

## Terms of Reference of the Risk and Credit Committee

### 1 Definitions

In these Terms of Reference the following words and phrases shall have the meaning assigned to them below:

“Committee”	means the Risk and Credit Committee;
“Chairman”	means the Chairman of the Committee;
“Bank”	means Abu Dhabi Commercial Bank PJSC;
“Board”	means the Board of Directors of the Bank;
“Best Practices”	means best practices in corporate governance as determined by the Board from time to time and includes regulatory requirements applicable to the Bank;
“GCEO”	means the Group Chief Executive Officer of the Bank;
“GCFO”	means the Group Chief Financial Officer of the Bank;
“GCRO”	means the Group Chief Risk Officer of the Bank;
“Independent Director”	means a director who is independent as defined by applicable legislation and the Best Practices determined by the Board;
“Non-Executive Director”	means a director who neither dedicates his activity on a full time basis to the management of nor receives a monthly or yearly salary from the Bank;
“RAS”	means the Risk Appetite Statement; and
“SCA Guidelines”	means the Securities & Commodities Authority (SCA) Resolution N. (7R.M.) of 2016 concerning the standards of institutional discipline and governance of public shareholding companies.

### 2. Purpose

- 2.1 The purpose of the Committee is to enable the Board to fulfil its responsibilities in relation to the oversight of:

- 2.2 the risks in the Bank's asset portfolios;
- 2.3 development of risk measurement tools and monitoring of the effectiveness of such tools;
- 2.4 the development and implementation of risk management strategies and limits;
- 2.5 the compliance with regulatory requirements relating to risk management;
- 2.6 the Bank's public reporting on risk management matters;
- 2.7 the Bank's risk appetite and risk strategy;
- 2.8 the independence and effectiveness of risk management functions throughout the Bank; and
- 2.9 reviewing and approval of credit commitments as set out in section 7 of these terms of reference.

### **3. Membership**

- 3.1 The Committee consists of at least four (4) Non-Executive Directors and the majority of its members shall be Independent Directors. At least one of the Committee members should also be a member of the Board Audit & Compliance Committee to ensure good flow of information between them. Certain key members of Senior Management are required to attend meetings of the Committee, including the GCEO, the GCFO, the GCRO and the Head of Credit to ensure that the Committee is fully informed of the developments in the Bank's risk management functions.
- 3.2 The members of the Committee will be appointed by the Board, after duly considering the recommendations of the Nomination, Compensation & HR Committee, and the members of management attending meetings of the Committee shall be determined by the GCEO. Any member of the Committee may be removed or replaced at any time by the Board.
- 3.3 It is recommended (but not mandatory) that Committee members appointments shall be rotated every three years although this may be extended by two additional periods of up to three years, subject to the member continuing to meet any requirements (such as independence) for membership of the Committee.
- 3.3 The Committee shall comprise only members of the Board, but shall be permitted to require any members of the Bank's management, or third parties, to attend meetings on a temporary or permanent basis, as shall be required to assist the Committee with its duties.
- 3.4 Where a director who is a member of the Committee leaves office, the Board shall appoint a new member to the Committee.

### **4. Meetings**

#### **4.1 Meetings**

- 4.1.1 Meetings of the Committee shall be held at the head office of the Bank or at any other place deemed appropriate by the Committee. Meetings shall be convened upon a written notice

of the Chairman or the Secretary of the Committee, upon the Chairman's instructions. Committee meetings may also be convened by the Chairman, the GCRO, if he considers it necessary or the Secretary on the request of 2 members of the Committee.

- 4.1.2 The Secretary of the Committee will, with consultation and approval of the Chairman, develop the agenda for each meeting, and circulate it to all members of the Committee in advance.
- 4.1.3 The Committee may invite any staff member of the Bank, or any other person, to attend meetings and assist in its discussions.
- 4.1.4 A Committee meeting will not be valid unless a majority of its members are in attendance or represented.
- 4.1.5 The Committee shall meet periodically with the audit and other risk-relevant committees' members to ensure effective exchange of information and effective coverage of all risks, including emerging risks and any needed adjustments to the risk governance framework of the Bank in light of its business plans and the external environment.

## 4.2 **Resolutions**

- 4.2.1 Resolutions of the Committee shall be adopted by a majority of votes of members present or represented. In the event of a tie the Chairman shall have a casting vote.
- 4.2.2 An absent Committee member may authorize another member to vote on his behalf provided that the member present does not hold more than one proxy.
- 4.2.3 Without prejudice to the above clause, the Committee may exceptionally take some decisions based on resolutions by circulation, provided that:
  - (a) the resolutions are delivered to the members in writing (which shall include delivery by email) and accompanied by all the supporting documents and papers as necessary for reviewing it;
  - (b) any resolution by circulation must be unanimously agreed upon by the members and must be submitted to the succeeding meeting of the Committee to be included in the minutes of such meeting; and
  - (c) save in exceptional circumstances, the Committee shall not consider by circulation any credit facility worth more than AED 250m unless the Committee Chairman has given his prior verbal or written express approval to the Committee Secretary.

## 4.3 **Minutes**

- 4.3.1 Minutes of Committee meetings should be recorded in a special book and signed by the members attending the meeting and the secretary. A dissenting member may enter his objections in the minutes of the meetings. In case one of the members refuses to sign, his objection shall be recorded in the minutes together with the reason/s for objection, if given (as per SCA Guidelines Article 8 a).

4.3.2 Drafts of the minutes of Committee meetings shall be circulated to the members for comments, which shall be incorporated and approved by the Committee at the subsequent Committee meeting. The Committee will keep minutes of its meetings, and these will be submitted to:

(a) the Board for consideration at the next full Board meeting; and

(b) the Legal & Board Secretariat department for filing and publishing on the Bank's Board Ipad portal.

4.3.3 The role and responsibility of the Secretary of the Committee will be assumed by a member of the Legal & Board Secretariat department and that person shall record and keep the minutes of each meeting.

## **5. Reporting**

5.1 The Committee shall report to the Board and will provide periodic updates to them on risk management issues as provided for in this clause.

5.2 The Committee shall submit a written report to the Board specifying with absolute transparency its actions, findings and recommendations. The report shall be submitted annually or more frequently as and when requested by the Board.

5.3 The Committee shall be required to make short presentations to the Board as and when required by the Board.

## **6. Powers of the Committee**

6.1 The Committee shall have the authority appropriate to discharge its duties and responsibilities. In addition, it is specifically empowered to appoint or retain external independent professionals and consultants for advising or assisting the Committee on legal, accounting, or other matters, to the extent it deems necessary or appropriate at the Bank's expense.

6.2 The Committee shall have power to sub-delegate any of its responsibilities or authorities, provided that such sub-delegation is notified to the Board at its next meeting. All sub-delegations granted before the date of adoption of these terms of reference shall remain in place.

## **7. Responsibilities**

7.1 The Committee will review the Bank's development of tools, structures and guidelines to monitor the Bank's risks, including credit, market, compliance, operational and other risks and exposures.

7.2 The Committee will review the risk profile of the Bank within the context of the risk appetite approved by the Board.

- 7.3 The Committee will advise the Board on the Bank's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment drawing on financial stability assessments such as those published by the UAE Central Bank and other authoritative sources that may be relevant for the Bank's risk policies.
- 7.4 The Committee will review the Bank's capability to identify and manage new risk types.
- 7.5 The Committee will support the Board in implementation, review and approval of the Bank-wide risk governance framework which includes the Bank's risk culture, risk appetite, RAS and risk limits.
- 7.6 The Committee will support the Board in establishing the Bank's corporate culture. In particular, it will create expectations that all business is conducted in an ethical manner and compliance with laws, regulations and internal rules that will promote risk awareness within a strong risk culture.
- 7.7 The Committee will review and approve management's plans for mitigation of material risks faced by the business units of the Bank. The Committee will review the Bank's delegated risk management authorities, the Value at Risk and other measures relating to market and trading risk, its funding and liquidity risk and liquidity policies, its capital adequacy risk, and its operational, legal and regulatory risks. The Committee should ensure that management has processes in place to ensure the Bank's adherence to the approved risk policies.
- 7.8 The Committee should receive regular reporting and communication from the GCRO and other relevant functions about the Bank's current risk profile, current state of the risk culture, utilisation against the established risk appetite and limits, limit breaches and mitigation plans.
- 7.9 The Committee will be responsible for advising the Board on the Bank's overall current and future risk appetite, overseeing Senior Management's implementation of the RAS, monitoring the state of risk culture in the Bank and interacting with and overseeing the GCRO.
- 7.10 The Committee will review and provide oversight of the implementation and review of risk management control systems throughout the Bank, including the communication of risk management policies and risk positions and the review of independent risk management systems and controls.
- 7.11 The Committee will review reports on any material breaches of risk limits and the adequacy of proposed actions.
- 7.12 The Committee will review the Bank's procedures for detecting fraud.
- 7.13 The Committee will review the Bank's procedures for the prevention of bribery.
- 7.14 The Committee will recommend to the Board the appointment and/or removal of the GCRO.

- 7.15 The Committee will provide the oversight of the strategies for capital and liquidity management, as well as for all relevant risks of the Bank, such as credit, market, operational, compliance and reputational risks, to ensure they are consistent with the Bank's risk appetite.
- 7.16 The Committee will review the Bank's procedures for maintaining IT security and will review IT related risks.
- 7.17 The Committee will ensure that the GCRO shall be given the right of direct access to the Chairman of the Board and to the Committee.
- 7.18 The Committee will issue guidelines to define credit commitments.
- 7.19 The Committee will review all credit commitments of the Bank that are in excess of the limits contained in the Bank's Management Executive Committee's terms of reference, up to such level per commitment as requires the approval of the full Board of Directors pursuant to the Central Bank of UAE's regulations on large exposure limits (as amended or updated from time to time).
- 7.20 Where the Central Bank requires the approval of the full Board for any credit commitment, the Committee shall only perform an advisory role. Where the full Board has previously approved any credit commitment, the Committee shall have the right to approve non-material amendments to that facility, including without limitation non-material pricing and covenant amendments.
- 7.21 The Committee shall have authority to approve any secondary market sales of credit commitments.
- 7.22 The Committee will review and has the authority to approve all fixed income investments of the Bank that are in excess of or otherwise outside the limits contained in the Bank's Management Executive Committee's terms of reference, up to limits set by law or regulation.
- 7.23 The Committee will review the Bank's compliance with applicable laws and regulations relating to risk management systems and procedures, including the Bank's preparedness for developments and advances in the regulatory framework for risk management and capital adequacy in the markets in which it operates.

## **8. Disclosure**

- 8.1 The Committee will review with management and approve or, if appropriate, recommend for approval by the Board before the Bank publicly discloses the following information:
- a) the statements and financial information on risk management, before they are approved by the Board;
  - b) management's discussion and analysis relating to risk management contained in the annual report and the interim financial statements, including statements on the Bank's compliance with regulatory requirements in respect of risk management; and

- c) all risk management information in material public disclosure documents including press releases, prospectuses and other public offering documents.

## **9. General Responsibilities**

- 9.1 The Committee will promote awareness throughout the Bank of a risk-based culture that balances risk minimisation with reward for risks accepted.
- 9.2 The Committee will work with the Nomination, Compensation & HR Committee to structure a regular programme of risk management briefings for the Board as a whole, to advise all directors on the developments in risk management practices in the banking industry in general and in the Bank in particular.
- 9.3 The Committee will review any issues raised by the internal audit department that impact the risk management framework or the Bank's risk management.
- 9.4 The Committee will confirm and assure the independence and integrity of the GCRO and the Committee will participate in his performance evaluation.

## **10. Self-assessment**

- 10.1 The Risk & Credit Committee will annually conduct an evaluation of its performance, to be conducted as prescribed by the Corporate Governance Committee of the Board, and the Committee itself.

These Terms of Reference are dated 22<sup>nd</sup> October 2017 and supersede any Board Risk & Credit Committee Terms of Reference or charter previously in force.