

Corporate Governance Report

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A commitment to corporate governance underpins the culture and business practices of Abu Dhabi Islamic Bank ("ADIB") and its Group companies. ADIB aims to be a regional leader in this regard, through the on-going application of relevant global practices with respect to: governance; transparency; ethics, enhancement of the management and oversight of risk; and promotion of the highest standards of audit and compliance accountability. ADIB's overarching objective is to be "a top tier Islamic financial services group" and has committed to the following corporate values in order to achieve this objective:

- "We keep it simple and sensible"
- "We are transparent"
- "We work for mutual benefit"
- "We nurture hospitality and tolerance"
- "We are Shari'a inspired"

These values are enforced through a range of internationally-accepted corporate governance principles, standards and policies.

Board of Directors ("Board")

The Board has ultimate responsibility for the success of ADIB and for delivering sustainable shareholder value within a framework of prudent and effective controls. It is thus responsible for supervision of the management of the business affairs of ADIB, providing leadership in the development and implementation of the group's vision and mission, both within the UAE and as the group expands abroad. The Board carries out its duties either directly or through the Board Committees.

The Board has all the powers necessary to carry out its responsibilities, as provided by: Federal Law No.8 of 1984 concerning Commercial Companies, as amended; the Memorandum and Articles of Association of ADIB; resolutions of the Annual General Meeting and Extraordinary General Assemblies; and any other relevant laws or regulations.

The Directors, all of whom are non-executive, have considerable experience across a number of industries and business sectors, providing valuable input and external perspective to matters of business strategy.

The Directors as at 31 December 2013 were:

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

Independence from Management

The roles of the Chairman and the Chief Executive Officer 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. The Chief Executive Officer has responsibility for all ADIB Group businesses, including their strategy, policy and operational management, and he acts in accordance with the authority delegated by the Board.

All directors participate in discussion of ADIB strategy, financial and operational performance and risk management, either in Board meetings or in the Board Committees on which they serve. All such meetings are structured to allow open discussion and accountability.

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

There were six scheduled Board meetings during 2013.

Board Balance and Independence

In 2013 the Board comprised the Chairman, Vice Chairman and five other members. All Board members are non-executive and the majority are UAE nationals, as required by the Federal Commercial Companies Law and the Bank's Articles of Association. The Board functions effectively and efficiently, backed by the knowledge and mix of skills and experience provided by the Directors. The Board Committees comprise Directors and external independent subject matter experts, with a diversity of backgrounds aimed at ensuring that no undue reliance is placed on any one individual.

Re-election of Directors

The previous Board's term expired in early 2013. In compliance with the Bank's Articles of Association, the shareholders re-elected the existing Board members at the Annual General Meeting held on 28 March 2013, for a further three year term.

Information, induction and on-going development

The 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 Corporate Governance and Compliance, is responsible to the Board for ensuring that Board procedures are followed and applicable rules and regulations complied with.

A formal induction process exists for new Directors joining the Board, including visits to ADIB's major business areas and meetings with other Directors, the Chief Executive Officer and key members of senior management. ADIB provides any professional development that Directors consider necessary to assist them in carrying out their duties.

Board Committees

The following Board Committees continued to work effectively and independently during 2013:

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

In December 2013, a corporate governance review conducted in conjunction with external consultants led to a further strengthening of ADIB's governance structures and protocols, ensuring they are fully in line with the Group's business growth and expansion. Arising from this, the new committee structures and roles are as follows:

- Group Strategy Committee;
- Group Audit Committee;
- Group Governance & Risk Policy Committee;
- Group Risk and Investment Approval Committee;
- Group Remuneration Committee; and
- Group Nomination Committee.

Group Strategy Committee

This Committee guides ADIB's Executive Management in the execution of the Group's strategic objectives and business strategy, conducts periodic reviews in the achievement thereof and directs corrective actions wherever required. In addition, this Committee also acts as a conduit between the Board and senior management on business issues. The Committee has following major responsibilities:

- i. Review, consider, discuss and challenge the recommendations submitted by the executive management with regard to business strategy, budgets and annual plans;
- ii. Work with management to make recommendations to the Board on the business strategy and long term strategic objectives of ADIB, including all subsidiaries and associates;
- iii. Review the financial performance of each business group on a quarterly basis and make recommendations should action be required;
- iv. Review and recommend capital allocation within the ADIB Group to the Board;
- v. Review the organisational structure of ADIB and make recommendations to the Board on any changes deemed necessary;
- vi. Review proposals from management for the establishment or disposal of branches, subsidiaries and new joint ventures, referring them to the Risk and Investment Approval Committee for final decision;
- vii. Approve the policy relating to charitable donations.

The members of the Group Strategy Committee are:

Name	Position
Dr Sami Ali Al Amri	Chairman
Tirad Mahmoud - Chief Executive Officer*	Vice Chairman
Khaled Abdulla Neamat Khouri	Member
Khamis Mohamed Buharoon	Member

* Non-Board member

Group Audit Committee

The Group Audit Committee assists the Board in fulfilling its oversight responsibilities with respect to auditing and financial reporting. The Committee has the following major responsibilities:

- i. Assist the Board in fulfilling its oversight responsibility relating to the integrity of ADIB's consolidated financial statements and financial reporting process;
- ii. Review the financial and internal control systems, quality assurance and risk management framework;
- iii. Review the performance of the internal audit function;
- iv. Review the internal controls over financial reporting and conduct an annual independent audit of ADIB's consolidated financial statements;
- v. Recommend to the Board the engagement of the external auditors and evaluation of their qualifications, independence and performance; and
- vi. Ensure compliance with legal and regulatory requirements.

The members of the Group Audit Committee are:

Name	Position
Abdulla Bin Aqueeda Al Muhairi	Chairman
Dr Sami Ali Al Amri	Member
Khamis Mohamed Buharoon	Member
David Smith*	Subject matter expert

* Non-Board member

Group Governance and Risk Policy Committee

The Governance and Risk Policy Committee assists the Board in fulfilling its oversight responsibilities in respect of the following:

- i. Review the risk profile of the Group, bearing in mind the requirements pertaining to enterprise risk management; making recommendations to calibrate the risk profile of ADIB in line with the applicable regulatory requirements, rating considerations and business strategy;
- ii. Assist the Board in overseeing ADIB's response to the risks it faces, through the approval and application of the Group's risk policies and standards; and
- iii. Review and recommend the corporate governance framework and risk strategy to the Board in alignment with Group business growth requirements.

The members of the Group Governance and Risk Policy Committee are:

Name	Position
Arthur Grandy*	Chairman and subject matter expert
Tirad Mahmoud – Chief Executive Officer*	Vice Chairman
Juma Khamis Mugheer Al Khaili	Member
Dr Sami Ali Al Amri	Member
Abdulla Bin Aqueeda Al Muhairi	Member
Masarrat Husain, Group Chief Risk Officer*	Non-voting member

* Non-Board member

Group Risk and Investment Approval Committee

The Group Risk and Investment Approval Committee considers and approves ADIB's risk exposures, high value transactions and major items of capital expenditure. In addition, this Committee is also responsible for monitoring credit portfolio quality and provisions. It is not within the scope of the Committee's responsibilities to approve any risk policies or standards. The Committee has the following major responsibilities:

- i. Review and approve credit and other risk exposures;
- ii. Review the credit portfolio on a periodic basis in order to assess alignment with the approved credit strategy and risk appetite of the Group;
- iii. Review actions undertaken by management with regard to remedial activities;
- iv. Monitor general and specific provisions;
- v. Approve significant and high value transactions with regard to acquisitions and divestures, new business initiatives and proprietary investments, international business and merger and acquisitions;
- vi. Review and recommend to the Board approval for those investment proposals requiring such approval due to regulations;
- vii. Approve high value transactions in respect of capital expenditure, IT projects and procurement of equipment and materials for the Bank's operations; and
- viii. Review and make recommendations to the Board on any material non-credit related party transactions.

The members of the Group Risk and Investment Approval Committee are:

Name	Position
HE Jawaan Awaidha Suhail Al Khaili	Chairman
Khaled Abdulla Neamat Khouri	Vice Chairman
Juma Khamis Mugheer Al Khaili	Member
Ragheed Najeed Shanti	Member
Tirad Mahmoud - Chief Executive Officer*	Member

* Non-Board member

Group Remuneration Committee

The Group Remuneration Committee assists the Board in fulfilling its oversight responsibilities in respect of the following for the Group:

- i. Review the selection criteria and number of executive and employee positions required by ADIB; approve the overall manpower of ADIB based on reports submitted by the Chief Executive Officer, taking into consideration the advice of an independent and recognized consulting firm;
- ii. Review on an annual basis the policy for the remuneration, benefits, incentives and salaries of all ADIB employees, including bank and non-bank subsidiaries and affiliates, as submitted by the Chief Executive Officer, taking into consideration the advice of an independent and recognized consulting firm.

The members of the Group Remuneration Committee are:

Name	Position
Juma Khamis Mugheer Al Khaili	Chairman
Khaled Abdulla Neamat Khouri	Member
Dr Sami Ali Al Amri	Member
Noble Powar*	Subject matter expert

* Non-Board member

Group Nomination Committee

The Group Nomination Committee assists the Board in fulfilling its oversight responsibilities in respect of the following:

- i. Identify and nominate, for approval of the Board, candidates for appointment to the Board;
- ii. Recommend on succession plans for Directors;
- iii. Input on renewal of the terms of office of non-executive Directors;
- iv. Assist with membership of Board committees, in consultation with the Board's Chairman and the Chairmen of such committees;
- v. Guide on matters relating to the continuation in office of any Director at any time;
- vi. Recommend on appointments and re-appointments to the boards of major subsidiaries and controlled affiliated companies;
- vii. Ensure the independence of the independent directors and any qualified subject matter expert appointed to a Board Sub Committee;
- viii. Regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board and make recommendations to the Board with regard to any changes.

The members of the Group Nomination Committee are:

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

Board meetings and attendance

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

There were six scheduled Board meetings during 2013. Attendance by individual members is as follows:

Board Members	Status	Board
		Meetings Attended
HE Jawaan Awaidha Suhail Al Khaili	Non-Executive	4
Khaled Abdulla Neamat Khouri	Independent	6
Juma Khamis Mugheer Al Khaili	Independent	4
Khamis Mohamed Buharoon	Non-Executive	6
Abdulla Bin Aqueeda Al Muhairi	Independent	4
Ragheed Najeeb Shanti	Non-Executive	6
Dr Sami Ali Al Amri	Independent	6

Ordinary General Assembly Meetings

The Ordinary Annual General Assembly Meeting of the shareholders was held on 28 March 2013, wherein the following matters were discussed and approved, for the year ended 31 December 2012:

1. Board of Director's Report on the Bank's activities and financial statements;
2. The Shari'a and Fatwa Supervisory Board Report;
3. External Auditor's report;
4. The audited Balance Sheet and Profit & Loss account;
5. The proposal to distribute cash dividend to the shareholders, being 25.4% per share;
6. Board Members remuneration for the period;
7. Discharge of Board of Directors and External Auditors from liability for their work during the year;
8. Appointment of External Auditors for the year 2013 and determination of their fees;
9. Election of Board of Directors for the next three years; and
10. Re-appointment of the Shari'a Board.

Directors' remuneration and interests in the Group's shares

Directors' remuneration is approved at the Annual General Assembly Meeting. During 2013 the total remuneration paid to the directors was AED 4.2 million. In addition Board members also received AED 3,000 by way of an attendance fee for every Board or Committee meeting attended.

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

Board Members	Shareholding at 1 January 2013	Shareholding at 31 December 2013	Changes in Shareholding
HE Jawaan Awaidha Suhail Khaili	43,941,108	43,941,108	-
Khaled Abdulla Neamat Khouri	-	-	-
Juma Khamis Mugheer Al Khaili	5,148	5,148	-
Khamis Mohamed Buharoon	-	-	-
Mr Abdulla Bin Aqeeda Al Muhairi	-	-	-
Ragheed Najeeb Shanti	-	-	-
Dr Sami Ali Al Amri	-	-	-

External Auditors

The Group 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 Group Audit Committee is also responsible for making recommendations to the Board on the appointment, reappointment, remuneration and removal of the external auditors. The shareholders approved the appointment of Ernst & Young as the external auditors of ADIB for 2013 at the Annual General Assembly Meeting held in March 2013.

The Group Audit Committee also carries out a review of all non-audit services provided by the external auditors, in line with ADIB's policy for to ensure external auditor independence.

Fatwa and Shari'a Supervisory Board

The previous term of the Fatwa Shari'a Supervisory Board expired in early 2013. In compliance with the Bank's Article of Association, the shareholders re-elected the existing members in the Annual General Meeting held on 28 March 2013.

The Fatwa & Shari'a Supervisory Board, whose members are not members of the ADIB Board, 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 ADIB Group's activities at the request of the executive management or Board. It also supervises and controls the validity of ADIB'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 ADIB'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 ADIB's business and products to ensure their compliance with Islamic principles; and
- It has the right to review, at any time, ADIB'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 is responsible for ADIB's system of internal control. It must ensure that management maintains a system of internal control that provides effective and efficient operations, internal financial controls and compliance with laws and regulations. The Board must also ensure that internal controls assess, manage and, where appropriate, mitigate against risk. The internal control system 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. ADIB, through its training and management standards and procedures, has developed a disciplined and constructive control environment in which all employees understand their roles and obligations.

ADIB's system of internal control includes:

- An organisational structure with clearly-defined authority limits and reporting mechanisms to senior levels of management and the Board;
- A Risk Management function with responsibility for ensuring that risks are identified, assessed and managed throughout ADIB;
- 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; and
- An Internal Audit function to evaluate the adequacy and effectiveness of governance, risk and control systems, and to review the management's compliance with policies and procedures.

The effectiveness of the ADIB 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. Additional details of ADIB'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 Group Audit Committee during the year under review and has received confirmation that management has taken, or is taking, the necessary action to remedy any failings or weaknesses identified in these reports.

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

Relations with Shareholders

In line with its values, ADIB applies high standards of transparency and disclosure. Relevant financial and non-financial information is communicated to shareholders, customers, regulators, employees and other stakeholders timeously, through ADIB's website, via Abu Dhabi Securities Market (ADX) and various other mechanisms. Employees and management are kept aware of all new developments, including policies and process updates, ethical standards, new regulations and other relevant information via numerous internal channels.

ADIB communicates with shareholders through the Annual Report and by providing information at the Annual General Assembly Meeting. The Group has a dedicated Investor Relations section on its website and also provides extensive information about the Group's Corporate Governance structure and other related information on the same website.

Shareholders are given the opportunity to ask questions at the Annual General Assembly Meeting. Executive management also holds regular meetings with and makes presentations to institutional investors. In addition to this, individual shareholders can raise matters relating to their shareholdings and the business of ADIB at any time during the year.