

# 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.**

Corporate governance is a fundamental aspect of the culture and business practices of Abu Dhabi Islamic Bank and its subsidiaries ("the Group"). The Group aims to be a leader in corporate governance in the region through the on-going application of relevant global practices with regard to: governance; transparency; the enhancement of the management and oversight of risk; as well as the promotion of the highest standards of audit and compliance accountability. Furthermore, the Group prides itself on being one of the first banks to comply with the governance guidelines of the UAE Central Bank.

The Group Corporate Governance Structure consists of: an elected Board of Directors; a Fatwa and Shari'a Supervisory Board; five independent Board Committees; and effective supervisory monitoring processes.

## Board of Directors

The Board of Directors (the "Board") is the principal decision-making forum for the Group. It has overall responsibility for leading and controlling ADIB 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 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 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 2012.

The Directors as of 31 December 2012 were:

Name	Position	Appointment Date
H.E. Jawaan Awaidha Suhail Al Khaili	Chairman	28/02/2008
Mr. Khaled Abdulla Neamat AlKhoury	Vice Chairman	26/04/2007
Mr. Juma Khamis Al Khaili	Member	16/04/2004
Mr. Khamis Mohamed Buharoon Al Shamsi	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 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. As of 2012, the Chief Executive Officer has responsibility for all Group businesses, and he acts in accordance with the authority delegated by the Board. Responsibility for the development of strategy, policy and the operational management of the Group is delegated to the Chief Executive Officer and his senior management team as appropriate.

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

The Board establishes the rules relating to administrative, financial and employee matters of the Group, 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 seven scheduled Board meetings during 2012. The Directors were supplied with comprehensive papers in advance of each such meeting, covering the Group's principal business activities. The Chief Executive Officer and members of his management team attend and make regular presentations at meetings of the Board as necessary.

### **Board Balance and Independence**

In 2012 the Board comprised the Chairman, Vice Chairman and five other Board Members. All the Board members are Non-executive Directors 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, mix of skills and experience provided by the Directors. The Board Committees comprise Directors, as well as external independent Subject-Matter Experts, with a variety of relevant skills and experience aimed at ensuring that no undue reliance is placed on any one individual.

### **Selection and Qualification of Board Members**

The Group Nomination Committee is responsible for identifying, evaluating and selecting candidates for the Board of Directors. In doing so, it seeks to identify the skills that the members of the Board and Board Committees require in order to discharge their responsibilities effectively, taking into account the Group's risk profile, business operations and business strategy.

The Board members, who were elected by the shareholders for a three-year term in the Annual General Assembly Meeting of 21 April 2010, continued their term during 2012 without any change.

### **Information, induction and ongoing 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, are 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 upon joining the Board, including visits to the Group's major business areas and meetings with other Directors, the Chief Executive Officer and key members of senior management. The Group provides the necessary professional development that Directors consider necessary to assist them in carrying out their duties.

### **Board Committees**

The following Board Committees, which were revised in 2010 to reflect the Corporate Governance guidelines of the Central Bank of the UAE and best practice standards, continued to work effectively and independently during 2012.

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

## Group Strategy Execution Committee

The Board has delegated the necessary authority to the Group Strategy Execution Committee in order to enable it to assist the Chief Executive Officer and the executive management team in the execution of the Group's strategy and achieving the Group's strategic objectives.

The Committee has the following mandate:

- Review, consider, discuss and challenge strategic and related recommendations, including capital, submitted by the relevant management within the Group;
- Work with executive 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 in 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 in regard to credit facilities, acquisitions and divestures, new business initiatives and proprietary investments;
- Review proposals and budgets from management for the establishment of branches, subsidiaries and new joint ventures; and
- Review and making recommendations to the Board on any material related party transactions.

The members of the Group Strategy Execution Committee are:

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

\* Non-Board member

## Group Audit Committee

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

The mandate of the 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;
- Review the financial and internal control systems, quality assurance and operational risk management;
- Review the performance of the internal audit function;
- Review the annual independent audit of the Group's consolidated financial statements and internal controls over financial reporting;
- Recommend to the Board the engagement of the external auditors and evaluation of their qualifications, independence and performance; and
- Ensure compliance by the Group with legal and regulatory requirements in all of its business activities.

In 2012 the Committee received all the information and material it required to allow it to meet its obligations in respect of the 2012 financial statements, and other mandated responsibilities.

The members of the Group Audit Committee are:

Name	Position
Mr. Abdulla bin Aqeeda Al Muhairi	Chairman
Mr. Juma Khamis Al Khaili	Member

The appointment of a third member, as a Subject Matter Expert is under review.

### Group Risk Policy Committee

The Group Risk Policy Committee 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 the Board as and 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 the implementation of Basel II and Basel III across the Group.

The members of the Group Risk Policy Committee are:

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

\* Non-Board members

### Group Remuneration Committee

The Group Remuneration Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibilities in respect of the following:

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

The members of the Group Remuneration Committee are:

Name	Position
Mr. Juma Khamis Al Khaili	Chairman
Mr. Khaled Abdulla Neamat AlKhouri	Member
Dr. Sami Ali Al Amri	Member

### Group Nomination Committee

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

- Leading the process for Board member appointments and re-appointments;
- Making recommendations to the Board for the succession of Directors; and
- Ensuring the independence of the Independent Directors at all times.

The members of the Group 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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## Board meetings and attendance

The Board meets regularly and Directors receive information between meetings about the activities of the Board 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 2012 are shown below:

Board Members	Status	Board Committees					
		Board	Strategy Execution Committee	Audit Committee	Risk Policy Committee	Remuneration Committee	Nomination Committee
		7 Meetings	28 Meetings	4 Meetings	4 Meetings	2 Meetings	1 Meeting
H.E. Jawaan Awaidha							
Suhail Al Khaili	Non-Executive	4					1
Mr. Khaled Abdulla Neamat Al Khouri	Independent	6	19			2	
Mr. Juma Khamis Al Khaili	Independent	4		4	3	2	1
Mr. Khamis Mohamed Buharoon Al Shamsi	Non-Executive	7	25		4		
Mr. Abdulla bin Aqeeda Al Muhairi	Independent	7		4			
Mr. Ragheed Najeeb Shanti	Non-Executive	7	24		4		
Dr. Sami Ali Al Amri	Independent	7	23			2	1
<b>Other Members</b>							
Mr. Tirad Mahmoud	Chief Executive Officer		26		3		
Mr. Arthur Grandy	Subject Matter Expert				4		
Mr. Masarrat Husain	Group Chief Risk Officer				4		

## Ordinary and Extraordinary General Assembly Meetings

The Ordinary Annual General Assembly Meeting of the shareholders was conducted on 4 April 2012, wherein the following matters were discussed and approved:

- Board of Director's Report on the Bank's activities and financial statements for the year ended 31 December 2011;
- The Shari'a and Fatwa Supervisory Board Report on the Bank's activities for the year ended 31 December 2011;
- External Auditor's report for the year ended 31 December 2011;
- The audited Balance Sheet and Profit & Loss account and proposed Board Members' remuneration for the year ended 31 December 2011;
- The proposal to distribute to the shareholders 50% of net profits for the year ended 31 December 2011;
- Discharge of Board of Directors and External Auditors from liability for their work during the year ended 31 December 2011; and
- Appointment of External Auditors for the year 2012 and determination of their fees.

An Extraordinary General Assembly Meeting (EGM) was held on 21 October 2012, wherein the shareholders approved the proposed issuances and programmes listed in paragraphs 1-4 below and to authorize the Board of Directors of the Bank, (and/or any Board Committee and/or the Executive Management of the Bank, individually or collectively, in each case as authorized or to be authorized by the Board of Directors of the Bank) in this regard, to take all necessary actions to determine the optimal (i) capital; and (ii) funding position of the Bank, by determining the amount, currency, tranches, offering mechanism (public or private placement), issuer (including a direct or indirect through a special purpose vehicle) issuance), transaction structure (single issuance, multiple issuances or programme establishment or update), timing, tenor and other terms and conditions (including, without limitation, the underlying Islamic structure, geographies of issue, listing if any) and ranking of any payments against future dividends of any issuances and to take the necessary measures and to seek any and all approvals from the relevant competent authorities required in connection with any such issuances; provided that the aggregate amount of such issuances outstanding at any one time shall not exceed USD5 billion (or the equivalent thereof in other currencies) and with the following specific sub-limits (it being noted that each of the sub-limits set out in paragraphs 1-4 relate to separate approvals and should not operate (or be interpreted to operate) as limiting each other:

1. The Bank's Trust Certificate Issuance Programme and issuances thereunder, with the aggregate amount of trust certificates outstanding at any one time under the programme limited to USD5 billion (or the equivalent thereof in other currencies), as originally approved by the EGMs dated 26 March 2006 and 31 March 2011;
2. The issuance in Malaysian Ringgits (MYR) of: (i) non-convertible Shari'a compliant tier 2 capital instruments for the purposes of raising further tier 2 capital to strengthen the Bank's capital adequacy ratio; and/or (ii) Shari'a compliant non-convertible senior unsubordinated securities for the purpose of providing additional funding for the Bank's activities, providing that the aggregate amount outstanding at any one time in respect of instruments issued pursuant to (i) or (ii) shall not exceed MYR1.5 billion;
3. The issuance of non-convertible Shari'a compliant tier 2 capital instruments for the purpose of raising further tier 2 capital to strengthen the Bank's capital adequacy ratio, provided that the aggregate amount outstanding under such instruments at any one time shall not exceed USD2 billion (or the equivalent thereof in other currencies) (taking into account for this purpose the amounts (if any) outstanding under the AED2.2 billion tier 2 capital Wakala with the Ministry of Finance of the United Arab Emirates (as approved on 22 March 2009) or any future replacement of same; and
4. The issuance of non-convertible Shari'a compliant hybrid tier 1 capital instruments for the purpose of raising further tier 1 capital to strengthen the Bank's capital adequacy ratio, provided that the aggregate amount outstanding under such instruments at any one time shall not exceed USD2 billion (or the equivalent thereof in other currencies) (taking into account for this purpose the amounts (if any) outstanding under the AED2 billion hybrid tier 1 capital issuance to the Department of Finance, Government of Abu Dhabi (as approved on 22 March 2009) or any future replacement of same).

That any and all issues under the proposed issuances and programme identified in paragraphs 1-4 above (and subject to the above limits) do not require any additional shareholder approvals provided the relevant instruments do not contain provisions entitling the investors or Sukuk holders to convert their interests into share capital in the Bank.

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

Directors' remuneration is approved at the Annual General Assembly Meeting. During 2012 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 that they attend.

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

Board Members	Shareholding at 1 January 2012	Shareholding at 31 December 2012	Changes in shareholding
H.E. Jawaan Awaidha Suhail Al Khaili	43,941,108	43,941,108	-
Mr. Khaled Abdulla Neamat AlKhoury	-	-	-
Mr. Juma Khamis Al Khaili	5,148	5,148	-
Mr. Khamis Mohamed Buharoon Al Shamsi	-	-	-
Mr. Abdulla bin Aqeeda Al Muhairi	-	-	-
Mr. 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 the Group for 2012 at the Annual General Assembly Meeting held in April 2012.

The Group Audit Committee also carries out a review of all non-audit services provided by the external auditors, in line with 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 Assembly Meeting, of 21 April 2010 continued their term during 2012 without any change.

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; and
- 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 ensuring that management maintains a system of internal control that provides the appropriate level of assurance of 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. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's system of internal control includes:

- An organisational 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; 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 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. Additional details of the Group's approach to risk management are given in the note 43 to the Financial Statements. In addition, 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 failings or weaknesses identified in these reports.

In addition, the Group's 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

The Group 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 make presentations to, institutional investors. In addition to this, individual shareholders can raise matters relating to their shareholdings and the business of the Group at any time during the year.