

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

Effective corporate governance remains central to the culture and business practices of Abu Dhabi Islamic Bank ("ADIB") and its Group companies. ADIB endeavours to continually upgrade and adopt best practices in the areas of governance, transparency, ethics, management and oversight of risk, audit and compliance.

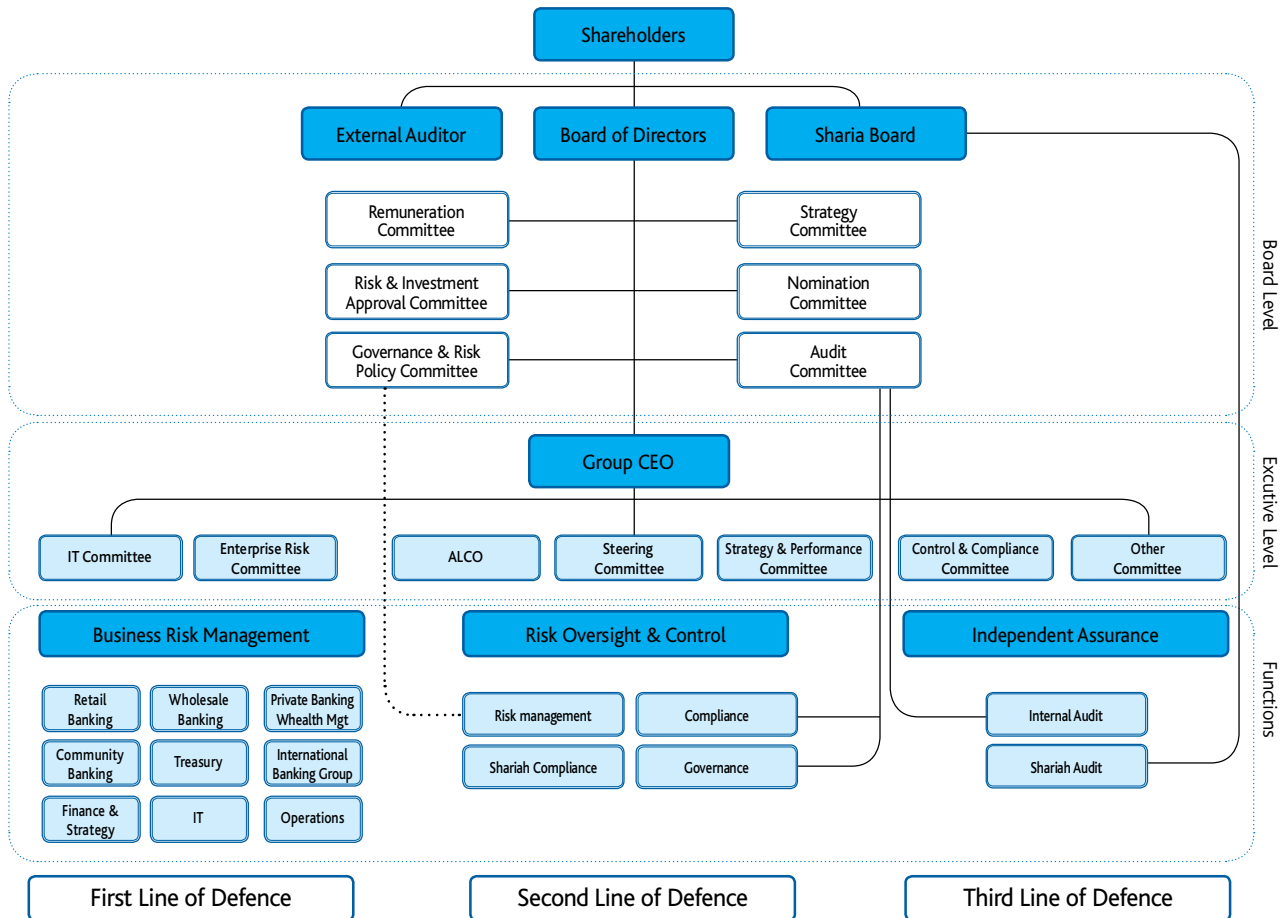
ADIB's overarching objective is to be "a top tier Islamic financial services group" and has committed to the following corporate values in order to achieve this objective:

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

Corporate Governance Framework

These values are embedded across the Group through a corporate governance framework that is relevant and proportionate to the scope and size of ADIB's businesses. The framework is built on the principles prescribed by the Basel Committee on Banking Supervision and the Guidelines of the Central Bank of the UAE.

The Corporate Governance structure including the Board, Board committees, management committees and various functions are shown in the following chart:



ADIB operates a three lines of defence model which ensures clear delineation of responsibilities between day to day operations, monitoring and oversight as well as independent assurance. The three lines of defence are:

- Business and Support Units act as the first line of defence and are responsible for identifying, assessing and mitigating risk.
- Risk and the control functions act as the second line of defence and provide effective challenge to the first line to ensure risks are identified and effective controls are established. The Compliance and Governance functions ensure that all internal policies and relevant regulatory requirements are adhered to in the conduct of business. Shari'a Compliance function at the Group ensures that the Bank's operations are conducted in adherence to Shari'a principles.
- The third line of defence is provided by Internal Audit which independently reviews control design, operations and effectiveness of first and second lines. Shari'a Audit function at the Group conducts an independent review of the Bank's adherence to Shari'a principles.

The Corporate Governance Framework cuts across four broad levels:

- Board: The Board has the ultimately responsibility for ensuring that an appropriate and effective governance framework is established and maintained to manage and control ADIB's activities.
- Board-level and management committees: The Board delegates authority to committees and establishes standards for the control and governance of the Bank. Committees have responsibilities and authorities as defined in their charters.
- Functions: Individual functions perform business and control activities which are in compliant with all internal policies and external laws and regulations. To ensure effective adherence to overarching Shari'a principles, the Shari'a Department and Shari'a Audit functions provide on-going oversight and assurance.
- Individuals: Executive and head of function roles are clearly articulated and allocated to identified individuals. The key executives of ADIB are the Group Chief Executive Officer, Group Chief Financial Officer, Group Chief Risk Officer and the Chief Operating Officer.

Board of Directors

The Board of Directors of ADIB (the "Board") is responsible for the supervision of the management of the business affairs of the Group (which includes Abu Dhabi Islamic Bank PJSC, and both its bank and non-bank Subsidiaries and Controlling Affiliates). The Board of Directors provides leadership in the development and implementation of the Vision and Mission of the Group. The Board has ultimate responsibility for the success of the Group and for delivering sustainable shareholder value within a framework of prudent and effective controls.

The Board carries out the responsibilities and duties set out below either directly or through its committees, currently consisting of the Audit Committee, Nomination Committee, Remuneration Committee, Strategy Committee, Risk & Investment Approval Committee and Governance & Risk Policy Committee.

The Board derives its authority to act from the Group's Memorandum and Articles of Association and other laws governing companies and Banks in UAE and Emirate of Abu Dhabi. Its responsibilities include:

- 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.
- Establishment and oversight of the Bank's risk management framework, as well as approving the Bank's overall risk appetite and ensuring that business is conducted within this framework.

Independence from Management

The roles of the Chairman and the Group 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 Group 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.

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.

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 held on 28 March 2013, continued their term during 2014 without any change.

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 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 Group 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.

Composition of the Board and Board Committees

In 2014 the Board comprised the Chairman, Vice Chairman and five other members. Majority of the Board members are UAE nationals, as required by the Federal Commercial Companies Law and the Bank's Articles of Association. 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.

The Board held six meetings during 2014. The detail of Board membership and attendance is as under:

Name	Position	Status	No. of meetings attended
HE Jawaan Awaidha Suhail Al Khaili	Chairman	Non-Executive	6
Khaled Abdulla Neamat Khouri	Vice Chairman	Independent	5
Juma Khamis Mugheer Al Khaili	Member	Independent	5
Khamis Mohamed Buharoon	Member	Executive Director	6
Abdulla Bin Aqueeda Al Muhairi	Member	Independent	6
Ragheed Najeeb Shanti	Member	Non-Executive	4
Dr Sami Ali Al Amri	Member	Independent	6

The quorum for a Board meeting was by the majority of Board members. The Board made decisions by majority vote. However, under the circumstances where the members are equally divided, the Chairman of the Board has a casting vote. Any matter requiring decision by unanimous vote is dealt with accordingly.

Board Committees

The following Board Committees, which were revised in early 2014 after a corporate governance review conducted in conjunction with external consultants led to a further strengthening of ADIB's governance structures and protocols, ensuring these are fully in line with the Group's business growth and expansion and to reflect the Corporate Governance guidelines of the Central Bank of the UAE and best practice standards, continued to work effectively and independently during 2014.

- 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

The Group Strategy 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:

- Review, consider, discuss and challenge the recommendations submitted by the executive management with regard to business strategy, budgets and annual plans;
- 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;
- Review the financial performance of each business group on a quarterly basis and make recommendations should action be required;
- Review and recommend capital allocation within the ADIB Group to the Board;
- Review the organisational structure of ADIB and make recommendations to the Board on any changes deemed necessary;
- 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;
- Approve the policy relating to charitable donations.

Corporate Governance Report continued

The Committee held two meetings during 2014. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
Dr Sami Ali Al Amri	Chairman	2
Tirad Al Mahmoud – Group Chief Executive Officer*	Vice Chairman	2
Khaled Abdulla Neamat Khouri	Member	1
Khamis Mohamed Buharoon	Member	2

* 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 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 Committee held five meetings during 2014. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
Abdulla Bin Aqueeda Al Muhairi	Chairman	3
Dr Sami Ali Al Amri	Member	5
Khamis Mohamed Buharoon	Member	5
David Smith *	Subject matter expert	5

* Non-Board member

Group Governance and Risk Policy Committee

The Group Governance and Risk Policy Committee assist 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 Committee held two meetings during 2014. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
Kantic Dasgupta **	Chairman and subject matter expert	1
Tirad Al Mahmoud, Group Chief Executive Officer*	Vice Chairman	2
Juma Khamis Mugheer Al Khaili	Member	2
Dr Sami Ali Al Amri	Member	2
Abdulla Bin Aqueeda Al Muhairi	Member	2
Masarat Husain, Group Chief Risk Officer*	Non-voting member	2

* Non Board Member

** Mr. Arthur Grandy who was not a Director, resigned in March 2014, and Mr. Kantic Dasgupta has joined as Chairman and subject matter expert of the Governance and Risk Policy Committee.

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 Committee held twenty eight meetings during 2014. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
HE Jawaan Awaidha Suhail Al Khaili	Chairman	22
Khaled Abdulla Neamat Khouri	Vice Chairman	23
Juma Khamis Mugheer Al Khaili	Member	16
Ragheed Najeed Shanti	Member	22
Tirad Mahmoud – Group Chief Executive Officer*	Member	28

* 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 Committee held three meetings during 2014. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
Juma Khamis Mugheer Al Khaili	Chairman	3
Khaled Abdulla Neamat Khouri	Member	3
Dr Sami Ali Al Amri	Member	3
Noble Powar *	Subject matter expert and Non-voting member	3

* 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 Committee held two meetings during 2014. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
HE Jawaan Awaidha Suhail Al Khaili	Chairman	2
Juma Khamis Mugheer Al Khaili	Member	1
Dr Sami Ali Al Amri	Member	2

Directors' remuneration and interests in the Group's shares

Directors' remuneration is approved at the Annual General Assembly Meeting. During 2014 the total remuneration paid to the directors was AED 4.9 million. In addition Board members also received by way of an attendance fee of AED 3,000 for every Board or Committee meeting attended.

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

Board Members	Shareholding at 1 January 2014	Shareholding at 31 December 2014	Changes in Shareholding
HE Jawaan Awaidha Suhail Khaili	43,941,108	55,746,181	11,805,073
Khaled Abdulla Neamat Khouri	-	-	-
Juma Khamis Mugheer Al Khaili	5,148	6,531	1,383
Khamis Mohamed Buharoon	-	-	-
Mr. Abdulla Bin Aqeeda Al Muhairi	-	-	-
Ragheed Najeeb Shanti	-	-	-
Dr Sami Ali Al Amri	-	-	-

** The increase in shares reflects the distribution of 26.87% bonus shares to all shareholders.

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.

ADIB communicates with shareholders through the Annual Report and by providing information at the Annual General Assembly Meeting. Shareholders are given the opportunity to ask questions at the Annual General Assembly Meeting. The last Annual General Assembly Meeting of the shareholders was held on 26 March 2014.

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.

The Group maintains an Investor Relations section on its website that provides extensive information about the Group's Corporate Governance structure and other related information

Fatwa and Shari'a Supervisory Board

The members of the Fatwa and Shari'a Supervisory Board, as elected by the shareholders in the Annual General Assembly Meeting, of 28 March 2013 continued their term during 2014 without any change.

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 held four meetings during 2014. The detail of membership and their attendance is as under:

Name	Position	No. of meetings attended
Sheikh Mohamed Taqi Uthmani	Chairman	3
Dr Abdul Sattar Abu Ghuddah	Vice Chairman	4
Dr Jasem Ali Salem Al Shamsi	Member	4
Sheikh Nizam Ya'qoubi	Member	4
Dr Muhamed Elqari	Member	2

Executive Management

The Group Chief Executive Officer is supported by executive management including Group Chief Risk Officer, Group Chief Financial Officer, Chief Operating Officer and various management committees. During 2014 as a result of review of the management committees' structure, their mandates have been updated to specify their responsibilities, membership and reporting lines. ADIB has following management committees:

- Steering Committee
- Strategy and Performance Committee
- Enterprise Risk Committee
- Control and Compliance Committee
- Asset Liability Management Committee (ALCO)
- Information Technology Committee
- Corporate Social Responsibility Committee
- Other Committees (including Grievance Committee, Disciplinary Committee and Charity Committee)

Risk Management Framework

ADIB has established a comprehensive risk management framework owned by the Group Chief Risk Officer who reports to the Board's Group Governance and Risk Policy Committee. He also chairs a Management Committee, Enterprise Risk Committee, responsible for the management of all risks including credit, market, and operational risks. The Board sets the tone from the top by means of an articulated risk culture, principles and appetite. The Risk management and Internal control infrastructure is reviewed on an ongoing basis at management and Board levels. Additional details of ADIB's approach to risk management are given in note 42 to the Financial Statements.

Internal Control

The Board is responsible for ADIB's system of internal control. It ensures 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 also ensures 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. 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.

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 2014 at the Annual General Assembly Meeting held in March 2014.

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.