

# Corporate Governance Report

**Corporate governance is a matter of vital importance to us and a fundamental part of the culture and business practice of the Abu Dhabi Islamic Bank and its subsidiaries and affiliates ('the Group'). The Group is committed to the adoption of global best practices to improve governance and transparency and enhance the management and oversight of risk, as well as promoting the highest standards of audit and compliance accountability.**

The Group has complied with the guidelines of the UAE Central Bank as well as corporate governance leading practices. The Group has a formal Corporate Governance Code wherein the Charter of the Board of Directors, the Code of Ethics for Board members, and policy for Insider Trading have been formalised.

## Board of Directors

The Board is the principal decision-making forum for the Group. It has overall responsibility for leading and controlling the Group and is accountable to shareholders for financial and operational performance.

The Board has all the necessary powers to carry out its responsibilities, as provided by Federal Law No. 8 of 1984 concerning Commercial Companies, as amended, the Memorandum of Association, the Abu Dhabi Islamic Bank's Articles of Association, resolutions of the General Assembly, or any other relevant laws or regulations.

The Directors have broad experience across a number of industries and business sectors, and provide valuable input and an external perspective to matters of business strategy. The Group has set the criteria for Independent Directors and Non-Executive Directors and these continued to be met during 2010.

The names of the Directors as 31 December 2010 were:

Name	Position
H.E. Jawaan Awaidha Suhail Al Khaili	Chairman
Mr. Khaled Abdulla Neamat Khouri	Vice Chairman
Mr. Juma Khamis Al Khaili	Member
Mr. Khamis Mohamed Buharoon	Member
Mr. Abdulla bin Aqeeda Al Muhairi	Member
Mr. Ragheed Najeeb Shanti	Member
Dr. Sami Ali Al Amri	Member

The roles of the Chairman, Chief Executive Officer and the Executive Chairman of Burooj are distinct and separate, with a clear division of responsibilities. The Chairman leads the Board and ensures the effective engagement and contribution of all Directors. Since inception the Financial Services and Real Estate businesses have been run independently, and on an arm's-length basis under the Abu Dhabi Islamic Bank (Financial Services) and Burooj (Real Estate) business structures respectively. The Chief Executive Officer has responsibility for all Group Financial Services businesses, while the Executive Chairman of Burooj has responsibility for the Real Estate businesses in UAE. They each act in accordance with the authority delegated by the Board. Responsibility for the development of policy and strategy and operational management is delegated to the Chief Executive Officer or the Executive Chairman of Burooj and their senior management teams, as appropriate.

All Directors participate in discussing strategy, financial and operational performance and the risk management of the Group. Meetings of the Board are structured to allow open discussion.

The Board establishes the rules relating to administrative, financial and employee matters of the Group and sets out the requirements for the conducting of Board business and meetings, and the respective roles and responsibilities of the Board members.

There were seven scheduled Board meetings during 2010. The Directors were supplied with comprehensive papers in advance of each Board meeting, covering the Group's principal business activities. Members of management attend and make regular presentations at meetings of the Board.

### **Board balance and independence**

In 2010 the Board comprised the Chairman, Vice Chairman and five other Board members. The majority of the Board members are UAE nationals, as required by the Federal Commercial Companies Law and the Bank's Article of Association. The Board functions effectively and efficiently and the Directors provide the Group with the knowledge, mix of skills, experience and networks of contacts required. The Board Sub-Committees comprise Directors, as well as external independent subject matter experts with a variety of relevant skills and experience, so that no undue reliance is placed on any individual.

### **Re-election of Directors**

The previous Board's term expired in early 2010. In compliance with the Bank's Article of Association, the shareholders elected the existing Board members in the Annual General Meeting held on 21 April 2010, including six members who sought re-election.

### **Information, induction and ongoing development**

All Directors receive accurate, timely and clear information on all relevant matters, and have access to the advice and services of the Head of Legal & Corporate Secretary who, together with the Head of Governance and Compliance, is responsible for ensuring that Board procedures are followed and applicable rules and regulations are complied with.

A formal induction process exists for each new Director on joining the Board, including visits to the Group's major business areas and meetings with other Directors and senior management. The Group provides the necessary professional development that Directors consider necessary to assist them in carrying out their duties as Directors.

### **Performance evaluation**

In 2010, a formal procedure was introduced in order that the Board could undertake a formal evaluation of its own performance and that of its committees and individual Directors.

### **Board Committees**

In 2010, the Board Committees were revised to reflect the requirements of Corporate Governance guidelines of the Central Bank of the UAE and best practice standards of Corporate Governance.

The new Committees of the Board are:

- Strategy Execution Committee;
- Audit Committee;
- Risk Policy Committee;
- Remuneration Committee; and
- Nomination Committee.

## Strategy Execution Committee

The Committee has been given delegated authority by the Board to assist the Group's executive management team in the execution of Group strategy and achieving the Group's strategic objectives.

The Strategy Execution Committee has the following mandate:

- Review, consider, discuss and challenge the relevant recommendations submitted by the relevant management within the Group;
- Work with the relevant management to make recommendations to the Board on strategy and the long-term objectives of the Group;
- Review and approve the delegation of approval authority to management with regard to the overall policies and procedures of the Group;
- Approve the authorities delegated to the Group's executives;
- Approve significant and very high-value transactions with regard to credit facilities, acquisitions and divestures, new business initiatives and proprietary investments;
- Review the proposal from management for establishment of branches, subsidiaries, and new joint ventures and their related budgets, and forward to the Board for strategic decisions; and
- Review and make recommendations to the Board on any material related transactions.

Members of the Strategy Execution Committee are:

Name	Position
Mr. Ragheed Najeeb Shanti	Chairman
Mr. Tirad Mahmoud – Chief Executive Officer	Vice Chairman
Mr. Khaled Abdulla Neamat Khouri	Member
Mr. Khamis Mohamed Buharoon	Member
Dr. Sami Ali Al Amri	Member

## Audit Committee

The Audit Committee was appointed to assist the Board in fulfilling its oversight responsibilities in respect of the Group.

The mandate of the Audit Committee is:

- To assist the Board in fulfilling its oversight responsibility relating to the integrity of the Group's consolidated financial statements and financial reporting process;
- To review the financial and internal control systems, quality assurance and operational risk management;
- To review the performance of the internal audit function;
- To review the annual independent audit of the Group's consolidated financial statements and internal controls over financial reporting;
- To recommend to the Board the engagement of the external auditors and evaluation of their qualifications, independence, and performance; and
- To ensure compliance by the Group with legal and regulatory requirements as pertaining to its business activities.

In 2010, the Committee received all the information and material it required to allow it to meet its obligations in respect of the 2010 financial statements and other mandated responsibilities.

Members of the Audit Committee are:

Name	Position
Mr. Abdulla bin Aqeeda Al Muhairi	Chairman
Mr. Juma Khamis Al Khaili	Member
Mr. Salem Sultan Al Dhaheri	Member and Subject Matter Expert

### Risk Policy Committee

The Risk Policy Committee of the Board assists the Board in fulfilling its oversight responsibilities in respect of the following risks inherent in the businesses of the Group and the related control processes:

- Approving and recommending to Board of Directors, when necessary, the policy, standards and guidelines and procedures for risk assessment and risk management;
- Reviewing and approving the risks inherent in the businesses of the Group and the control processes with respect to such risks;
- Reviewing and approving the risk profile and risk appetite of the Group;
- Reviewing the risk management, compliance and control activities of the Group; and
- Reviewing and approving ICAAP (Internal Capital Adequacy Assessment Process) and Basel II implementation

Members of the Risk Policy Committee are:

Name	Position
Mr. Arthur Grandy	Chairman and Subject Matter Expert
Mr. Tirad Mahmoud – Chief Executive Officer	Vice Chairman
Mr. Juma Khamis Al Khaili	Member
Mr. Khamis Mohamed Buharoon	Member
Mr. Ragheed Najeeb Shanti	Member
Mr. Masarrat Husain – Group Chief Risk Officer	Non-voting member

### Remuneration Committee

The Remuneration Committee has been appointed by the Board to assist it in fulfilling its oversight responsibilities in respect of the following for the Group:

- Review the selection criteria and the number of executive and employee positions required by the Group; and
- Review on an annual basis the policy for the remuneration, benefits, incentives and salaries of all Group employees.

Members of the Remuneration Committee are:

Name	Position
Mr. Juma Khamis Al Khaili	Chairman
Mr. Khaled Abdulla Neamat Khouri	Member
Dr. Sami Ali Al Amri	Member
Mr. Noble Powar	Member and Subject Matter Expert

### Nomination Committee

The Nomination Committee has been appointed by the Board to assist it in fulfilling its oversight responsibilities in respect of the following for the Group:

- To lead the process for Board members' appointments and re-appointment;
- Make recommendations to the Board for succession of Directors; and
- Ensure the independence of the Independent Directors at all times.

Members of the Nomination Committee are:

Name	Position
H.E. Jawaan Awaidha Suhail Al Khaili	Chairman
Mr. Juma Khamis Al Khaili	Member
Dr. Sami Ali Al Amri	Member

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## Meetings

The Board of Directors meets regularly, and Directors receive information between meetings about the activities of management committees and developments in the Group's business.

The number of scheduled meetings of the Board and Board Committees and individual attendance by members in 2010 are shown below:

### Board meetings and attendances

Board Members	Status	Meetings						
		Board	Executive Committee (1)	Strategy Execution Committee (2)	Audit Committee	Risk Policy Committee (2)	Remuneration Committee (5)	Nomination Committee (6)
		7 Meetings	18 Meetings	7 Meetings	4 Meetings	1 Meeting		
H.E. Jawaan Awaidha Suhail Al Khaili	Non-Executive	5						
Mr. Khaled Abdulla Neamat Khouri	Independent	7	12	5				
Mr. Juma Khamis Al Khaili	Independent	6			4	-		
Mr. Khamis Mohamed Buharoon	Non-Executive	6	15	6		1		
Mr. Abdulla bin Aqeeda Al Muhairi (3)	Independent	5			1			
Mr. Ragheed Najeeb Shanti	Non-Executive	7	18	7		1		
Dr. Sami Ali Al Amri	Independent	7		6				
<b>Other Members</b>								
Mr. Tirad Mahmoud (4)	Chief Executive Officer			7		1		
Mr. Salem Sultan Al Dhaheri	Subject Matter Expert				4			
Mr. Arthur Grandy (4)	Subject Matter Expert					1		
Mr. Noble Powar	Subject Matter Expert							
Mr. Masarrat Husain (4)	Group Chief Risk Officer					1		

Notes:

- 1) The Executive Committee's mandate ended in September 2010 and its various functions were shifted to the new Board committees.
- 2) The new committees were formed by Board Resolution in September 2010 and the meetings reflected are for the 4th quarter of 2010.
- 3) Joined the Board in April 2010 and Audit Committee in June 2010.
- 4) Appointed to the respective Board committees by Board resolution in September 2010.
- 5) The Remuneration Committee started its mandate in Q1 2011 to approve the 2010/2011 compensation policy for ADIB.
- 6) The Nomination Committee will started its mandate in 2011 and therefore no meetings were held in the period between its establishment and the end of the period under review.

#### Directors' remuneration and interests in the Group's shares

Directors' remuneration is approved at the Annual General Meeting. During 2010 the amount of remuneration paid to the directors was AED 3 million. In addition, Board members also receive AED 3 000 by way of an attendance fee for every Board meeting or Board Committee meeting they attend.

Directors' interests in the Group's shares are as follows:

Board Members	Shareholding at 1 January 2010	Shareholding at 31 December 2010*	Changes in shareholding
H.E. Jawaan Awaidha Suhail Al Khaili	36,617,590	43,941,108	7,323,518
Mr. Khaled Abdulla Neamat Khouri	-	-	-
Mr. Juma Khamis Al Khaili	4,290	5,148	858
Mr. Khamis Mohamed Buharoon	2,280	2,736	456
Mr. Abdulla bin Aqeeda Al Muhairi	3,633	-	3,633
Mr. Ragheed Najeeb Shanti			
Dr. Sami Ali Al Amri			

\* The increase in shares reflects the distribution of 20% bonus shares to all shareholders during 2010.

## External Auditors

The Audit Committee undertakes an annual evaluation to assess the independence and objectivity of the external auditors and the effectiveness of the external audit process. The outcome of this evaluation is considered by the Board, together with the Audit Committee's recommendation on the re-appointment of the external auditor.

The Audit Committee is responsible for making recommendations to the Board, so that it can submit the Audit Committee's recommendations to shareholders for their approval at the Annual General Meeting in relation to the appointment, reappointment and removal of the external auditors. The shareholders approved the appointment of Ernst & Young as the external auditors of the group for 2010 at the Annual General Meeting held in April 2010.

The Audit Committee also reviews the remuneration of the external auditors and the terms of engagement of the external auditors. The Audit Committee carries out a review of all non-audit services provided by the external auditors. During 2010 a formal policy for the external auditor's independence was introduced.

## Fatwa and Shari'a Supervisory Board

During 2010 the shareholders have elected a new Fatwa and Shari'a Supervisory Board, including re-election of four members and election of one additional member.

The Fatwa and Shari'a Supervisory Board, whose members are not Board Directors, has a term of three years and all members are required to form a quorum, whether by principal or by proxy. It has the following mandate:

- It issues fatwas pertaining to the Group's activities at the request of the Group's executive management or Board of Directors. It also supervises and controls the validity of the Group's activities to ensure that they comply with principles and rulings of the Islamic Shari'a, and provides its recommendations.
- It has the right to submit written objections to the Board of Directors with respect to any of the Group's activities that it considers do not comply with any of the principles and rulings of the Islamic Shari'a. In addition, it reviews all forms of contracts and agreements relating to any of the Group's businesses to ensure their compliance with Islamic principles.
- It has the right to review, at any time, the Group's books, records and documents, and request any information it may deem necessary. In the event of its inability to discharge its duties, it will report this formally to the Board of Directors.

The members of the Fatwa and Shari'a Supervisory Board are:

Name	Position
Sheikh Mohamed Taqi Uthmani	Chairman
Dr. Abdul Sattar Abu Ghuddah	Vice Chairman
Dr. Jasem Ali Salem Al Shamsi	Member
Sheikh Nizam Ya'qoubi	Member
Dr. Muhamed Elqari	Member

### Internal control

The Board of Directors is responsible for the Group's system of internal control and for ensuring that management maintains a system of internal control that provides assurance of effective and efficient operations, internal financial controls, and compliance with laws and regulations. In devising internal controls, the Group has regard to the nature and extent of the risk, the likelihood of its occurrence, and the cost of controls. A system of internal control is designed to manage, but not eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against the risk of material misstatement, fraud or losses.

The Group's system of internal control includes:

- An organisation structure with clearly defined authority limits and reporting mechanisms to senior levels of management and to the Board.
- A Risk Management function with responsibility for ensuring that risks are identified, assessed and managed throughout the Group.
- A set of policies and guidelines relating to credit risk management, asset and liability management, compliance, operational risk management and business continuity planning.
- An annual budgeting and monthly financial reporting system for all Group business units, which enables progress against plans to be monitored, trends to be evaluated and variances to be acted upon.
- An Internal Audit function to evaluate the adequacy and effectiveness of governance, risk and control systems, and to review management's compliance with policies and procedures.

The effectiveness of the Group's internal control system is reviewed regularly by the Board and the Audit Committee, which receive regular reports on significant risks facing the business and how they are being controlled. In addition, the Board receives regular risk management reports. Additional details of the Group's approach to risk management are given in note 43 to the Financial Statements. The Board received a number of reports from Internal Audit and the Audit Committee, and has received confirmation that management has taken, or is taking, the necessary action to remedy failings or weaknesses identified in these reports.

In addition, the Group's external auditors present to the Audit Committee reports that include details of any significant internal control matters that they have identified. The system of internal controls of the Group is also subject to regulatory oversight by the UAE Central Bank.

### Relations with shareholders

The Group communicates with shareholders through the Annual Report and by providing information at the Annual General Meeting. Individual shareholders can raise matters relating to their shareholdings and the business of the Group at any time throughout the year. During 2010 the Group provided extensive information about its Corporate Governance structure and other related information on its website.

Shareholders are given the opportunity to ask questions at the Annual General Meeting. Executive management also holds regular meetings with, and makes presentations to, institutional investors.