

Corporate Governance Report

Corporate governance is a matter of vital importance and a fundamental part of the culture and business practice of the Abu Dhabi Islamic Bank and its subsidiaries ("the Group"). The Group is committed to the application of relevant global best practice in regard to governance, transparency, enhancing the management and oversight of risk, as well as promoting the highest standards of audit and compliance accountability.

Furthermore, the Group has complied with the governance guidelines of the UAE Central Bank. The Group's corporate governance structure consists of an elected Board, an elected Fatwa and Shari'a Supervisory Board, five independent Board Committees, and effective supervisory monitoring processes.

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 considerable 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 2011.

The names of the Directors as of 31 December 2011 were:

Name	Position	Appointment Date
HE Jawaan Awaidha Suhail Al Khaili	Chairman	28/02/2008
Mr Khaled Abdulla Neamat Khouri	Vice Chairman	26/04/2007
Mr Juma Khamis Al Khaili	Member	16/04/2004
Mr Khamis Mohamed Buharoon	Member	26/08/2007
Mr Abdulla bin Aqeeda Al Muhairi	Member	21/04/2010
Mr Ragheed Najeeb Shanti	Member	26/04/2007
Dr Sami Ali Al Amri	Member	10/03/2009

Independence from Management

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 arms-length basis of each other 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 Group 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 carrying out of Board business and meetings, and the roles and responsibilities of the Board members.

There were seven scheduled Board meetings during 2011. 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 2011 the Board comprised the Chairman, Vice Chairman and five other Board Members. The majority of the Board members are UAE nationals as per requirement of 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 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.

Selection and Qualification of Board Members

The Nomination Committee is responsible for identifying, evaluating and selecting candidates for the Board of Directors. The Nomination Committee reviews and recommends all Director Appointments. In doing so, it seeks to identify the skills that Board and Board Committee members require in order to discharge their responsibilities effectively, taking into account the Bank and its Subsidiaries risk profiles, business operations and business strategies.

The Board members were elected by the Shareholders for a three year term in the Annual General Meeting of 21 April 2010 and continued their term during 2011 without any changes.

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 to the Board for ensuring that Board procedures are followed and that 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.

Board Committees

The following Board Committees, which were established in 2010 to reflect requirements of Corporate Governance guidelines of Central Bank of the UAE and best practice standards of Corporate Governance, continued to work effectively and independently during 2011.

- 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 the 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;
- Reviewing and approving the delegation of approval authority to management in regard to the overall policies and procedures of the Group;
- Approving the authorities delegated to the Group's executives;
- Approval of significant and very high value transactions in regard to credit facilities, acquisitions and divestures, new business initiatives and proprietary investments;
- Review the proposal from the management for establishment of branches, subsidiaries, and new joint ventures and their related budgets and forward to the Board for strategic decisions; and
- Reviewing and making 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

* Non-Board 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 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 2011, the Committee received all the information and material it required to allow it to meet its obligations in respect of the 2011 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

** Mr Salem Sultan Al Dhaheri, who was not a Director, resigned from the Audit Committee on 03 May 2011.

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 Director 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
- Review and approve 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

* Non-Board members

Remuneration Committee

The Remuneration Committee has been appointed by the Board to assist the Board 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

** Non-Board member

Nomination Committee

The Nomination Committee has been appointed by the Board to assist the Board 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.
- Ensure the independence of the Independent Directors at all times.

Members of the Nomination Committee are:

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

Corporate Governance Report continued

Board Meetings and Attendance

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 2011 are shown below:

Board Members	Status	Board	Strategy Execution Committee	Audit Committee	Risk Policy Committee	Remuneration Committee	Nomination Committee
		7 Meetings	28 Meetings	5 Meetings	4 Meetings	2 Meetings	1 Meeting
HE Jawaan Awaidha							
Suhail Al Khaili	Non-Executive	5					1
Mr Khaled Abdulla Neamat Khouri	Independent	7	20			2	
Mr Juma Khamis Al Khaili	Independent	7		5	3	2	1
Mr Khamis Mohamed Buharoon	Non-Executive	7	24		4		
Mr Abdulla bin Aqeeda Al Muhairi	Independent	5		5			
Mr Ragheed Najeeb Shanti	Non-Executive	7	26		4		
Dr Sami Ali Al Amri	Independent	6	26			2	1
Other Members							
Mr Tirad Mahmoud	Chief Executive Officer		27		4		
Mr Salem Sultan Al Dhaheri *	Subject Matter Expert			1			
Mr Arthur Grandy	Subject Matter Expert				4		
Mr Masarrat Husain	Group Chief Risk Officer				4		
Noble Powar	Subject Matter Expert					2	

* Resigned from the Audit Committee on 03 May 2011.

Directors' remuneration and interests in the Group's shares

Directors' remuneration is approved at the Annual General Meeting. During 2011 the amount of remuneration paid to the directors was AED 4.2 million. In addition Board members also receive AED 3,000 by way of an attendance fee for every Board Meeting or Board's Committee meeting that they attend.

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

Board Members	Shareholding at 1 January 2011	Shareholding at 31 December 2011	Changes in shareholding
HE Jawaan Awaidha Suhail Al Khaili	43,941,108	43,941,108	-
Mr Khaled Abdulla Neamat Khouri	-	-	-
Mr Juma Khamis Al Khaili	5,148	5,148	-
Mr Khamis Mohamed Buharoon	-	-	-
Mr Abdulla bin Aqeeda Al Muhairi	-	-	-
Mr Ragheed Najeeb Shanti	-	-	-
Dr Sami Ali Al Amri	-	-	-

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 auditor of the group for 2011 at the Annual General Meeting held in March 2011.

The Audit Committee also reviews the remuneration of the external auditors and the terms of engagement of the external auditors. The Audit Committee also carries out a review of all non-audit services provided by the external auditors according to the Group's policy for external auditor's independence.

Fatwa and Shari'a Supervisory Board

The members of the Fatwa and Shari'a Supervisory Board were elected by the shareholders in the Annual General Meeting of 21 April 2010 and continued their term during 2011 without any changes.

The Fatwa & 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 which 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 business and products 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 & 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 to ensure 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 regards 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 adequacy and effectiveness of governance, risk and control system and to review the 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 the 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 which 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. The Group provides extensive information about the Group's 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 hold regular meetings with, and make presentations to, institutional investors.

Extensive information about the Group's activities is provided in the Annual Report which is also available on the Group's website.