/2008

Governor of the Central Bank of Syria
Dr. Adib Mayala

Endorsed by
Prime Minister
Eng. Muhammed Nagi Etri

Secretary of Monetary and Credit Council Laila Arnous