



# RISK MANAGEMENT

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Risk management lies at the core of ADCB's position as a trusted and systemically important bank in the UAE. Mitigation and management of a wide range of risks is the responsibility of every member of our organisation and underpins the Bank's strategic direction, business performance and decision-making.

Our proactive approach to risk management is driven by our core values — Integrity, Care, Ambition, Respect and Discipline — which play an integral role in aligning all concerned parties; ensuring financial stability and liquidity; and enforcing the discipline needed to protect the Bank, its reputation and its customers.



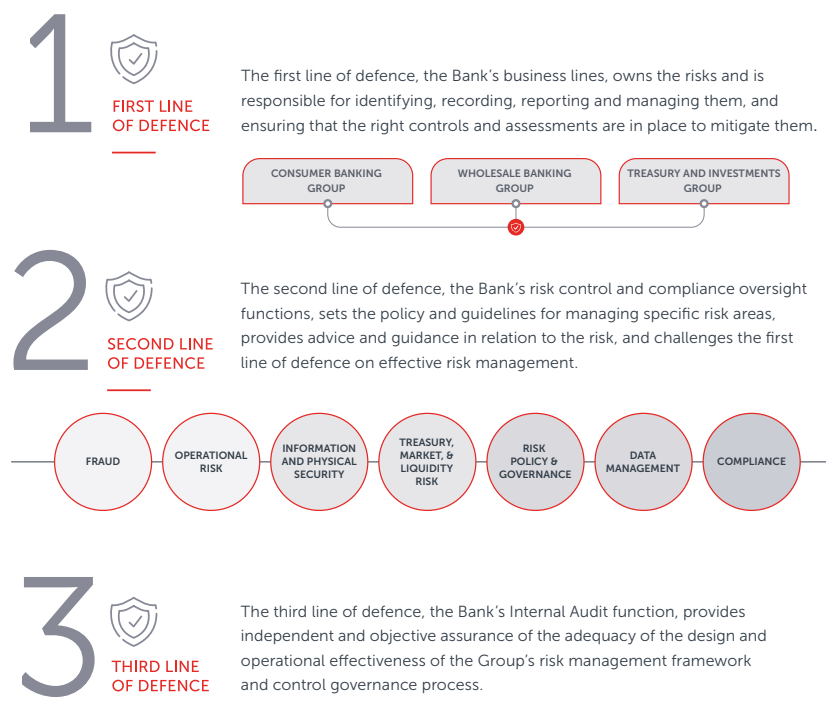
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## WINNER OF PRESTIGIOUS BUSINESS CONTINUITY AWARD

In recognition of our exceptional efforts during 2020 and in response to the COVID-19 pandemic, ADCB was awarded the 'BCI Middle East 2020 Continuity and Resilience Team Award' for 2020, the most prestigious global award for business continuity from the leading global body in the field, Business Continuity Institute.

## OUR RISK MANAGEMENT FRAMEWORK

To create a robust control environment to effectively manage risks, the Group uses an activity-based three lines of defence model. This model delineates management accountabilities and responsibilities for risk management and the control environment. It forms the basis for the Group's approach to risk management by clarifying responsibilities, encouraging collaboration, and enabling efficient coordination of risk and control activities.



### RISK GOVERNANCE ROLES & RESPONSIBILITIES

|                                |   |
|--------------------------------|---|
| BOARD OF DIRECTORS             | ESTABLISH & ENSURE STRONG CONTROL ENVIRONMENT |
| MANAGEMENT EXECUTIVE COMMITTEE | OVERSIGHT & IMPLEMENTATION                    |
| RISK MANAGEMENT FUNCTION       | GOVERNANCE & COMPLIANCE                       |
| BUSINESS LINE MANAGEMENT       | OWNERSHIP                                     |
| INTERNAL AUDIT                 | ASSURANCE                                     |

## ROBUST RISK MANAGEMENT IN 2020

In line with our focus on continuous improvement in risk management across the Bank, this year began with a review of our risk management governance structure and framework to ensure alignment with applicable regulations and international best practices. However, by the end of Q1, our efforts were dedicated to responding and adapting to the new environment brought on by the COVID-19 pandemic.

Our focus was on keeping the Bank operational, the welfare of our staff, and ensuring the appropriate control environment. To mitigate the increased operational risk resulting from COVID-19 outbreak, a cross-functional team led by Group Operational Risk was established and undertook a wide range of assessments and scenarios to understand the implications and range of potential effects that COVID-19 could have on the UAE economy and, in turn, the Bank. It also carried out a review of over 190 COVID-induced changes in business processes to ensure they remained within the Bank's risk appetite. A separate series of exercises was undertaken to assess the impact on the Credit Portfolio.

In line with the UAE Central Bank's Targeted Economic Support Scheme (TESS), ADCB acted swiftly to deploy the funds to corporate and retail customers projected to be most impacted and help protect them from the economic ramifications of the pandemic. By the end of the year, ADCB had deployed its full TESS entitlement and due to the Bank's approach to active engagement, a significant number of customers who had benefitted from deferrals were transitioning out of the scheme and making repayments.

## OPERATIONAL RISK MANAGEMENT

In 2020, we continued to enhance our approach to operational risk and factored in new/additional risks that may arise due to remote working conditions. Our business continuity management policy and tools were enacted with over 50 meetings of the Crisis Management Team held to consider the evolving environment. A dedicated team was also formed to assess and put in place new mitigating controls to support remote working conditions.



The safety of our employees and the ability to withstand a crisis are vital to the Bank. To ensure this, we enhanced our emergency response procedures and business continuity plans to enable us to continue to achieve our business objectives in the face of unexpected disruptive events, such as COVID-19. These plans were well tested in 2020 and, as a result, we are now well equipped and better placed from an ongoing resiliency perspective to cope with future disruptive events. The Bank also holds an ISO22301:2012 certification, which illustrates the high standards we employ.

During the year, we also undertook a review of our activities across key economic sectors and established a new credit limit setting framework, with the support of specialist consultants, which was approved by the Board of Directors for implementation by management.

As well as regular training to ensure wide-spread risk awareness, we maintained our process for the escalation of operational risk events across the entire network.

## DATA MANAGEMENT

In 2020, we built our data management team to provide a foundation to support ADCB's growing focus in this increasingly critical discipline, which encompasses the following elements:



### DATA PRIVACY

To protect our customers' and employees' data and to build trust with our customers



### DATA GOVERNANCE & QUALITY

To improve governance and quality of our data



### ENTERPRISE DATA PLATFORM

To improve consistency and reliability for enterprise reporting and analytics



### MASTERING DATA MANAGEMENT (PLANNING)

To centrally manage all of the core data

## INFORMATION SECURITY

The Bank's focus on steady enhancement of our information security risk framework and systems provided a strong platform to avoid and resist the increased level of cyber-attacks during the COVID-19 period. We continued to invest in people and systems to improve detection, protection and response times, as well as enhancing our threat hunting capabilities and reporting processes.

## FRAUD

Similar to the increased level of cyber-attacks, 2020 also saw an increased level of activity targeting customers and staff in relation to fraud, with sophistication increasing and aligning to COVID-19 themes. To combat these activities and minimise their impact, we issued a number of campaigns and messages to raise awareness amongst our employees and our customers on these attempted frauds, common tactics used and how they can protect themselves.

## COMPLIANCE

ADCB worked with the UAE Banker's Federation and UAE Central Bank in response to the results of the Financial Action Task Force's (FATF) mutual evaluation process carried out in the UAE. This has seen increased regulations and guidance on anti-money laundering (AML) and combating the financing of terrorism (CFT). The Bank also participated in an industry wide sanctions screening test and we are working through the results of these scenarios to fine tune our typologies and transactional monitoring systems.

We also launched a dedicated project to work with our customers and position ADCB to meet the transition away from the LIBOR reference rate<sup>1</sup> and make changes to our systems to adapt to this new regime. We created a page on our website to keep customers informed on what this transition means, highlighting expected changes in loan documentation, and creating awareness of the timelines and new terminology.

<sup>1</sup> The London Interbank Offer Rates for various applicable currencies (collectively, LIBOR) are expected to cease after the end of 2021. Regulators have been working with market participants and industry bodies to facilitate a smooth transition from LIBOR to new Risk-Free Rates (RFRs). Given the high number of LIBOR linked processes and transactions and the uncertainty and complexity surrounding the replacement RFRs, which are backward looking overnight rates (as opposed to forward looking term rates), transition is likely to be one of the more complex transformation programmes undertaken by the Bank in recent times.

## UPDATING OUR RISK PROFILE & APPETITE

To ensure full alignment with macroeconomic scenarios, shareholder objectives, regulatory changes and best-practices, each year the Bank evaluates our risk appetite through a process of systematic self-assurance, Bank-wide surveys and a comprehensive stress test exercise. Alongside the Basel Accord's three lines of defence model, this provides an overview of our current status.

The Bank's framework is built upon four principles – business models, organisational capabilities and skills, financial strength and monitoring. It guides other metrics set by management at line, business and portfolio levels, which must be consistent with the overall Group risk appetite.

Our Risk Appetite Statement encompasses all of ADCB's capabilities and uses realistically achievable parameters. Our risk appetite is established by identifying the amount and type of risks considered acceptable to deliver on our business strategy, while also ensuring that ADCB can maintain its activity in the event of unexpected circumstances. They set our tolerance for:

- Capital adequacy (normal and stress scenarios) and earnings volatility, including return on risk and shareholder returns
- Compliance and regulatory risks
- Employee conduct
- Credit concentrations in geographies, large groups, individual entities, economic sectors, revenues, the shape of the portfolio, enterprise-wide cost of risk, delinquencies and provision levels
- Default risk and credit losses
- Financial crime and resolution, anti-money laundering and political exposure
- Information and technology risks
- Market and price valuations
- Liquidity and funding gaps, liability concentrations and liquidity under stress conditions

- Market risks in the trading, investment and banking books, covering movements in interest rates, foreign exchange, equity exposures, commodities and market volatility
- Operational and reputational risks, including human resources
- External and internal ratings, which affect pricing and investor appetite

Stress testing is also an integral part of ADCB's risk appetite, and the Bank sets in absolute terms the minimum capital ratio in case of pre-defined stress scenarios.

ADCB's risk profile and appetite are approved by the Board and the Risk and Executive Committee, and then cascaded down to every department and individual throughout the organisation.

## STRENGTHENING OUR RISK CULTURE

A strong risk culture and good communication among the three lines of defence are important characteristics of good operational risk governance. ADCB's operational risk culture is driven by its core values.

A 'No surprise' and 'No blame' culture cascades from Senior Management, creating awareness throughout ADCB of the need to manage operational risk and incentives to improve the management of operational risk throughout the Bank.

During the COVID-19 period, staff members undertook various training initiatives and webinars to improve their knowledge and understanding of a range of risk-related topics. This is part of an ongoing commitment to developing and reinforcing a strong risk culture at ADCB, as a high level of awareness amongst employees helps to reduce risk across the organisation.

All staff are responsible for highlighting and managing potential hazards in the course of their work, with individual accountability fostered through a focus on our three lines of defence model. ADCB also has a number of online compulsory modules, such as the Code of Conduct, to ensure focus and awareness on various critical risk matters are maintained.

### FOCUSING ON ETHICAL BANKING

Our Bank-wide commitment to customer excellence compels us to do everything possible to protect consumers and minimise any reasons for complaint. This year, we continued our efforts to provide customers with greater clarity about what we offer, including the descriptions of our various products and more transparency about our terms and conditions, fees and charges. We also believe that by promoting better education and developing greater awareness of money management, we help to reduce financial risk.


### BASEL III COMPLIANCE

The Basel Accords focus on risk management in banks and link the business profile of banks to their risk profiles, and subsequently to regulatory capital. Hence, the Bank places a high emphasis on capital structure, capital planning and capital allocation as part of our strategic decision-making. For more about this, please see our separate Basel III – Pillar III Report.

### RISK KPIs & PERFORMANCE

| KPIs                                       | 2020               |
|--|--------------------|
| <b>CAPITAL</b>                             |                    |
| COMMON EQUITY TIER 1 (CET1) RATIO          | 13.91%             |
| <b>LIQUIDITY</b>                           |                    |
| LIQUIDITY COVERAGE RATIO (LCR)             | 156.8%             |
| <b>CREDIT</b>                              |                    |
| LOAN TO VALUE RATIO FOR MORTGAGE PORTFOLIO | 82%                |
| NON-PERFORMING LOAN (NPL) RATIO            | 6.04%              |
| PROVISION COVERAGE RATIO                   | 94.3% <sup>1</sup> |
| PROVISION COVERAGE RATIO WITH COLLATERAL   | 151%               |
| COST OF RISK                               | 1.45%              |

<sup>1</sup> Includes FV adjustments on loans and advances of AED 3.9 billion in Dec'20 (for stage 1 and stage 2 accounts only) for computing the coverage ratio.

 In 2020, ADCB met all its regulatory requirements against a backdrop of challenging economic conditions caused by the COVID-19 pandemic and has maintained strong buffers with respect to liquidity and capital to cope with any potential future events.

## EXTERNAL RISK SCENARIOS

The Bank identifies and actively monitors a range of external risks that have the potential to lead to a significant, unexpected adverse outcome for ADCB, or its ability to meet its strategic objectives. These external risks, along with potential impact and mitigation strategy, are summarised as follows.

| EXTERNAL RISK  | DEFINITION AND POTENTIAL IMPACT  | MITIGATION STRATEGY   |
|--|--|---|
| <b>MACROECONOMIC CONDITIONS IN THE OPERATING MARKETS</b> | <p>COVID-19 has resulted in volatility in the price of oil, affecting the UAE economy and those of other GCC countries, as well as a decline in underlying demand for goods and services.</p> <p>Actual GDP growth rates turned negative in 2020 and are forecasted to remain low with limited credit growth.</p>  | <p>The Bank refined its risk appetite to the industries with which it deals and will continue to adhere to the credit risk metrics already in place that address various portfolio dimensions. A number of assessments and scenarios were also undertaken to right size our provision levels and ensure our capital ratios remain strong.</p>   |
| <b>GEOPOLITICAL RISK</b>                                 | <p>This risk could stem from one of many sources unrelated to the Bank and its business. Geopolitical tension remains a persistent issue in the region.</p> <p>In the past 12 months, we perceive this risk within the Middle East has reduced, albeit trade tensions globally have increased (notably USA &amp; China).</p>   | <p>We regularly monitor geopolitical and economic situations around the world.</p> <p>As part of our Asset and Liability Committee (ALCO) deliberations, we factor in geopolitical risks as part of overall liquidity considerations. ADCB's Chief Economist assesses the economic impact of changing geopolitical risks and provides vital inputs to drive our strategy. Where necessary, we adjust our country limits and exposures to reflect our appetite and to mitigate these risks.</p>  |
| <b>REGULATORY AND LEGAL RISKS TO OUR BUSINESS MODEL</b>  | <p>New regulatory requirements may affect our business model and profitability. Should a regulatory change reduce our ability to meet any of our customers' needs or to achieve fair customer outcomes, we may experience increased costs and reputational damage.</p> <p>Moreover, the inability to satisfy our customers would cause the Bank to fall short of its strategic objectives, which could hurt earnings, liquidity, capital and shareholder confidence.</p> <p>The risk of failure due to external unanticipated regulatory and legal changes affects all our businesses.</p> <p>In the past 12 months, we perceive this risk has increased somewhat due to a number of new regulations being issued by the UAE Central Bank and the ongoing development of its enforcement department.</p> | <p>We strive to ensure that the Bank's views are considered when UAE regulatory policy is developed. ADCB chairs, or is a member of, several UAE Banks Federation forums.</p> <p>Internally, we analyse all new draft regulations or circulars to measure their impact as well as to ensure they can be implemented effectively.</p> <p>We also confirm that our capital and liquidity plans anticipate the potential effects of any changes.</p> <p>We continuously monitor and expand our capital allocation and liquidity management disciplines to incorporate future increased capital and liquidity requirements and to drive appropriate risk management and mitigating actions.</p> |
| <b>HEALTH OF STAFF &amp; COMMUNITY</b>                   | <p>The global pandemic has highlighted the risks that public health issues present to our employees and customers, and the potential impact on our operations. The Bank has shown its ability to adapt rapidly to fast-changing conditions and to implement effective measures to ensure a safe work environment.</p>  | <p>The Bank put in place remote working capability to ensure our staff and those in more vulnerable categories are able to continue to work remotely/from home. Sanitation requirements were introduced into our premises in terms of specialised cleaning/thermal scanners/maintaining social distance within the office environment via lower capacity on each floor/team operating on a rotational basis. A number of communications were also sent to staff during the year covering health tips and highlighting governmental requirements, and supporting work-life balance and mental health given isolation impacts.</p>  |
| <b>CYBER THREATS</b>                                     | <p>Threats from external parties related to cyber/phishing/fraud have increased in the past 12 months.</p>   | <p>We have increased the level of communications to our customer base and staff to be wary of these attempts and provided examples of how these attempts are undertaken to build awareness of the risks. The Bank continues to invest in tools, systems, penetration testing and vendor support to ensure our perimeter and systems remain strong against these attacks.</p>  |

# OUR PRINCIPAL RISKS

Our Principal Risks are frequently reviewed and updated, particularly in a challenging and rapidly evolving environment. This year, we added seven new metrics and enhanced the measurements of a further 10 metrics across the 10 Principal Risks. The new metrics reflected more heightened attention to credit risk, business continuity management, data privacy and cyber security threats. They ensure the Bank's full enterprise risk profile is measured, monitored and aligned with our overall Group strategy.

## OUR STRATEGIC PILLARS

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1. GENERATE SUSTAINABLE PROFIT GROWTH THROUGH A UAE-CENTRIC APPROACH
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2. SUSTAINABILITY THROUGH LIABILITY GROWTH AND FUNDING DIVERSIFICATION
- 




3. SUPERIOR CUSTOMER EXPERIENCE THROUGH SERVICE EXCELLENCE
- 

4. EFFECTIVE RISK-TAKING AND MANAGEMENT IN LINE WITH PRE-DEFINED RISK APPETITE
- 

5. EXPLOITATION OF DIGITAL FOR GROWTH AND EFFICIENCY — LEVERAGING DATA ANALYTICS


Key: Directional change from 2019 in terms of risk dimension/concern




| PRINCIPAL RISK   | DEFINITION   | APPROACH  | OVERSIGHT   |
|--|--|---|---|
| <b>CAPITAL RISK</b><br><br><b>STRATEGIC PILLAR IMPACTED:</b><br><b>1 / 4</b><br><br>                        | Potential for:<br>(i) insufficient level or composition of capital to support normal activities or stressed conditions; and (ii) risk of loss arising from the Bank failing to maintain the level of capital required by prudential regulators and other key stakeholders to support operations and risk appetite. | We maintain a healthy and active approach to capital management, including the maintenance of buffers sufficient to support our strategic aims and maintenance of an investment-grade rating.<br><br>ADCB is well-capitalised and regularly runs stress tests to ensure sufficient capital coverage at all times.<br><br>We manage capital utilisation, and business growth within the risk-weighted asset (RWA) target ranges reflected in our business plans. Such plans also target stability of earnings. We grow our business by targeting recurring economic profit commensurate with risks being taken and returns expected.   | <b>ACCOUNTABLE EXECUTIVES:</b><br>Group Chief Financial Officer, Group Chief Risk Officer<br><br><b>ACCOUNTABLE COMMITTEES:</b><br>PMC, BACC, BREC, Board |
| <b>COMPLIANCE/REGULATORY RISK</b><br><br><b>STRATEGIC PILLAR IMPACTED:</b><br><b>1 / 2 / 3 / 4</b><br><br> | Potential for impact and exposure to regulatory sanctions, or loss from a failure to comply with regulatory requirements, laws or industry standards.  | We are committed to upholding compliance standards, laws, regulations and industry standards, as well as internal policies and sound corporate governance principles. Identified breaches are remedied as soon as practicable. The Bank has no appetite for deliberate or negligent non-compliance.   | <b>ACCOUNTABLE EXECUTIVES:</b><br>Group Chief Compliance Officer, Group Chief Risk Officer<br><br><b>ACCOUNTABLE COMMITTEES:</b><br>MEC, BACC, Board      |
| <b>CONDUCT RISK</b><br><br><b>STRATEGIC PILLAR IMPACTED:</b><br><b>1 / 3 / 4</b><br><br>                  | Potential for detriment to retail customers, corporate clients or market integrity from the inappropriate supply of financial services, or from a failure on our part to abide by the Bank's Code of Conduct Policy and/or applicable laws or regulations, including insider trading and anti-bribery risk.        | We maintain the standards in our Code of Conduct and core values and ensure we always 'Do the Right Thing' in the way we conduct business.<br><br>The Bank expects employees to conduct themselves with a high degree of integrity and to strive for excellence in the work they perform and the outcomes they achieve.<br><br>The appetite for behaviours that do not meet these standards is very low. ADCB takes any breaches of its Code of Conduct very seriously.<br><br>We have clearly defined policies on anti-bribery and corruption, anti-money laundering and insider trading. We are committed to creating a safe working environment for all of our staff, where they are protected from physical and psychological harm. We have zero tolerance for practices or behaviours that could be expected to lead to staff being harmed while at work.<br><br>We are also committed to treating our customers fairly by operating with transparency and providing clear information on products and services, managing conflicts of interest related to these services, avoiding mis-selling and having a rigorous process to ensure the products and services we sell are suitable to customers. | <b>ACCOUNTABLE EXECUTIVES:</b><br>Management Executive Committee Members<br><br><b>ACCOUNTABLE COMMITTEES:</b><br>MEC, NCHRG, BACC, Board                 |


## Our Principal Risks (continued)


| PRINCIPAL RISK | DEFINITION | APPROACH | OVERSIGHT |
|----------------|------------|----------|-----------|
|----------------|------------|----------|-----------|

|  |   |   |   |
|--|---|---|---|
| <p><b>CREDIT RISK</b></p> <p><b>STRATEGIC PILLAR IMPACTED:</b><br/>1 / 4</p>  | <p>Potential for financial loss due to the failure of a customer to meet the agreed obligations to pay the Bank. It also includes concentration risk (increased exposure to large client groups, sectors or geographies) and decreases in credit quality.</p> | <p>We manage our credit exposures by having a sound analytical framework, focusing on analysis of cashflows and considering the legal framework in which the Bank and borrower operate. We apply a set of criteria and policies to lending that means we only deal with clients with good creditworthiness. This ensures facilities are appropriately secured, wherever feasible.</p> <p>ADCB Group submitted a special ICAAP and stress test report post-merger to the UAE Central Bank. The results were above the regulatory thresholds.</p> <p>We have a greater appetite for risk in industries we better understand and have the insights, capability and capacity to manage and monitor.</p> <p>We remain a relationship-driven business rather than pursuing opportunistic transactions.</p> <p>Wherever possible, collateral is taken to reduce unsecured lending.</p> | <p><b>ACCOUNTABLE EXECUTIVES:</b></p> <p>Group Chief Credit Officer, Business Heads for Consumer &amp; Wholesale Banking, Group Chief Risk Officer</p> <p><b>ACCOUNTABLE COMMITTEES:</b></p> <p>MRCC, BACC, BREC, Board</p> |
|--|---|---|---|

|  |  |   |   |
|--|--|---|---|
| <p><b>FINANCIAL CRIME RISK</b></p> <p><b>STRATEGIC PILLAR IMPACTED:</b><br/>1 / 2 / 3 / 4</p>  | <p>Potential for legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating, but not limited to, international sanctions, anti-money laundering and anti-bribery and corruption.</p> | <p>We have no tolerance for breaches in laws and regulations related to financial crime, recognising that while incidents are unwanted, they cannot be entirely avoided.</p> <p>The Bank has no appetite for any fraud or corruption perpetrated by its staff. Any and all allegations of suspected fraud or corruption are taken seriously, as set out in the Code of Conduct.</p> | <p><b>ACCOUNTABLE EXECUTIVES:</b></p> <p>Chief Compliance Officer, Group Chief Risk Officer, Head of Fraud &amp; Investigations</p> <p><b>ACCOUNTABLE COMMITTEES:</b></p> <p>MEC, BACC, Board</p> |
|--|--|---|---|

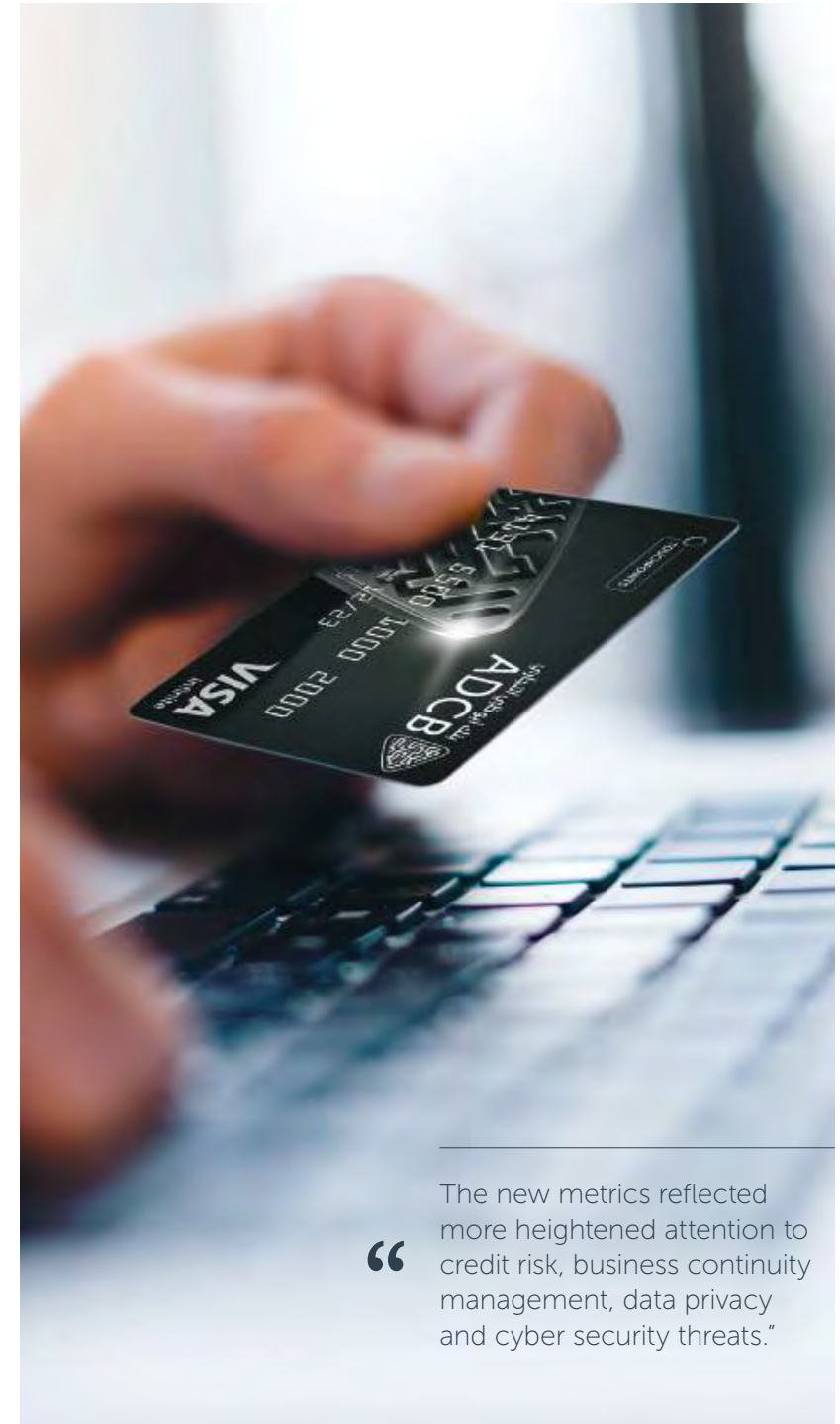
| PRINCIPAL RISK | DEFINITION | APPROACH | OVERSIGHT |
|----------------|------------|----------|-----------|
|----------------|------------|----------|-----------|

|   |   |  |   |
|---|---|--|---|
| <p><b>INFORMATION SECURITY AND TECHNOLOGY RISK</b></p> <p><b>STRATEGIC PILLAR IMPACTED:</b><br/>1 / 2 / 3 / 4 / 5</p>  | <p>Potential for loss from a breach of confidentiality, integrity or availability of the Bank's information systems and assets through cyber-attack, insider activity, error or control failure; this includes the risk of loss of confidential information plus the management and quality of data held within systems which may lead to financial losses.</p> | <p>We have a minimal appetite for risk concerning the availability of critical business systems.</p> <p>Service availability requirements have been identified and agreed within each business area.</p> <p>We have no appetite for damage to our assets from threats arising from malicious attacks. To address this risk, we have strong internal processes and robust technology controls.</p> <p>Our appetite remains low for IT system-related incidents that are generated by improper project management practices, excluding the unknowns before any 'go live'.</p> <p>ADCB provides a secure environment for its people and assets by ensuring its physical measures meet high standards.</p> <p>We have no appetite for the failure of physical security measures. We are committed to ensuring that information is authentic, appropriately classified, properly conserved and managed in accordance with legislative and business requirements.</p> <p>We have no appetite for the deliberate misuse of information. Nor do we have any appetite for compromise of processes or data integrity issues that may cause limited or erroneous data to adversely affect our ability to make correct business decisions or jeopardise the integrity of management and regulatory reporting, which may also lead to financial loss.</p> <p>We mitigate these risks at all times, balancing the cost of maintaining a controlled environment against the impact and likelihood assessment of a risk occurring.</p> | <p><b>ACCOUNTABLE EXECUTIVES:</b></p> <p>Head of Information and Physical Security Governance, Head of Data &amp; Governance, Head of Technology Services, Group Chief Risk Officer</p> <p><b>ACCOUNTABLE COMMITTEES:</b></p> <p>MEC, BREC, Board</p> |
|---|---|--|---|

|   |   |   |  |
|---|---|---|--|
| <p><b>LIQUIDITY AND FUNDING RISK</b></p> <p><b>STRATEGIC PILLAR IMPACTED:</b><br/>1 / 2 / 4</p>  | <p>Potential that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replenish funds when they are withdrawn.</p> <p>Funding risk is the risk that ADCB will be unable to achieve its business plans due to its capital position, liquidity position or structural position.</p> | <p>We actively manage our liquidity and funding base to ensure that we always have sufficient liquidity to meet our liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.</p> <p>We do not have any appetite for the loss of our investment-grade rating and are mindful of managing liquidity and funding within the constraints of Basel III, regulator obligations and the desire to be the last bank standing.</p> | <p><b>ACCOUNTABLE EXECUTIVES:</b></p> <p>Treasurer, Head of Market Risk, Group Chief Risk Officer</p> <p><b>ACCOUNTABLE COMMITTEES:</b></p> <p>ALCO, BREC, Board</p> |
|---|---|---|--|

## Our Principal Risks (continued)

| PRINCIPAL RISK  | DEFINITION   | APPROACH  | OVERSIGHT   |
|---|--|---|---|
| <p><b>MARKET RISK</b></p> <p>STRATEGIC PILLAR IMPACTED:<br/>1 / 2 / 4</p>                  | <p>Potential that changes in market prices, such as interest rates, equity prices, foreign exchange rates, commodity prices and credit spreads (not related to credit standing) will affect the Bank's income, assets/liabilities or the value of its holdings of financial instruments.</p> | <p>We control our trading portfolio and activities to ensure that market risk losses (financial or reputational) do not cause material damage to the Bank. Our appetite across six key categories is laid out within the market risk appetite framework covering: interest rate risk; foreign exchange risk; equity exposure risk; commodity risk; volatility risk; and liquidity risk. Specific limits are established based on trading book, investment book and banking book activities.</p>   | <p><b>ACCOUNTABLE EXECUTIVES:</b><br/>Treasurer, Head of Market Risk, Group Chief Risk Officer</p> <p><b>ACCOUNTABLE COMMITTEES:</b><br/>ALCO, BREC, Board</p>  |
| <p><b>OPERATIONAL RISK</b></p> <p>STRATEGIC PILLAR IMPACTED:<br/>1 / 2 / 3 / 4 / 5</p>    | <p>Potential for loss resulting from inadequate or failed internal processes, people and systems, or the impact of external events. This includes fraud, technology, outsourcing and legal risk.</p>   | <p>Operational risk is a fundamental element of the Bank's approach to risk and impacts its banking products, activities, processes and systems. Our framework ensures a consistent approach and supports business objectives, reinforces a proactive risk management culture, and continuously improves ADCB's control environment.</p> <p>We manage operational risk by ensuring accountability and ownership across the Bank. We employ tools to reduce the probability of the occurrence of operational risk events that could threaten the Bank's reputation, the quality of our services and products, or the efficiency of our processes.</p> <p>We monitor the stability of our systems, the effectiveness of business continuity planning and disaster recovery to ensure the level of service we offer our customers, and the expectations of regulators, are never compromised.</p> <p>We have adopted five levels of operational risk severity ratings – Minor, Low, Moderate, Major and Extreme – whereby Minor and Low risks lie within the Bank's risk appetite and Extreme constitutes a threat to the Bank's ability to continue its operations.</p> <p>The Bank mitigates these risks at all times, balancing the cost of maintaining a controlled environment against the impact and likelihood of a risk occurring.</p> | <p><b>ACCOUNTABLE EXECUTIVES:</b><br/>Business Heads, Head of Operational Risk, Head of Fraud &amp; Investigations, Group Chief Risk Officer</p> <p><b>ACCOUNTABLE COMMITTEES:</b><br/>Operational Risk Working Group, MEC, BACC, BREC, Board</p> |
| <p><b>REPUTATIONAL RISK</b></p> <p>STRATEGIC PILLAR IMPACTED:<br/>1 / 2 / 3 / 4 / 5</p>  | <p>Potential adverse effects that can arise if the Bank's reputation is damaged due to factors such as unethical practices, breach of law, regulation, customer dissatisfaction and complaints or adverse publicity.</p>   | <p>We protect the Bank from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed by the appropriate level of management and governance oversight. We have a very low appetite for material legal cases against the Bank and, where appropriate, will adequately make provisions for the same in a timely manner.</p>   | <p><b>ACCOUNTABLE EXECUTIVES:</b><br/>Management Executive Committee Members</p> <p><b>ACCOUNTABLE COMMITTEES:</b><br/>BACC, Board</p>  |



“The new metrics reflected more heightened attention to credit risk, business continuity management, data privacy and cyber security threats.”