



Board Risk Policy Committee Mandate Gulf International Bank KSA

Board Risk Policy Committee Mandate

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1 Introduction

1.1 Purpose

1.1.1 This is the mandate ("the Mandate") for the Board Risk Policy Committee ("the Committee") of the Board of Directors ("the Board") of Gulf International Bank KSA ("the Bank"). The primary objective of the Committee is to assist the Board in fulfilling its oversight responsibilities in respect of setting the Bank's overall risk appetite, parameters and limits within which it conducts its activities.

1.1.2 The mandate is owned by the Governance function which shall be responsible for updating it in co-ordination with the Chief Risk Officer, as well as with the Committee members.

1.2 Review and Update

1.2.1 The Board, in consultation with the Committee members, shall review and endorse the recommended changes to the Mandate on an annual basis. The annual review of the Mandate shall be carried out by the Governance unit jointly with the Chief Risk Officer to ensure that the Mandate continues to reflect the current processes and guidance utilised. The Board will need to approve any amendments to the Mandate that stem from the review.

1.2.2 The Governance function in co-ordination with the Chief Risk Officer shall provide an update to the Committee members on new regulatory requirements applicable to the Committees' mandate along with their recommended changes, if any.

1.2.3 Any amendment to this Mandate shall be endorsed and recommended by the Committee members and sent to the Board of Directors through the Governance, Nomination & Remuneration Committee for their review and approval.

1.3 Evaluation Process

The Committee shall prepare and review with the Board an annual performance evaluation of the Committee, which will compare the Committee's performance with the below requirements. The report must be in the form of a written report provided at the regularly scheduled Board meetings.

2 Delegation of Power

The Committee has been established pursuant to the Articles of Association of the Bank ("the Articles") and the Board has delegated certain powers to the Committee pursuant to Article 26 of the Articles.

3 Composition

The Committee shall comprise of at least three directors. The Committee shall appoint a Chairman who shall preside over the meetings.

Members of the Committee shall be appointed by the Board of Directors for a period of three years. However, a member's tenure may be less than three years where his / her tenure as a Board member is less than this period.

The Bank must get Saudi Central Bank's (SAMA's) approval prior to the appointment of Board members and the members of the Board committees.

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4 Removal or Resignation

If a member of the Committee retires, is removed or resigns from the Board, that member ceases to be a member of the Committee. The Board shall then appoint a successor.

5 Invitees

- 5.1 The Committee may invite any person, it deems necessary, to attend a meeting of the Committee.
- 5.2 The invitees cannot be present at any discussion in relation to themselves unless the Committee has invited them to discuss these issues with them. None of the invitees shall be considered members of the Committee.
- 5.3 The Group Chief Risk Officer and the Group Head of Enterprise Risk Management and Analytics shall be permanent invitees of the Committee.

6 Secretary

- 6.1 The Chief Risk Officer or his designate shall act as the Secretary to the Committee and shall keep appropriate records of all meetings of the Committee as well as minutes of the proceedings and all decisions made.
- 6.2 The Secretary will only be present in an administrative capacity and will only participate in the discussions of the Committee if he is invited to participate in such discussions. The Secretary will not participate in any decision or vote of the Committee.

7 Meetings

7.1 Frequency

- 7.1.1 The Committee shall meet at least four times a year.
- 7.1.2 Any member of the Committee, in consultation with the Chairman, may call for a meeting.

7.2 Calling Meetings and Notice

- 7.2.1 A notice of each meeting confirming the date, time, venue and agenda must be forwarded to each member of the Committee at least five working days before the date of the meeting (less, in case of emergency). The notice for the Committee members will include relevant supporting papers for the agenda items to be discussed.
- 7.2.2 Meetings may be held in person or via teleconference or in such manner as the Committee shall from time to time determine. Participation in Meetings via teleconference or any electronic or virtual means of communication that permits all Directors present to be heard by all others present, is regarded as attendance and may be recorded as such. The Chairman may consider, for purposes of determining a quorum, that any Director participating by telephonic or electronic means is present during the entire meeting.
- 7.2.3 Resolutions by Circulation - When necessary, the Committee may make resolutions by way of consultation via correspondence through letters / electronic mail and such decisions taken in this manner, unless a member has requested in writing that the Committee be convened to deliberate on such resolutions, shall be recorded in the minutes of the subsequent meeting of the Committee. Notwithstanding that, a decision will be deemed to have been approved, if a

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decision of the majority of the members of the Committee (entitled to vote) has been received.

7.3 Quorum and Voting

7.3.1 A quorum will comprise of the majority of the Committee members. In the absence of the Committee's Chairman or an appointed delegate, the Committee will elect one of its members to act as Chairman for that meeting.

7.3.2 Each member will have one vote and the Chairman of the Committee will not have a second or casting vote.

7.3.4 The invitees to the meeting will not have the right to vote on any matters being discussed by the Committee.

7.4 Minutes

Minutes of proceedings and resolutions of Committee meetings will be kept by the Secretary. Minutes will be distributed to all Committee members after the Committee Chairman has given the preliminary approval. Minutes, agenda and supporting papers will be made available to any director upon request to the Secretary, providing no conflict of interest exists.

8 Authority & Responsibilities

8.1 Resources

8.1.1 The Committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of external advisors as it deems necessary or appropriate, without seeking the approval of the Board or management. The Bank shall provide appropriate funding for the compensation of any such persons.

8.1.2 The internal audit function is responsible for providing reliable and timely information to the Board, the Committee and senior management concerning the quality and effectiveness of, and the level of adherence to, the Bank's control and compliance procedures and risk management systems.

8.1.3 The Committee may meet with external advisers without the management being present.

8.2 Authority & Responsibilities

8.2.1 The Committee shall have the following authority and responsibilities:

Risk Management Function:

The function of the Committee is oversight. The role of the Committee is to act as the agent of the Board in ensuring that the Bank has an effective risk management framework in place and that all risk controls operating throughout the Bank are in accordance with the regulatory requirements and best practice standards for management of risks in banks.

The Committee shall, on behalf of the Board, monitor the Bank's implementation of the policies, procedures and practices for the management of key risks under the Bank's risk management framework. Accordingly, it shall review (at least annually) and recommend to the Board for approval the Bank's risk management policies and risk appetite and tolerance to ensure that such policies remain appropriate and prudent.

In general, the Committee shall on an ongoing basis:

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- Discuss risk strategies, both at an aggregated basis and by type of risk and make recommendations to the Board thereon;
- Ensure that policies in respect of management of all significant risks are drafted and implemented appropriately;
- Oversee that the Bank has in place processes to promote the Bank's adherence to the approved risk policies;
- Recommend the Bank's risk appetite to the Board and ensure that the Bank's risk management framework is aligned with the Bank's strategic, capital strategies and financial plans and compensation practices and includes detailed policy that sets specific bank-wide prudential limits on the Bank's activities;
- Ensure that the Bank has in place appropriate methodology to determine the Risk Adjusted Return on Capital (RAROC) based on both regulatory and economic capital;
- Ensure that a sound risk management culture is established throughout the Bank;
- Ensure that appropriate limits are established that are consistent with the Bank's risk appetite, risk profile and capital strength, and that are understood by, and regularly communicated to relevant staff;
- Ensure that roles and responsibilities for risk management are clearly defined, Head of Risk Management is in supporting or monitoring role and independent of business development;
- Ensure that management reports significant excesses and exceptions, as and when they arise, to the Committee for information and review;
- Ensure that, on a timely basis, management informs the Committee of all significant risks arising and it is comfortable with management's responses and action taken to address such findings;
- Remain informed, on an ongoing basis about material risks as financial markets, risk management practices and the Bank's activities evolve;
- Ensure that accountability and lines of authority are clearly delineated;
- Review the changes in risk profile arising from new lines of business or activities and ensure that the infrastructure and internal controls necessary to manage any related risks, are in place; and
- Review the Bank's risk profile and significant risk positions.

In relation to **Credit Risk Management**, the responsibilities of the Committee include:

- Assisting the Board in ensuring that the Bank has an adequate Credit Risk Management framework in place to realise the overall risk strategy and risk appetite;
- Endorsing the policies governing Credit Risk Management, and ensuring sufficient resources and expertise to effectively implement the framework;
- Reviewing the expected impacts of current / potential macro-economic risk scenarios on

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the credit portfolio;

- Reviewing regular reports and stress testing results on the Bank's credit positions;
- Monitoring the performance and quality of the Bank's credit portfolio by requesting management to present a break-up of the credit portfolio on quarterly basis showing the following:
 - By region at commercial & total portfolio levels;
 - By rating at commercial & total portfolio levels;
 - Credit Concentrations;
 - Top exposures by limits, utilisation and industry / sector;
 - Non-performing loans (NPLs), related provisions and NPL coverage;
 - Weighted Average Probability of Default;
 - Analysis of collaterals pledged (after haircut);
 - Industry / sectors analysis showing breaches to industry caps (if any);
 - Largest exposures in specific industries as deemed appropriate; and
 - Classified obligors.
- Endorsing industry and country concentration limits; and
- Directing management to carry out rapid portfolio reviews in response to global / regional stress events or economic conditions and review the results and proposed management actions.

In relation to **Market Risk Management**, the responsibilities of the Committee include:

- Oversee the Bank's overall market risk strategy, market risk appetite and market risk policy document while ensuring it has an adequate market risk management and market risk control framework in place to realise the overall risk strategy and risk appetite;
- Assess periodic reports on the Bank's market risk profile and market risk positions (VaR);
- Reviewing the expected impacts of current / potential macro-economic risk scenarios from a market risk perspective;
- Ensure compliance with the regulator's capital adequacy regulations on market risk as well as the internal market risk limits structure; and
- Assess the Bank's trading strategy, investment objectives and plans related to the market risk positions.

In relation to **Liquidity Risk Management**, the responsibilities of the Committee include:

- Articulating the Bank's liquidity risk appetite and tolerance that is appropriate for the Bank's business strategy and ensuring that it is communicated to all levels of management (i.e. thresholds for Liquidity Coverage Ratio, Net Stable Funding Ratio, Survival Time Horizon and Fund-raising capacity from Liquidity and Fixed Income Investment Portfolio).
- Reviewing the expected impacts of current / potential macro-economic risk scenarios from a liquidity risk perspective;
- Ensuring that any authority that is delegated to the Bank's Asset and Liability Committee

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("ALCO") to carry out some of its responsibilities for liquidity risk management is adequately executed and overseeing ALCO's performance.

- Ensuring the competence of senior management and appropriate personnel in measuring, monitoring and controlling liquidity risk in terms of expertise, systems and resources, and in taking appropriate and prompt remedial actions to address concerns when necessary.
- Reviewing and endorsing, on an annual basis at least, the liquidity risk strategy and other significant liquidity risk management policies and procedures [including Internal Liquidity Adequacy Assessment Process ("ILAAP"), contingency funding planning and liquidity stress testing framework], and ensuring that senior management translates the Board's decisions into clear guidance and operating processes (in the form of controls) for effective implementation.
- Reviewing regular reports and stress testing results on the Bank's liquidity positions and becoming fully aware of the Bank's performance and overall liquidity risk profile.
- Understanding, supported by senior management of the Bank, how other risks (credit, market, operational and reputation risks) interact with liquidity risk and affect the overall Liquidity Risk Management Strategy, ensuring that the interaction of these risks is considered and taken into account by the relevant Board-level committees and Risk Management function within the Bank.

In relation to **Operational Risk Management**, the responsibilities of the Committee include:

- Periodically reviewing and evaluate the Bank's policies and practices with respect to operational risk assessment of the Bank's methods for identifying, managing and reporting operational risks;
- Reviewing and evaluating the effectiveness of the operational risk assessment processes and recommending improvements, where appropriate;
- Reviewing, as appropriate, management's actions with respect to key operational risk areas identified through the operational risk framework;
- Continually obtaining reasonable assurance from the Bank's senior management that all known and emerging risks have been identified and mitigated or managed;
- Reviewing the effectiveness of the Three Lines of Defence model adopted by the Bank and receive reports on the results of the self-assessment for each First Line of Defence (as discussed in the Business Risk and Compliance Committee and submitted to the Operational Risk Management Committee).

In relation to **Internal Capital Adequacy Assessment Process**, the responsibilities of the Committee include:

- Ensuring adequate capital management policies are in place; also review and endorse these policies on an annual basis;
- Understanding the material risks that are impacting the business, and also having an awareness of emerging risks and vulnerabilities;
- Reviewing and endorsing the capital plan and corresponding capital actions; and
- Ensuring that the Bank has adequate capital proportionate to its risk profile under normal

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and adverse conditions.

In relation to **Stress Testing Framework**, the responsibilities of the Committee include:

- Endorsing the policies and procedures governing the stress testing program and ensuring sufficient resources and expertise to effectively implement the program;
- Ensuring that the design of the stress testing program is consistent with the Bank's risk appetite and is appropriate to the nature, scale, complexity of its risk-taking activities and overall business strategy;
- Ensuring that views and inputs from relevant functions and departments are considered in the stress testing program;
- Providing constructive challenge on the results of stress tests, scenarios, key assumptions and methodologies used in the stress tests;
- Reviewing the appropriateness of management actions proposed by senior management to mitigate potential vulnerabilities, in line with SAMA regulations;
- Endorse management actions; and
- Commissioning regular stress testing program in accordance with SAMA regulations.

In relation to **Reputational Risk Management**, the responsibilities of the Committee include:

- Overseeing the overall reputational risk management processes; and
- Conducting a post-event review, in coordination with the Bank's senior management, to identify any lessons learnt, or problems and weaknesses revealed, from the event in order to take appropriate actions to improve the Bank's approach for managing reputational risk.

In relation to **Information Technology Risk Management**, the responsibilities of the Committee include:

- Review and endorsement of the Information Technology Risk Strategy and Policies;
- Receive regular updates on the emerging Information Technology Risks of the Bank; and
- Receive regular updates on the Bank's disaster recovery capabilities.

In relation to **Information and Cyber Security Risk Management**, the responsibilities of the Committee include:

- Reviewing and evaluating the implementation of the Information and Cyber Security Risk Management Program as well as receiving updates on projects related to the implementation of Information Security;
- Reviewing and endorsing Information and Cyber Security Risk Management Policies to ensure compliance with regulatory and leading industry standards;
- Receiving regular updates Information and Cyber Security Risk Management as well as periodic updates on the results of the review of the Bank's controls to prevent, detect and respond to cyber-attacks or data breaches; and
- Review, as appropriate, management's actions with respect to key Information and Cyber

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Security risk areas identified through the operational risk framework.

In relation to **Strategic Risk Management**, the responsibilities of the Committee include:

- Reviewing and endorsing the Bank's Strategic Risk Management Policies and in doing so:
 - Receive, as appropriate, updates on the Bank's Key Strategic Risk; and
 - Proposed mitigating actions proposed by the Bank's management in response to these risks.

In relation to **Other Risks Management**, the responsibilities of the Committee include:

- Regularly monitor and ensure compliance of the Bank's with the adopted risk strategy by reviewing reports prepared by the Bank's Risk Management Division, and any other information the Committee considers necessary and in doing so:
 - Sharia non-compliance Risk: receiving updates (as appropriate) on all matters relating to Sharia requirements, Sharia governance or Sharia non-compliance risks;
 - Compliance, Anti Money Laundering (AML) and Combating the Financing of Terrorism (CFT) Risks: receiving updates (as appropriate) on all matters relating to Compliance, AML and CFT risks;
 - Review other major risk concentrations as deemed appropriate; and
 - Discuss any changes by the regulators or governmental agencies and any published reports that raise risk issues material to the Bank.

In relation to **Capacity Management (resourcing & availability of specialised skills) of the Risk Management Function**: the responsibilities of the Committee include receiving regular updates as part of the CRO update on matters relating to capacity management and providing their recommendations / guidance.

In relation to **Portfolio Analytics Capabilities (systems & preparation of appropriate MIS) of the Risk Management Function**: the responsibilities of the Committee include receiving regular updates as part of the CRO update on matters relating to portfolio analytics capabilities and providing their recommendations / guidance.

9 Report to the Board

- 9.1 The Committee Chairman or delegate shall regularly report to the Board about Committee activities, issues and related recommendations on the matters set out in Section 8 of this Mandate.
- 9.2 The Committee may delegate the role of preparing any such report to the management provided that any such report would be considered, reviewed and approved by the Committee before being sent to the Board.