



# Corporate Governance Report 2019



## CORPORATE GOVERNANCE REPORT

NBQ believes in maintaining good corporate governance, risk management principles, internal control systems and ethical standards that commensurate with the size and core values derived from good governance industry practices, vision and mission of the Bank.

### **Corporate Governance structure and frame work**

In line with regulations and standards on corporate governance published in 2019 by UAE Central Bank and Abu Dhabi Securities (ADX), NBQ's Board of Directors (BOD) has revised Board Charter and approved three year implementation plan to enhance its current corporate governance framework. Bank has taken all measures to enhance the concepts of internal controls, transparency, disclosures, insider trading, conflict of interest management, monitoring related party transactions, Sharia governance framework and charter by revising all related policies and procedures on corporate governance framework, which would be completed by end of 2020.

Transparency and disclosure requirements are key factors considered by the Board in its actions, which are fundamental to the compliance of the governance practices and communicate with the senior management through appropriate communication forums. Board has delegated relevant powers to the Vice Chairman and a Nominated Director for decision making at Executive Committee level.

### **Board Committees**

Board Meetings are conducted as per the Board Charters, Memorandum and Articles of Association and as per the Federal and Company Law provisions. Minimum of six board meetings are held in a year.

Board of Directors decides the risk profile appropriate to the Bank's growth strategy. Board approves the different risk management strategies, policies, standards, key operational limits and delegates risk and governance related responsibilities to its Board Level committees, viz, Executive Committee, Executive Credit Committee, Audit and Risk Committee and Nominations and Remunerations Committee. These committees discharge their duties based on the relevant charters approved by the Board.

### **Audit and Risk Committee**

Audit and Risk committee handles issues related to internal control, internal audit and enterprise wide risk related matters. This committee meets periodically. Three Independent Non-Executive Directors, General Manager, Acting Chief Risk Officer and Head of Internal Audit Department attend the committee meetings.

### **Executive Committee**

Executive Committee handles all the strategic and operational matters on a regular basis. This committee meets regularly and decisions are taken, which are beyond the powers of the Senior Management. Vice Chairman, Nominated Director, General Manager, Chief Financial Officer and Acting Chief Risk Officer attend the committee meetings.

### **Nominations and Remunerations Committee**

Bank has executed Nominations and Remunerations Committee to handle all the functions related to Board Nominations, their remuneration and fixing remunerations of Senior Management staff and other HR related strategic decisions. This committee constitutes Vice Chairman and two Directors.

### **Senior Management**

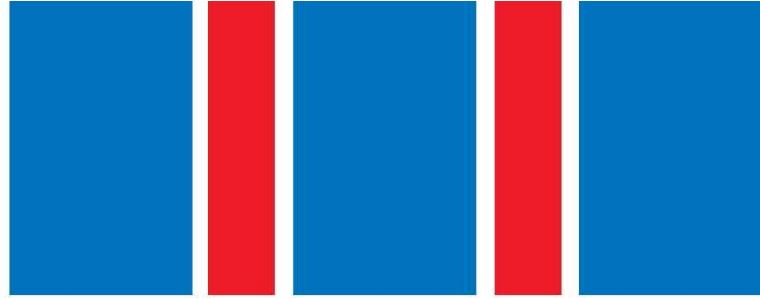
The Bank has an efficient team of Senior Management officials who are experienced and qualified in discharging key management functions. They are delegated with the responsibility of managing the affairs of the bank in a professional manner while managing the internal control, compliance, governance with risk management focus. Board of Directors directs the Senior Management Team to apply due diligence and caution to protect the interests of the bank and its shareholders.

### **Management Committees**

The Bank's management committees consist of Vice Chairman and Management officials. Charters are prepared for the committees, which clearly define the duties and responsibilities of the committees. Committees include functional heads and invitees based on need and scope of discussion.

### **Asset and Liability Committee (ALCO)**

ALCO is responsible for ascertaining the liquidity position, monitoring and managing assets and liabilities and regulatory compliance. This committee meets every month and is chaired by the Vice Chairman/Nominated Director. There are participants from the Senior Management, Acting Chief Risk Officer, Treasury and Market risk representatives.



### **Executive Credit Committee (ECC) and Management Credit Committee (MCC)**

Credit related committees are framed to approve credit facilities on wholesale and retail based on the approval limits set against each committee. ECC constitutes Directors of the bank, General Manager, Acting Chief Risk Officer, Senior Manager, Credit Approvals. MCC constitutes Vice Chairman, General Manager, Acting Chief Risk Officer and Senior Manager, Credit Approvals. These committees meet regularly based on the business needs of the bank.

### **Directors Remuneration**

Remuneration of the Directors is approved at the Annual General Meeting every year and is paid after the close of the year and it is disclosed in the financial statements.

### **INFORMATION SECURITY FRAMEWORK**

Bank gives paramount importance to its information security by adhering to various compliance standards mandated by regulatory authorities. We ensure the information assurance by being fully compliant to SWIFT Customer Security Program (CSP) and implementing controls based on National Electronic Security Authority/ Information Assurance (NESA IA), PCI DSS and other industry best practices. High priority is given to implement security advisories / recommendations provided by UAE central bank to ensure organizations data is safe. Also, Bank is using sophisticated tools, updated policies and processes to prevent, detect and mitigate threats to information assets.

### **INTERNAL CONTROL FRAMEWORK**

Internal Audit Department (IAD) is the third line of defense after Operational Management and Risk Management and compliance functions. Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve the bank's operations. It helps bank to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and corporate governance. IAD assesses and makes appropriate recommendations to improve bank's governing process for making strategic and operational decisions, overseeing risk management and control, promoting appropriate ethics and values within the bank, ensuring effective organizational performance management and accountability, communicating risk and control information to appropriate areas of the bank and coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers and management. In addition to above, IAD assess the design, implementation, and effectiveness of the bank's ethics related objectives and if there is proper documentation. IAD adopted all types of audits /checks, Risk identification, risk assessment, risk prioritization, response planning and risk monitoring as part of audit steps.

### **External Auditors**

Ernst and Young, Middle East were appointed as External Auditors of the NBQ group for the year 2019 at the Annual General Meeting. Appointment of external auditor is done in accordance with the Article of Association.

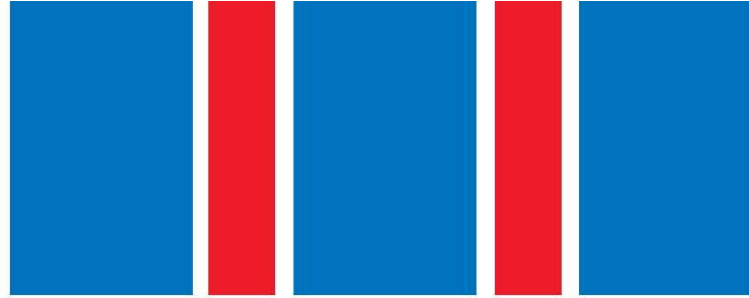
### **RISK MANAGEMENT**

In line with best practices, the Bank follows a well-defined organizational structure with Relationship Business Units as the front office, Centralized Approval and Credit Risk Units as the Mid-office and Credit Administration & Operations unit as the back-office, all properly segregated. The segregated functions and clear reporting lines provide maximum level of risk assurance and management oversight to Bank's credit functions. The Bank has well laid out credit risk policies which are scrupulously followed at all levels. Risk policy manuals are updated on an ongoing basis as per regulatory and emerging business requirements. Credit Processing, Assessment and Risk Rating system for wholesale banking is in place to ensure standardization and proper risk assessment in the credit appraisal process. The Bank is undertaking steps to upgrade Loan Origination and Rating solutions for both wholesale and retail.

As part of pro-active credit monitoring, tracking of Early Warning Signals and independent physical inspection of projects are undertaken through Risk Containment Unit. Management of stressed accounts and non-performing loans is centralized. Exposure monitoring including concentration levels at single obligor and sectoral levels are monitored by Portfolio Management Unit.

### **Market Risk**

NBQ has well defined policies approved by the Board, setting out the risk appetite for management of market risks. The position is reviewed monthly by the Bank's Asset and Liability Management Committee (ALCO) to achieve optimum returns while maintaining market risk exposures within prudential limits. The position is also reviewed periodically by the Audit & Risk Committee of the Board and Board of Directors.



Liquidity stress tests are conducted to monitor the Bank's vulnerability towards extreme, but plausible unfavorable shocks at periodical intervals to assess the impact on liquidity to withstand stressed conditions. Stress tests are also carried out to assess interest rate risk in the banking book and price risk in the entire equity portfolio. The results show that the Bank is comfortably placed and are in line with the risk profile of the Bank.

The Bank has also set out a Contingency Funding Plan (CFP) in line with norms of CBUAE which includes contingency trigger levels and processes/steps to be followed if these are breached. Reports are reviewed and approved by the Board.

### **Basel Implementation**

The Bank adheres to the UAE Central Bank guidelines required for Basel compliance Implementation including submission of ICAAP report annually to Central Bank of the UAE. The Bank is also in compliance with Central Bank of UAE norms for standardised approach for computation of capital adequacy ratios. During the year CBUAE has adopted Basel III and published enhanced regulatory capital requirements rules vide notification 52 and 60/2017. CBUAE issued Basel III capital regulations, which came into effect from 1st February 2017 introducing minimum capital requirements at three levels, namely common equity Tier 1 (CET1), Additional Tier 1 (AT1) and Total Capital.

Additional capital buffers Capital Conservation Buffer (CCB) and Counter cyclical Capital Buffer (CCyB) maximum up to 2.5% for each introduced over and above the minimum CET1 requirement of 7%. These additional buffers will be applicable to banks in transitional arrangements i.e. 1.875% applicable in year 2018 and fully 2.5% will be applicable in year 2019. Over and above additional capital buffers, Domestic Systemically Important Bank buffer (D-SIB) will also be applicable for D-SIB bank.

Stress tests are regularly carried to assess credit risk, liquidity risk and interest rate risk in the banking book and equity price risk. Results reveal that the Bank is comfortably placed in line with the risk profile of the Bank and there is substantial buffer between available capital and regulatory capital to cover any unexpected losses from other risks as well.

### **Operations Risk**

The Basel Committee for Banking Supervision has defined Operational Risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". This definition includes legal risk but excludes Strategic or Reputation Risk. Operational Risk is inherent in all business activities and management of this risk is vital to the strategic objectives of the Bank.

The Bank has implemented the under noted processes aimed at monitoring and mitigating Operational risks:

- Identification of risk through Risk and Control Assessment and incident/loss event reporting to Centralized Operational Risk Function.
- Management and control of risk to prevent their recurrence or minimize the potential impact.
- Monitoring and reporting of Risk.
- Establish a Centralized Repository for capturing Operational Risk Losses.

The Bank has in place, a Policy and Comprehensive framework for Operational risk in monitoring, assessing, evaluating, controlling and mitigating risks arising out of regular banking operations. The framework is enhanced by strong compliance, monitoring and governance, which includes active participation of Board of Directors, Executive Management and Business Line Management in the risk management process.

With proliferation of the advanced technologies, the use of internet and telecommunications technologies to conduct financial transactions has increased the sophistication and information security risk for financial institutions. To combat security breaches, Bank has set up a dedicated Information and security Compliance Department to ensure long term viability of the Bank and its data.

The Bank has also set up a Disaster Recovery (DR) site to ensure that the Bank's regular functioning is not disrupted. DR site is located away from the main processing center. Well documented Business Continuity plan is in place with clearly defined recovery procedures as well as preventive measures. Periodic testing of the DR functioning is undertaken for critical applications to test recovery efficacy. Further, emergency evacuation at Head Office Building has been tested and certified by concerned Civil Defence Authority.

### **COMMUNITY RELATIONS**

The Bank has been consistently participating in social welfare measures in the emirate and taking valuable initiatives from Corporate Social Responsibility perspectives. The Bank also provide valuable support to charitable, educational, social, Sport and other recreational initiatives undertaken in the country by government and socio-cultural organizations from time to time.

### **CONCLUSION**

Board of Directors and Senior Management appreciate and thank our shareholders for their continuous support being provided to the bank, our customers for the continued support, trust and loyalty demonstrated by them through their business relationships and finally to the management Team and all the staff members for their continued contribution, dedication, loyalty and commitment.