Financial Risk Management

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Financial Risk Management

- ***Financial risk*** *refers to* ***your business' ability to manage your debt and fulfil your financial obligations***.
- *Credit risk, liquidity risk, asset-backed risk, foreign investment risk, equity risk, and currency risk are all common forms of financial risk.*

BENEFITS OF FINANCIAL RISK MANAGEMENT

Streamlined coordination of and control over business processes

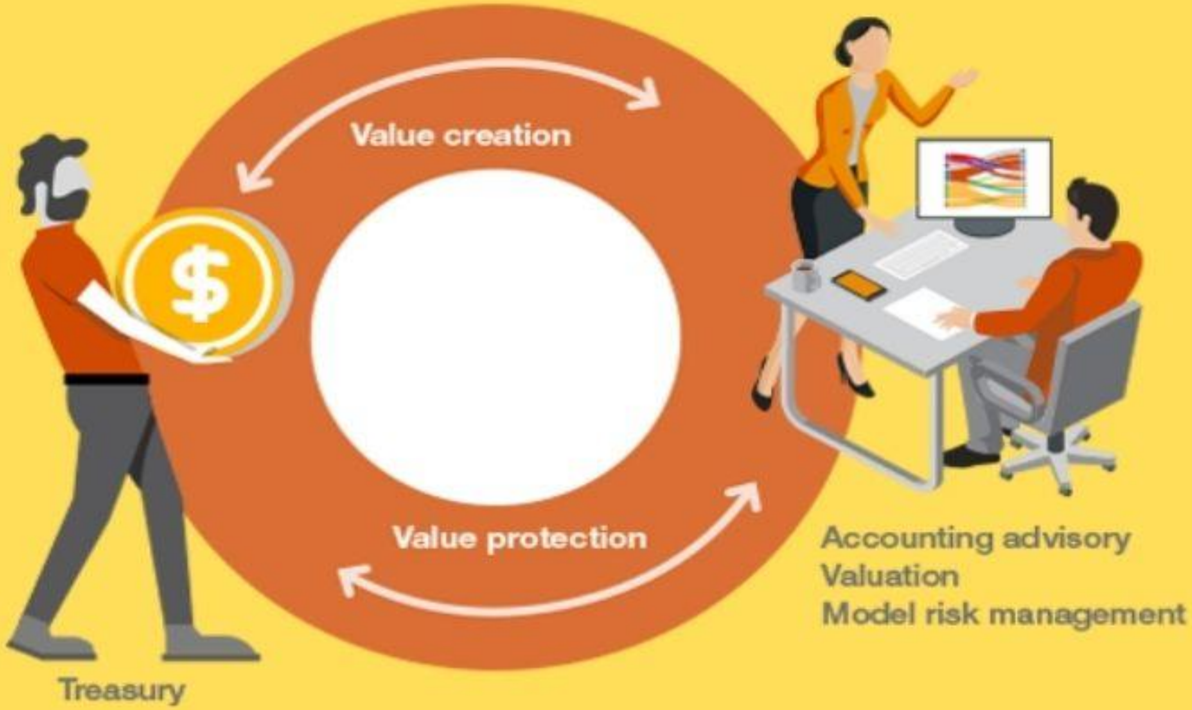
Managed deluge of data

Improved measurement of performance

Enhanced understanding of profit sources

Formulated risk management strategy

Financial Risk Management



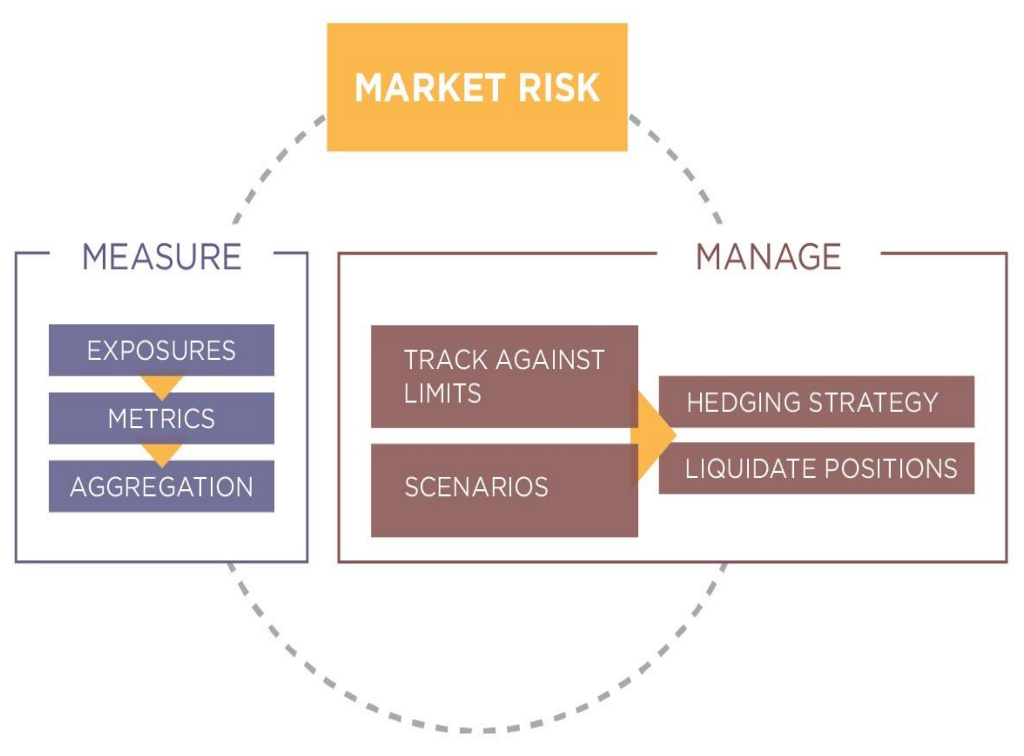
Market Risk	Credit Risk
Liquidity Risk	Operational Risk

MARKET RISKS

ON INVESTMENT

Market Risk Management

- *The ability of management to identify, measure, monitor, and control exposure to market risk given the institution's size, complexity, and risk profile*
- *The most common types of market risk include* ***interest rate risk, equity risk, commodity risk*** *and* ***currency risk****.*



Types of Risks

- ***Interest Rate Risk -*** *Central government changes rate of interest by change in its monetary policy.*
- ***Equity Risk*** *– It is the risk of possibility of changes in the prices of stocks and stock interests.*
- ***Commodity Risk*** *– It arises when essential commodities price changes in the international markets.*
- ***Currency Risk*** *– It occurs from exchange rate fluctuations that occur between different countries.*

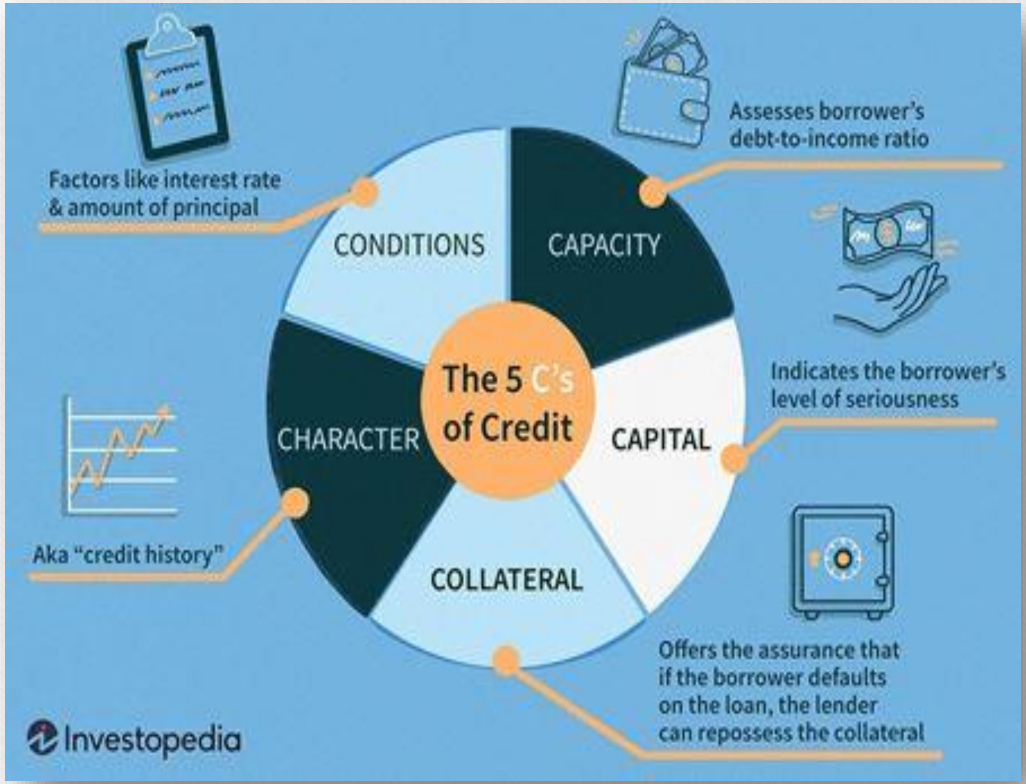
Importance of Market Risk Management

- **Management information** – *Provides information on the risk exposure taken by traders.*
- **Setting Limits** – *Allows management to limit positions taken by traders.*
- **Resource Allocation** – *Identifying the risk & return characteristics of positions.*
- **Performance Evaluation** – *Using return-risk ratio to assess the performance of traders.*
- **Regulation** – *May be used in some cases to determine capital requirements.*


CREDIT RISK
MANAGEMENT

Credit Risk Management

- *Credit risk management is* ***the practice of mitigating losses by understanding the adequacy of a bank's capital and loan loss reserves at any given time*** *– a process that has long been a challenge for financial institutions.*



Types of Credit Risk

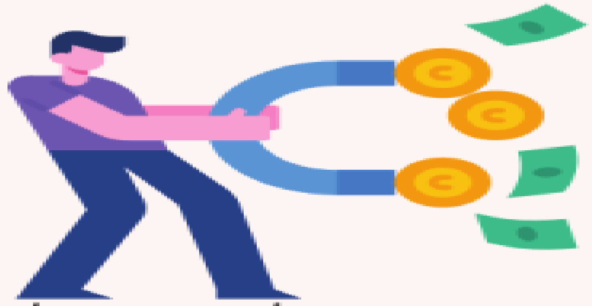
- ***Transaction risk*** *refers to* ***the adverse effect that foreign exchange rate fluctuations can have on a completed transaction prior to settlement.***
- ***Concentration risk*** *is* ***the potential for a loss in value of an investment portfolio or a financial institution when an individual or group of exposures move together in an unfavorable direction.***

BENEFITS OF STRONG CREDIT MANAGEMENT POLICY

Improved cash-flow

Reduce Business risk

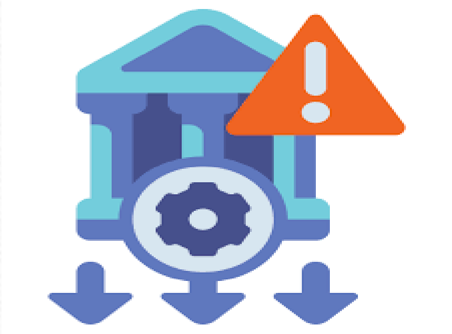
Staff Empowered



Faster Debt Recovery

Financial Stability

OPERATIONAL RISK MANAGEMENT



Operational Risk Management

- ***Operational risk management*** *(ORM) is a continual recurring process that includes risk assessment, risk decision making, and the implementation of risk controls, resulting in the acceptance, mitigation, or avoidance of risk.*

Types of Operational Risk Management

- **People Risk** – *People risk is the risk of financial losses and negative social performance related to inadequacies in human capital and the management of human resources.*
- ***Process Risk*** – *Process risk is the risk of financial losses and negative social performance related to failed internal business processes within every aspect of the business.*
- ***Systems Risk*** – *Systems risk is the risk of financial losses and negative social performance related to failed internal systems.*

- ***External Events Risk*** – *External events risk is the risk of financial losses and negative social performance related to the occurrence of external events typically outside of an MFI's control.*

- ***Legal and Compliance Risk*** – *Legal and compliance risk is the risk of financial losses and negative social performance related to non-compliance with internal and external regulations and laws.*

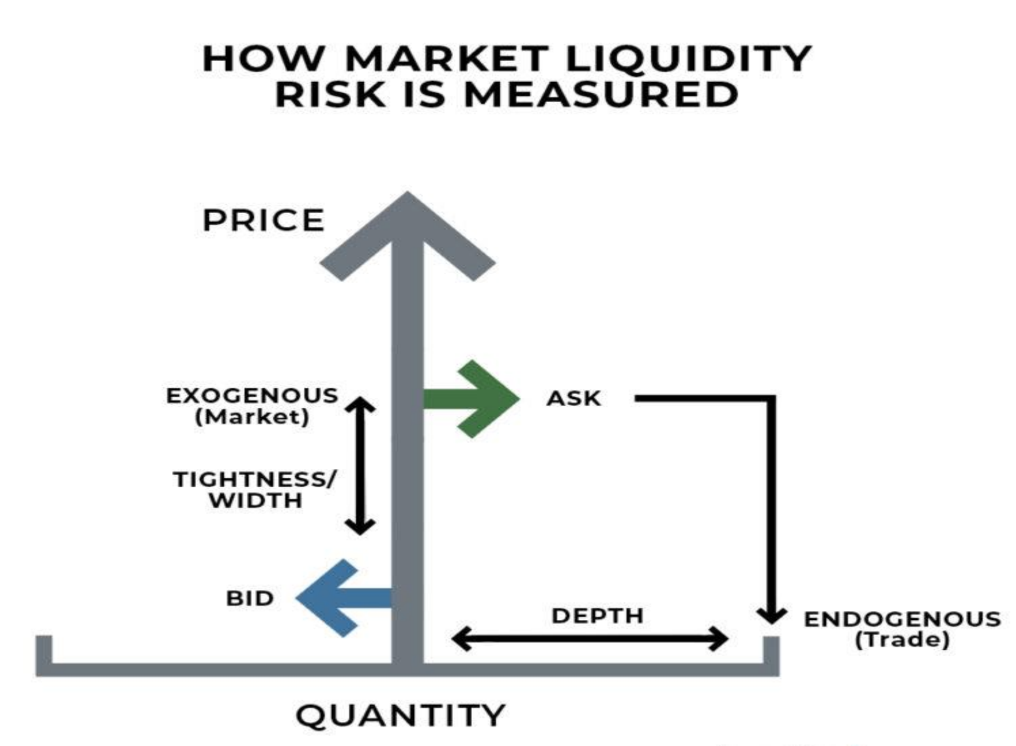
Benefits of ORM

- *Improve the reliability of its business operations*
- *Improve the effectiveness of its risk management operations*
- *Strengthen the decision-making process where risks are involved*
- *Reduce losses caused by poorly-identified risks*
- *Identify unlawful activities early*
- *Lower compliance costs*
- *Reduce the potential damage from future risks*

LIQUIDITY RISK MANAGEMENT

Liquidity Risk Management

- ***Liquidity risk management*** *defined as the ability to meet its cash flow and collateral needs (under both normal and stressed conditions) without having a negative impact on day-to-day operations or its overall financial position.*



Types of Liquidity Risk Management

- ***Funding liquidity risk*** - *the risk that a company will not be able to meet its short-term financial obligations when due.*
- ***Market liquidity risk*** - *the loss incurred when a market participant wants to execute a trade or to liquidate a position immediately while not hitting the best price.*

Benefits of Liquidity Management

- **Maximize margins** – *Dynamically forecast cash with precision, minimize uninvested cash & funding cost, maximize yield on assets.*
- **Reduce risks** – *Provide integrated view of liquidity & avoid suprises, regulatory funds and reputation risk.*
- **Advance business objectives** – *Deliver integrated view of customer positions, Adapt rapidly to customer behaviour and events.*

In financial services, if you want to be the best in the industry, you first have to be the best in risk management and credit quality. It's the foundation for every other measure of success. There's almost no room for error.

— *John G. Stumpf* —