RISK MANAGEMENT

Aldar has an established Enterprise Risk Management (ERM) function to ensure effective management of all risks that have the potential to hinder the Company from achieving its strategic objectives.
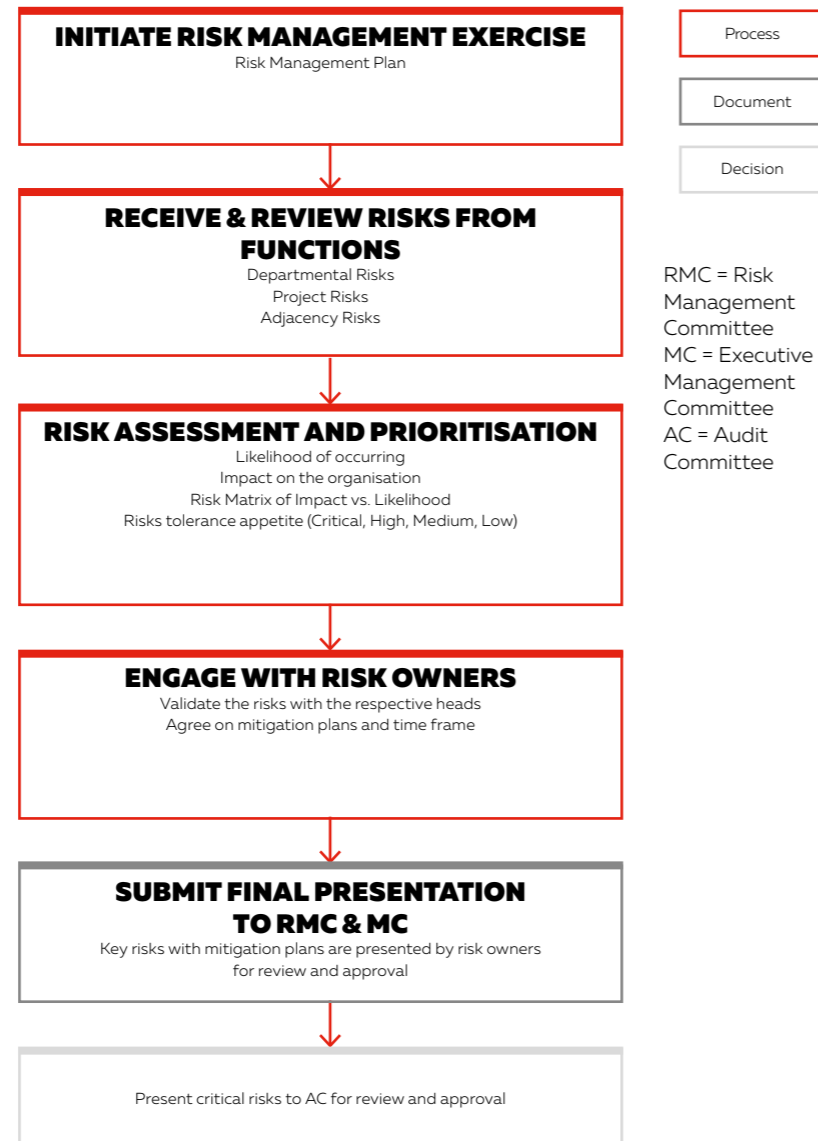
A dedicated ERM team is responsible for helping the Company's business units to identify, assess and put in place control plans for existing and emerging risks. It regularly conducts comprehensive reviews of best practices and benchmarks against other companies in the market with robust ERM activities.

Primarily, a bottom-up approach is used for business unit-specific risks, while enterprise-wide risks rely on a top-down approach.

Each risk is identified and assessed through an impact and likelihood matrix to prioritise its importance. The identified risks with their relevant mitigation plans are escalated to different hierarchical committees according to pre-defined criteria and mandates. The ERM team continuously monitors, liaises and follows up with risk owners for updates and progress on mitigation plans until the risk matches the agreed risk appetite.

Aldar has a Board-approved ERM Charter and Policy & Procedure documents in place, which are periodically reviewed and updated. The meetings of the various mandated committees are convened periodically, which has helped to improve the function across the Company. Aldar's Board and management firmly believe in continuous improvement and will persist to build on this solid foundation to strengthen risk management.

Risk management procedure

INITIATE RISK MANAGEMENT EXERCISE
Risk Management Plan

↓

RECEIVE & REVIEW RISKS FROM FUNCTIONS
Departmental Risks
Project Risks
Adjacency Risks

↓

RISK ASSESSMENT AND PRIORITISATION
Likelihood of occurring
Impact on the organisation
Risk Matrix of Impact vs. Likelihood
Risks tolerance appetite (Critical, High, Medium, Low)

↓

ENGAGE WITH RISK OWNERS
Validate the risks with the respective heads
Agree on mitigation plans and time frame

↓

SUBMIT FINAL PRESENTATION TO RMC & MC
Key risks with mitigation plans are presented by risk owners for review and approval

↓

Present critical risks to AC for review and approval

Legend:
- Process
- Document
- Decision

RMC = Risk Management Committee
MC = Executive Management Committee
AC = Audit Committee

Aldar's Risk Management Framework is highly linked and adapted to its business model, using the widely-accepted COSO enterprise risk management framework as its foundation.

Risks are classified into the following four categories:
- **Strategic:** High-level risks that can have a direct impact on the Company's strategic objectives.
- **Operational:** Risks related to performance, customers, and the effective and efficient use of resources.
- **Financial:** Risks that can have a direct impact on the Company's earnings and cash flow.
- **Reporting & Compliance:** Risks related to the reliability of reporting and compliance with applicable real estate-related laws and regulations.

THREE LEVEL COMMITTEE STRUCTURE

Aldar's ERM Charter specifies three levels of reporting. The business units, through the ERM team, raise the risks and updates to be considered by the Risk Management Committee according to certain defined thresholds. These risks are presented to the Executive Management Committee and thereafter to the Audit Committee in line with risk level hierarchy. The ERM team continuously liaise with the risk owners and periodically report to relevant committees.

The periodic reporting mechanism as per risk level hierarchy is as follows:
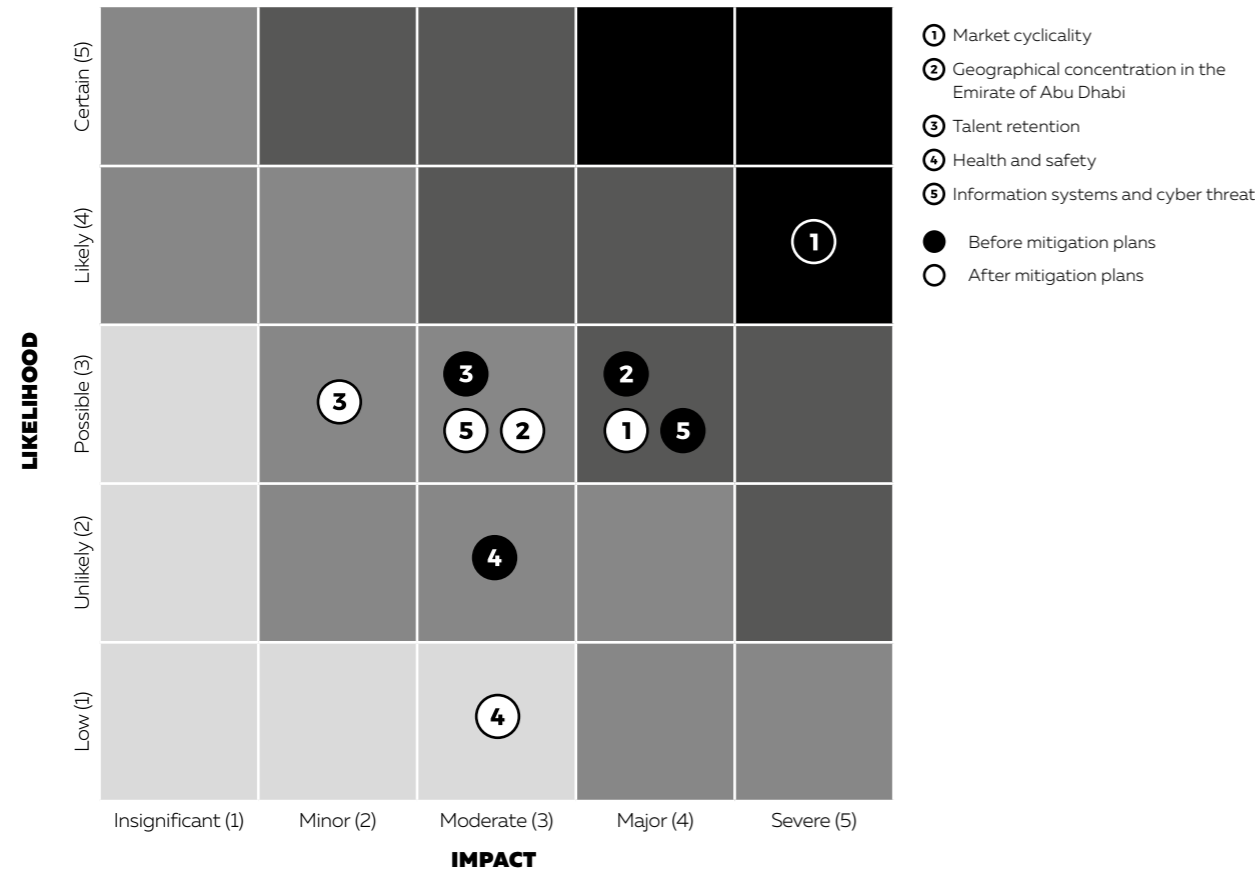
Level C — **Critical Risks**
Report to Audit Committee

Level B — **High & Critical Risks**
Report to Executive Management Committee

Level A — **All Levels of Risks**
Report to Risk Management Committee

Risk Management Framework

		Board
	Risk Governance	• Sets the tone and culture towards effective risk management • Approves ERM framework • Agrees on the entity's risk appetite

		Risk Management Committee (RMC)	Executive Management Committee (MC)	Audit Committee (AC)
Top-down Identification, assessment, mitigation and oversight of risk at Company level	**Three level committees**	• Develops Risk Management Framework • Reviews the presented risks along with relevant assessments and mitigation plans • Monitors the effectiveness and progress of mitigation plans • Approves deliverables and recommendations to the MC	• Reviews high and critical risks • Evaluates the existing action plans and the proposed mitigation plans • Assists in identification of principal and emerging risks • Reviews and endorses internal controls in treatment plans for operational effectiveness • Makes requisite recommendations to the AC	• Reviews critical risks • Monitors the effective functioning of the RMC • Provides key highlights to the Board as part of the AC's annual report
Bottom-up Identification, assessment and mitigation of risk at a business unit and functional level	**Risk ownership**	**Business units and risk owners** • Identify and assess risks • Monitor the risks • Ensure effective and timely mitigation plans		

86

87

PRINCIPAL RISKS

PRINCIPAL RISKS HEAT MAP

LIKELIHOOD

Certain (5) / Likely (4) / Possible (3) / Unlikely (2) / Low (1)

IMPACT

Insignificant (1) / Minor (2) / Moderate (3) / Major (4) / Severe (5)

① Market cyclicality
② Geographical concentration in the Emirate of Abu Dhabi
③ Talent retention
④ Health and safety
⑤ Information systems and cyber threat

● Before mitigation plans
○ After mitigation plans

Risk Level	Score	Mitigation Plan Requirement	Recommended Actions
Critical	20 to 25	• Mandatory for all risks	• Treat (Reduce) • Transfer • Terminate
High	10 to 16		
Medium	4 to 9	• Risks rated >8 are assessed on a case-by-case basis • Not mandatory for risks rated <6 as risks can be tolerated	• Tolerate (Accept)
Low	1 to 3	• Not mandatory as risks can be tolerated	

The Risk	Risk Analysis	Treatment Plan

Strategic: High-level risks that can have a direct impact on the Company's strategic objectives.

1. Market cyclicality

NO CHANGE

• Ability for Aldar to effectively respond to local and regional changing market conditions.

Consequences
• Potential negative impact on launching of new developments and performance of asset portfolio.
• Potential negative impact on sales revenue, cash flows, asset valuations, debt/capital and credit rating.

The Board mitigates market risk through the review of the Group's strategy on a regular basis and discussions are held to ensure the strategy is still appropriate or if it needs updating.
The Company is also actively implementing the risk treatment plan:

Development Projects
• Ensure accurate and appropriate business plans are in place to anticipate customer preferences.
• Launch projects in phases to reduce cashflow exposure.
• Product diversification.
• Enhanced market readiness to capitalise on any opportunity via infrastructure enabled lands.
• Expanding fee-based projects portfolio.

Asset Portfolio
• Combined focus on tenant selection and improving their trading performance through proactive leasing, targeted marketing initiatives and asset upgrading.
• Full merchandising strategy in retail assets; zoning and category optimisation, sustainable pricing and innovative re-purposing.
• Continued focus on corporate deals to provide long-term revenue visibility and de-risk residential portfolio revenue streams.
• Sustainability initiatives leading to cost saving through energy audit and energy saving initiatives.
• Enhancing customer experience through cross-selling across asset classes and introduction of loyalty programmes.

2. Geographical concentration in the Emirates of Abu Dhabi

REDUCED

• Geographical concentration from only operating in Abu Dhabi.

Consequences
• Exposure to Abu Dhabi as a single market will potentially constrain Aldar's ability to grow and achieve its strategic objectives to deliver sustainable returns for shareholders.

The Company realises the inherent risk of geographical concentration of operations and is steadily mitigating it by:
• By entering joint ventures within the wider UAE and in GCC markets.
• Developing regional and international sales and marketing capability to expand investor pool.

PRINCIPAL RISKS continued

The Risk	Risk Analysis	Treatment Plan
Operational: Risks related to performance, customers, and the effective and efficient use of resources.		
3. Talent retention NO CHANGE	• Ability to attract and retain talented pool of employees with the right skills and experience. **Consequences** • Potential negative impact on the Company's ability to deliver the business plan.	People and Performance strategy and treatment plan encompasses: • Long term incentive programme to assist retention of critical personnel. • Succession planning and career path programmes for high potential personnel. • Organisation-wide Employee Satisfaction Survey conducted annually to identify areas for improvements. • Exit interviews to identify critical areas of improvement for People and Performance policy and practices. • Proactively identifying employee's satisfaction parameter by conducting annual survey "Great place to work" to identify potential gaps – accredited Great Place to Work for 2020-2021.
4. Health and safety NO CHANGE	• Serious OSH (Occupational Safety and Health) incident. **Consequences** • Potential material impact on the Company's vision and brand locally and internationally with consequential financial implication due to project delays, civil suit and fines.	The Company has a comprehensive and integrated health and safety strategy and implementation plan: • All PMCs, consultants and principal contractors must register with OSHAD (Abu Dhabi Occupational Safety and Health Centre), comply with Aldar OSH Policy and abide by their standards. • Produce monthly OSH statistic to monitor performance across the projects and the portfolio of assets, develop lesson learnt and analyse trends to ensure and promote safest practices. • Proactive integration between QHSE (Quality, Health, Safety & Environment) and project teams for an effective implementation of the OSH monitoring programme, i.e. internal and external OSH audit, committee meeting, OSH meeting and periodic inspections. • Raising staff awareness by conducting trainings and OSH campaigns, updating and communicating the Company's OSH/EHS Management System and regulatory requirements. • Publishing Occupational Safety and Health alert to prevent incident.

The Risk	Risk Analysis	Treatment Plan
Operational: Risks related to performance, customers, and the effective and efficient use of resources.		
5. Information Systems and Cyber Threat NO CHANGE	• System vulnerabilities and control weaknesses are exploited by malicious actors over the internet. **Consequences** • If digital assets are not adequately protected from cyberthreats, it can lead to disruption of business operations, financial losses and loss of reputation.	Information Security & Compliance function continues to assess and strengthen security & compliance readiness of its IT function. The unit undertakes but not limited to below: • DT achieved ISO 27001 certification in 2017 in Q4 2020. ISO 27001 surveillance audit is conducted by the Lead Auditors annually. • Advanced Threat Protection based on artificial intelligence (AI) and machine learning (ML) deployed to detect and mitigate cyber threats. • Email security controls enhanced further by introduction of security controls based on AI & ML. • User authentication framework strengthened further by implementing multi-factor authentication and tightly mapped to user's device. • Security Baseline controls implemented and regularly reviewed to mitigate threats from known vulnerabilities. • DNS Security controls in place to proactively identify, block, and mitigate targeted threats such as malware, ransomware, phishing, and data exfiltration. • Security monitoring system, including Data Loss Prevention control, in place to correlate security events and trigger alerts. • 24x7 Security Operation Centre to monitor the security alerts. • Organisation-wide mandatory security awareness training programme in place. • Vulnerability management programme in place to identify and mitigate system weakness. • Disaster recovery strategy and plan in place, reviewed and tested on regular basis.