

# RISK MANAGEMENT APPROACH & OVERSIGHT

The Board of Directors is responsible for the overall effective risk management and has a comprehensive risk management and governance framework in place to effectively identify, evaluate and mitigate all risks undertaken in the achievement of long-term strategic objectives of the Bank. The robust risk management platform ensures that sustainable value is created for all stakeholders. The Board of Directors monitors the implementation of risk strategy, approves the risk acceptance criteria while ensuring that risks are managed within tolerance level.

## RISK GOVERNANCE

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RISK IDENTIFICATION	RISK EVALUATION & MEASUREMENT	RISK MANAGEMENT & RESPONSE	MONITORING & REPORTING
Adequate and timely risk identification to ensure that risks are appropriately categorized.	Risks are evaluated in terms of their qualitative and quantitative impact.	Mitigation plans are deployed and tracked against predetermined timelines with the necessary escalation processes in place	Clear and concise risk reporting requirements developed to put management and the BoD in a position of making effective and timely decisions.

The Bank's comprehensive and integrated risk management governance structure consists of Board and management sub-committees, with varying areas of responsibilities, in order to maintain sustained focus on monitoring and governance over differing categories of risk within the following risk universe:

## Allied Bank's Risk Universe

Credit Risk	Market Risk	Operational Risk	Liquidity Risk	Capital Adequacy Risk	Strategic Risk	Technology Risk	Reputational Risk
Risk that the Bank will incur losses owing to the failure of an obligor or counterparty to meet its obligation to settle outstanding amounts.	Risk of a potential decrease in stakeholder s' value due to adverse changes in market prices and rates, negatively impacting assets and liabilities.	Risk of direct or indirect losses resulting from inadequate or failed internal Processes, People, Systems or external events.	Risk that the Bank is unable to meet its financial liabilities as they fall due.	Risk that the Bank has insufficient capital to support its growth or is not able to meet the statutory defined capital requirements.	Risk of an adverse impact on strategic goals.	Risk arising from non -availability of IT systems and Cyber threats disrupting Bank's operations.	Risk to the Business caused by negative effects, public perceptions and customer opinions and the damage caused to the Brand by failure to manage Public Relations.

## RISK & OPPORTUNITIES

Risk and opportunities and the related mitigating factors are summarized below;

Risk	Key Source of Risk	Mitigating Strategy	Impact Area
Credit Risk	Sovereign credit risk on exposure to Public sector enterprises (PSE)	<ul style="list-style-type: none"> <li>Oversight is kept through guidance of Board of Directors and its sub-committee "Board Risk Management Committee" as well as through management committee of "Risk Management &amp; Compliance Committee (RM&amp;CC)".</li> <li>Public sector advances are generally secured by sovereign guarantee or the equivalent from the Government of Pakistan (GoP).</li> <li>Certain PSEs have a well-defined cash flow stream and appropriate business model, based on which the lending may be secured through collaterals other than GoP guarantee.</li> </ul>	Financial Capital
Credit Risk	Counterparty credit risk on exposure to Private sector advances and Interbank limits.	<ul style="list-style-type: none"> <li>Bank's Risk Assessment and Management System (RAMS) uses risk rating models, based on qualitative and quantitative factors, to assign credit risk ratings to various categories of borrowers.</li> <li>Credit worthiness of borrowers is analyzed on work-flow based RAMS, with focus towards balanced assessment of credit risk and identification of related proper mitigants.</li> <li>In respect of interbank borrowers, the Bank maintains eligibility criteria that links exposure limits to counterparty credit ratings (minimum credit rating of 'A')</li> <li>Concentration risk is monitored with obligor, group and sector exposure limits and risk profile benchmarks.</li> <li>Automated 'Watch-List' categorization system facilitates to identify deterioration in quality of loans.</li> <li>Country risk, exposure limits are in place that broadly captures direct exposure on sovereigns and exposures on foreign domiciled counter parties; limits linked to the sovereign ratings.</li> <li>Specialized team comprising engineers and industry experts conducts technology assessments of obligors' plant &amp; machinery and reviews the technical feasibility of projects and valuation reports.</li> </ul>	Financial Capital
Market Risk	Risk associated with fluctuations in interest rates, foreign currency rates, credit spreads, equity prices and commodity prices	<ul style="list-style-type: none"> <li>Oversight is kept through guidance of Board of Directors and its sub-committee "Board Risk Management Committee" as well as through management committee – "Asset &amp; Liability Committee (ALCO)".</li> <li>Comprehensive structure is in place aimed at ensuring that the Bank does not exceed its qualitative and quantitative tolerance for market risk.</li> <li>Balanced approach towards risk taking in the market risk area while keeping exposures within the defined risk acceptance criteria.</li> <li>Tools like Value at Risk methodologies, sensitivity measures, intraday exposure limits, notional limits and loss triggers are monitored at a detailed portfolio level.</li> <li>Extensive stress testing is performed to capture and report the multi-dimensional aspects of market risk using automated solutions.</li> </ul>	Financial Capital

Operational Risk	Risk of inadequate / failed internal processes and losses caused by external events.	<ul style="list-style-type: none"> <li>• Oversight kept through Board of Director's sub-committee "Board Risk Management Committee" as well as through management sub-committee of "Risk Management &amp; Compliance Committee (RM&amp;CC)".</li> <li>• BOD approved Operational Risk Policy</li> <li>• Detailed documented procedures</li> <li>• Adequate system of internal controls designed to keep operational risk at appropriate levels</li> <li>• Business Continuity Policy and Plan driven towards ensuring provision of un-interrupted banking services in case of any unforeseen emergency and/or natural calamities.</li> <li>• Disaster recovery and evacuation plans were tested successfully during the year.</li> <li>• IT disaster recovery plans are tested on ongoing basis.</li> <li>• Insurance coverages are in place for theft and damage to physical assets.</li> </ul>	Financial Capital
	Risk arising due to the unauthorized or inappropriate employee activity and failure to adhere to staff policies	<ul style="list-style-type: none"> <li>• Board of Directors' oversight along with its sub committees "Human Resource and Remuneration Committee" as well as through management committees of "Human Resource Committee" and "Central Administrative Action Committee".</li> <li>• Recruitment, pre-employment screening, employer feedback/exit interviews.</li> <li>• Proactive staff engagement.</li> <li>• Strong staff development programs in place combining e-learning, in-house and external trainings programs.</li> <li>• Insurance coverages are held for fraud and fidelity incidents.</li> <li>• Whistle blowing mechanism is in place.</li> </ul>	Human and Intellectual Capital
	Risk arising from non-compliance with statutory and/or regulatory provisions applicable to the Bank	<ul style="list-style-type: none"> <li>• Independent Compliance Group to ensure compliance with specific regulatory requirements.</li> <li>• Compliance Policies and procedures are in place.</li> </ul>	Financial Capital
Liquidity Risk	Risks emanating from nature of the Banking business, from the macro factors exogenous to the Bank as well as from internal financing and operational policies.	<ul style="list-style-type: none"> <li>• Oversight kept through Board of Directors and its sub-committee "Board Risk Management Committee" as well as through management committee - "Asset &amp; Liability Committee (ALCO)".</li> <li>• ALCO oversees the activities of treasury, which operates in terms of an approved ALM policy.</li> <li>• Well-defined ALM triggers / limits, exposures against which are regularly monitored by ALCO.</li> <li>• Detailed Recovery Plan is in place which highlights the strategy and critical tools for effective monitoring, escalation, planning, and execution of recovery actions in the event of a financial crisis situation.</li> <li>• The Bank performs liquidity stress tests as part of its liquidity monitoring activities regularly.</li> <li>• Periodic gap analysis to re-profile the earning asset mix in accordance with interest rate expectations as well as keeping asset and liability mismatch within acceptable limits.</li> <li>• Maintenance of appropriate marketable securities portfolio that can be realized in the event of liquidity stress.</li> </ul>	Financial Capital

Capital Adequacy Risk	Undertaking higher risks in view of more volatile and competitive financial markets.	<ul style="list-style-type: none"> <li>Oversight kept through Board and its sub-committee "Board Risk Management Committee" as well as through management sub committees of "Risk Management &amp; Compliance Committee" and "Asset &amp; Liability Committee (ALCO)".</li> <li>The ALCO assesses capital adequacy on a quarterly basis, including a historical and future capital positioning review and stress tests and reports regularly to the BRMC.</li> <li>The Internal Capital Adequacy Assessment Process (ICAAP) Framework is updated and reviewed annually.</li> <li>Policy of sufficient profit retention.</li> <li>Periodic extensive stress testing activity in line with SBP requirements.</li> </ul>	Financial Capital
Strategic Risk	Improper implementation of decisions, or lack of responsiveness to evolving industry, economic or technological changes.	<ul style="list-style-type: none"> <li>Oversight kept through Board of Directors' and its sub- committee "Strategic Planning &amp; Monitoring Committee" as well as through Management Committees namely "Management Committee" (MANCO), "Risk Management &amp; Compliance Committee" (RM&amp;CC) and "Asset &amp; Liability Committee" (ALCO).</li> <li>Rolling 10-year strategic plan which is reviewed on annual interval basis along with operational plan to account for the evolving economic and business dynamics; duly in consideration of the peer banks</li> <li>The impact of events on the future direction of the business and forecast results is constantly monitored and quantified.</li> </ul>	Financial Capital
Technological Risk	Risk arising from non-availability of IT systems, and disruptions due to Cyber threats.	<ul style="list-style-type: none"> <li>Oversight kept through Board of Director's sub committees "E-Vision Committee" as well as through "IT Steering Committee" (ITSC).</li> <li>IT planning is conducted as part of the Bank's strategic and operational planning process.</li> <li>Systems audits, IT Security &amp; Risk Assessments are performed for system before deploying into production environment.</li> <li>Significant ongoing investments in systems and processes to protect customer databases through robust information security (Info-sec) platform</li> <li>Info-Sec's Security Operation Center utilizes Security Incident and Event Management (SIEM) solution to proactively monitor and respond to security threats.</li> <li>Countermeasures against cyber threats included regular penetration testing and vulnerability assessment.</li> <li>Continuous awareness programs for customers about cyber threats.</li> </ul>	Financial Capital
Reputational Risk	Risk arising from any action or inaction perceived by any stakeholders to be inappropriate, unethical or inconsistent with the Bank's values and beliefs.	<ul style="list-style-type: none"> <li>Oversight kept through Board of Directors' sub committees "Board Risk Management Committee" as well as through "Management Committee (MANCO)".</li> <li>Formal customer grievance redressal policy, including policy and procedures on receiving customer complaints and resolution mechanism.</li> <li>Timely and efficient communications among all stakeholders.</li> <li>Policies and procedures in place for securing digital payments including protection of customers' data</li> </ul>	Social and Relational Capital