Operational Risk Framework - Crédit Agricole CIB UAE

1. Governance

Crédit Agricole CIB UAE has established a comprehensive operational risk management framework aligned with Basel III requirements of the UAE Central Bank and Group-level standards. The framework is designed to identify, assess, prevent, and monitor operational risks across all business lines and support functions.

Operational Risk is defined as the risk of loss arising from inadequate or failed internal processes, personnel, systems, or external events, and encompasses both Legal Risk and Non-Compliance Risk.

- Operational Risk Management (ORM): Responsible for the design, implementation, and oversight of the operational risk framework, including methodology, tools, and reporting.
- Risk and Permanent Control (RPC): Ensures the permanent control framework is embedded across all business and support functions, providing a second line of defense.
- Legal and Compliance Risk: Manages legal and compliance risks arising from the bank's activities, ensuring adherence to applicable laws and regulations.
- Executive Committee (ExCo): Provides strategic oversight and approval of the operational risk framework, ensuring alignment with the bank's overall risk appetite.
- Internal Control Committee (ICC): Reviews and monitors operational risk matters, escalates significant issues to ExCo, and ensures corrective actions are implemented.

2. Risk Management Framework Principles

- Consistency: A Risk framework consistent with the nature, scale, and complexity and volume of the bank's activities is in place, with an implementation monitored and reviewed as required.
- Supervision: Robust supervisory mechanisms are in place to monitor operational risks on an ongoing basis. This includes regular reporting to governance bodies, escalation procedures for significant risk events, and periodic reviews of the control environment.
- Capacity Assessment: The bank's ability to take risks and be exposed to such risks is assessed on a regular basis.
- Senior management ensures that the bank's risk management framework includes detailed policies and methodologies consistent with its risk-taking appetite and capacity defined at the Group level.

3. Operational Risk Methodology

3.1 Capital Measurement Approach: In accordance with Basel III requirements, Crédit Agricole CIB UAE has adopted the Basic Indicator Approach (BIA) for the management of Operational Risk. However, as part of Basel IV implementation and conforming to the CRR3/CRDVI package, the calculation of capital requirements (Pillar 1) transitioned to the Standardized Measurement Approach (SMA) for all Groupe Crédit Agricole entities starting January 2025, primarily based on the Business Indicator Component (BIC).

3.2 Risk and Control Self-Assessment (RCSA): A comprehensive RCSA is coordinated by the ORM utilizing the Bank's centralized database, Olimpia (LOD2 tool), in conjunction with Head Office guidelines and reference assessments. Process reviews may be staggered over 3 years at ORM's discretion, unless a significant event justifies early review. However, processes rated "critical" or "sensitive" must be reviewed annually. The RCSA process comprises the following components:

- Risk Aversion Matrix: Crédit Agricole CIB employs a standardized Risk Aversion Matrix across all entities to evaluate the financial and non-financial consequences severity of both expected and unexpected losses, categorizing potential impacts as low, moderate, significant, or major.
- Process Classification: Mapping follows a risk-based approach updated continuously throughout the year under the supervision of ORM. Processes containing risk events classified as significant or major are designated as sensitive or critical processes, respectively, warranting enhanced oversight and control measures.
- Action Planning: The assessment process incorporates targeted action plans, particularly for sensitive and critical processes, with ORM conducting periodic follow-up reviews to monitor implementation and effectiveness.

3.3 Operational Loss Collection and Incident Management-The operational loss collection process enables the identification of operational risk events on processes that have materialized within Crédit Agricole CIB Group. The collection scope within the operational risk management framework is specified in technical guidelines covering organizational principles, data quality, and methodological aspects.

Incident Reporting Process: Operational incidents and losses are reported to MEA ORM by respective business lines. Each operational incident report includes the following elements:

- Comprehensive description of the incident or loss event, including the date of occurrence, business line affected, and Basel event type category;
- Details of treatment to address the immediate impact of the incident;
- Root cause analysis to identify the underlying factors contributing to the incident.
- Corrective action plan implemented to prevent recurrence, including responsible owners and target completion dates;

Major Incident Escalation: All major incidents - defined as those with a financial impact of EUR 150,000 or more, or incidents of a regulatory, reputational, compliance, or fraud nature regardless of loss amount - are escalated through Olimpia to ORM Head Office and communicated to the Heads of Business and Support functions within the branch. These incidents are subsequently presented and discussed during ICC meetings. Additionally, incidents exceeding €500,000 trigger alert escalation to CASA (Crédit Agricole Group), while fraud incidents exceeding €300,000 are escalated immediately to CASA and relevant regulatory authorities.

Performance: Operational losses over the past decade have been minimal or negligible.

4. Risk Monitoring and Control

4.1 Internal Control Committee (‘**ICC’**)

The ICC plays a central role in operational risk oversight, ensuring overall supervision of Crédit Agricole CIB UAE risks through the internal control function. The ICC monitors the resolution of weaknesses identified by control mechanism or incidents and ensures maintenance of common standards of best practice in internal control.

ICC responsibilities include: Review of operational incidents, review of risk indicators, validation of operational risk mapping and RCSA, approval of relevant operational procedures, monitoring of audit follow-up and important recommendations, presentation of the yearly Internal Control Report (previously validated by the SRO). Operational risk matters are presented to ICC members times a year. Key operational risk events/developments are also presented to ExCo annually.

4.2 Ongoing Risk Management Efforts

The bank continues its efforts to maintain and adapt close management of operational risks through: Upkeep of an operational controls register, update of supervisory controls, work on new risks (model and climatic risks in particular), follow-up on DORA (‘Digital Operational Resilience Act’) regulation implementation and involvement in outsourcing and pooling management in light of EBA guidelines, DORA regulation, and the bank's needs.

4.3 Outsourcing and Pooling Risk Management

In accordance with Article 11 of the decree of February 25, 2021, Crédit Agricole CIB includes outsourced activities in its control system, respecting standards applicable to the permanent control system.

Control Framework:

- All outsourcing arrangements are subject to a formal risk assessment prior to commencement, including an evaluation of the service provider's operational resilience and control environment;
- Contractual provisions are in place to ensure that service providers maintain appropriate standards of service delivery, data protection, and business continuity;
- Business continuity and contingency plans are maintained for all critical outsourced services to ensure operational resilience.

5. Conclusion

Crédit Agricole CIB UAE maintains a robust operational risk framework that integrates international best practices with local regulatory requirements. The framework's effectiveness is demonstrated by the "Low" net risk rating achieved and the absence of major operational losses. Maintaining the effectiveness of this framework over time remains a matter of vigilance and a strong point of attention.

The bank's comprehensive approach - combining systematic risk assessment through RCSA, proactive incident management via Olimpia, regular ICC oversight, and continuous adaptation to emerging risks - ensures effective operational risk management aligned with both UAE Central Bank requirements and Crédit Agricole Group standards.