



Emirates NBD



SUSTAINABILITY

REPORT

2015 - 2016

Risk Management & Business Continuity

(102-11), (102-18), (102-19), (102-20), (102-29), (102-30), (102-31), (102-33), (103-1), (103-2), (103-3), (307-1)



Risk Management



Emirates NBD Group Risk Management has been instrumental, and proactive, in identifying major existing and emerging risks and risk drivers, measuring and managing such risks against the backdrop of changing macro-economic conditions that can influence the Group's forward strategy.

Emirates NBD's Board Committees (Board Risk Committee - BRC, Board Credit and Investment Committee - BCIC), and management committees (Management Credit Committee - MCC, Group Risk Committee - GRC, Management Investment Committee - MIC, Asset Liability Committee - ALCO, Executive Committee - EXCO) are the principal governance structures that endorse and entrench risk management policies and practices across different business lines and processes.

The Chief Risk Officer (CRO) is responsible for implementing the risk policies as required and supervising risk strategy across the Emirates NBD Group. The CRO reports on overall risks and their management to the BRC on a quarterly basis.

The Board’s Role in Evaluating Economic, Environmental & Social Risks



Employees are encouraged to raise critical economic, environmental or social risks with the relevant Board Committees depending on each committee’s area of responsibility. Any critical concerns must be addressed through the Group General Counsel, the Group Chief Risk Officer or the Chief Compliance Officer. The topic will then be raised with the responsible Board Committee. The Committee receiving the critical information will then address the issue with the appropriate management and employees and take necessary action.

During the reporting period, several risk issues (within the regular course of business) have been addressed by the BRC and other committees. Such issues have included risk, audit, compliance and legal matters. All issues were addressed appropriately and as per the Committee’s guidelines. The Board is informed whenever there are any updates on Bank policies and regulations during their regular meetings. The implementation of any changes requires Board approval.

Credit Risk - Corporate Banking

Emirates NBD has taken several initiatives to review and enhance policies and processes – so as to manage emerging risks, improve efficiencies and customer service; all are aligned to business strategy and risk appetite. For example, timely portfolio measures were employed to tighten underwriting standards, new client selection and the strengthening of underwriting terms and conditions, in order to maintain the quality of asset booking. In addition, security and other credit terms were enhanced, where warranted, to meet risk acceptance criteria. Periodic stress tests and reviews of the portfolio by geography, segment and sectors were undertaken to identify and proactively manage the weaker names through a robust and well-entrenched ‘early alert’ process.

Our portfolio remains well-diversified and within prescribed regulatory and internal thresholds. Breaches, if any, are kept within acceptable levels and are then dealt with proactively. The overall impact on Emirates NBD’s corporate book, on account of new NPLs and provisions, has accordingly been contained.

The UAE Central Bank’s criteria for asset classification and previously implemented ceilings were adhered to, ensuring that delinquency classification and compliance met provisioning norms. The Financial Restructuring and Remedial (FRR) team continued its recovery efforts from delinquent customers; this ensured efficient collections and reduction in the flow of new Non-Performing Loans (NPLs) while minimising the impact of NPLs on the Bank’s performance.

The outlook for 2017 remains cautious. Economic conditions and sentiment remain subdued, with expectations of a phased recovery in oil prices and economic activity after mid-2017. That said, Emirates NBD remains committed to support its customers’ activities to facilitate the Bank’s strategy, growth agenda and to contribute to improving the UAE’s economic activity.

Credit Risk - Retail Banking

Group Retail Credit proactively monitored portfolios and implemented strategies related to the external environment, focusing on selected segments. Portfolio management monitoring of existing customers continued, resulting in regular credit line reviews. The Bank’s risk strategy is designed to support portfolio growth within acceptable risk appetite thresholds and to ensure that established objectives have been met.

This year, the Bank continued to make progress in building balance sheet growth in retail assets. The Bank has taken important initiatives for the recovery of non-performing advances and impairments.

Credit losses in retail assets are within the risk appetite. The financial performance of retail assets was robust and all products generated healthy returns. Going forward, the Bank will continue to focus on profitable and low-risk segments, so as to consolidate its retail banking portfolios – while investing in specific technological tools that will enhance operational efficiencies in its credit underwriting streams.



Economic, Environmental and Social risks fall under Operational and Reputational Risk and are addressed accordingly. The Chief Risk Officer (CRO) is responsible for implementing the risk policies as required and the risk strategy across the Emirates NBD Group. The CRO reports on the overall risks and management landscape to the BRC on a quarterly basis.

Internal Rating Systems Development

The Bank continued its use of internal rating models during the period. Data-driven risk assessment and decision models were extensively employed across wholesale and retail customer credit lifecycles: namely acquisition, portfolio management, collections and recoveries. Internal models and scorecards are monitored regularly. The Group now plans to achieve compliance to IFRS 9 standards by 2018. On this front, quantitative impact analysis was submitted to the UAE Central Bank – progress was also made on modelling work for a majority of Emirates NBD’s retail portfolios during the course of 2016. IFRS 9 model development for Emirates NBD’s wholesale portfolios has also progressed.

The internal scorecards and models for IFRS 9 impairment charges are validated against our internal model governance framework and external regulatory standards by independent third parties.

Portfolio Impairment Provisions (PIP)

The Bank continued to maintain portfolio impairment reserves in line with international accounting standards and the UAE Central Bank guidelines. The Bank’s general reserves remained above the target coverage ratio set by the UAE Central Bank. Portfolio impairment reserves also helped. Portfolio impairment reserves also helped improve the Bank’s coverage ratios during the course of 2016.

Capital & Portfolio Analytics

The Bank continues to strengthen its risk management capability and to develop its risk governance framework. The Bank has a risk strategy and risk appetite framework implemented and approved by the Board. Risk appetite metrics are regularly monitored and reported to the Board Risk Committee, enabling the Bank to track and manage risks in a disciplined way.

The Capital and Portfolio Analytics team actively tracks the reports from the Basel Committee on Banking Supervision for global regulatory frameworks. The Bank progressively integrates relevant aspects of the Basel framework and collaborates with the UAE Central Bank on these changes, so as to build a more resilient banking platform.

“ The Bank conducted its annual Internal Capital Adequacy Assessment Process (ICAAP) during 2016. This process provides the Bank with an assessment of potential risks and capital requirements under stressed scenarios. Through this exercise, the Bank has developed a systematic approach to manage capital requirements during times of stress. The report was approved by the Board of Directors and submitted to the UAE Central Bank.

Operational Risk

Group Operational Risk continues to work closely with all the Bank’s business lines and subsidiaries to raise awareness of operational risk. Key risks across business units are identified and discussed at the Group Risk Committee (GRC). A process is in place for the collection and reporting of operational risk data. The practice of conducting a risk review as part of the ‘New Product and Process Approval’ (NPPA), prior to the launch of any new or amended product; running Operational Risk Assessment Workshops (ORCA) is an essential process in the Bank’s operational risk management activity, in order to embed a risk culture throughout the organisation. Key Risk Indicators (KRIs) are used to monitor the levels of operational risks and associated issues in the Bank.

Business Continuity



Emirates NBD has established a rigorous business continuity management framework that allows for quick reactions to any disruptive events that may affect the continuity of the Bank’s operations. Business continuity plans are reviewed and tested at least annually across the Group, ensuring seamless service to customers and partners during any potential operational disruptions. The Bank has established a modern work area recovery site to provide all required facilities to business and operational units in the event of regular office units being inaccessible. Group Operational Risk regularly conducts awareness programmes for all employees.

The Group Business Continuity Management Policy has been framed to set out the minimum standards for all organisational units in preparing for, responding to and recovering from any operational disruption. It lays down requirements for design, development, exercise, maintenance and review of the “business continuity plans” for all Emirates NBD organisational units. The policy ensures consistent and structured planning throughout the Bank in line with international best practices.

Work Area Recovery Site

Emirates NBD has a Work Area Recovery Site, an alternate location where a department can relocate swiftly to resume its critical functions, in case the primary location is not accessible or functional. Details of the location are provided to all employees and the site is managed by the Group Operational Risk Team.

Business Continuity Coordinators

Business Continuity Coordinators are staff members nominated to perform business continuity management tasks for a specific unit. Each unit has one primary and one backup coordinator, who act as a Point of Contact for all BCM related activities.

Crisis Management Plan

This plan is framed to guide Emirates NBD’s management in handling a crisis situation, with the objective of a successful return to ‘business as usual’ conditions. The bank has a detailed plan which provides clarity on roles and responsibilities of all staff and teams involved during a crisis; it also sets out a clear governance structure for every potential crisis management situation.

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