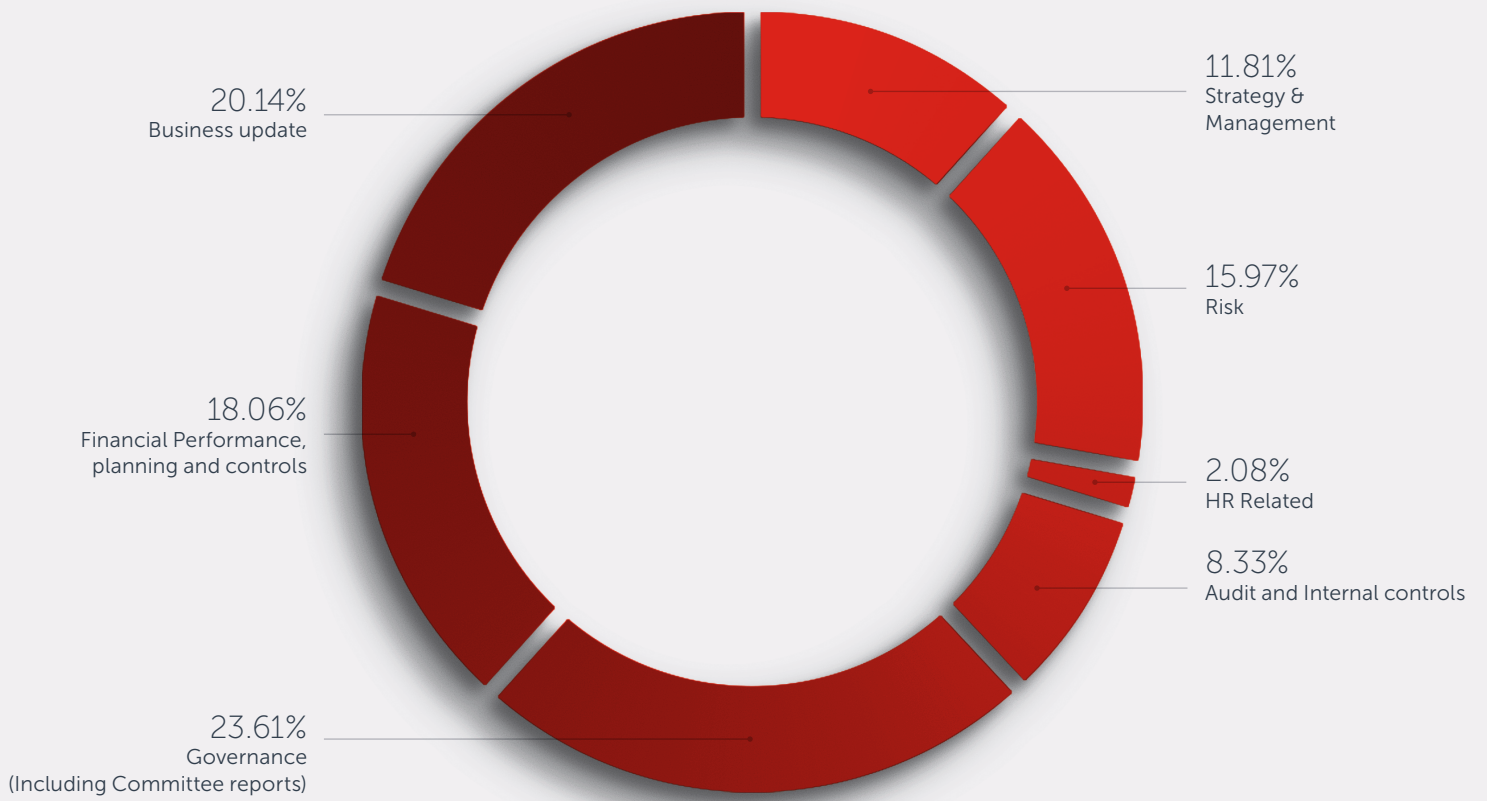


# CORPORATE GOVERNANCE REPORT

We believe good governance is the cornerstone of success. It underpins our integrity, reinforces the trust and confidence our investors place in us, and contributes to a strong and disciplined culture.

At ADCB, we have established a clear, well-understood governance framework that is regularly reviewed and adjusted to reflect changes in the Bank's businesses, regulation, the external environment and international best practice. Our commitment to world-class corporate governance and reporting not only clearly demonstrates our integrity, but also promotes transparency. This approach cements our reputation and supports our long-term success by attracting investment that benefits both the Bank and UAE society as a whole through the creation of jobs, growth and prosperity.

**ANALYSIS OF TIME SPENT AT BOARD MEETINGS IN 2018**



This section outlines some key aspects of the Bank's corporate governance framework that are most important to our shareholders.

### **THE BOARD: MEMBERSHIP, COMMITTEES AND MEETINGS**

The Board, which consists of 11 members, met eight times in 2018. Directors received information between meetings about the activities of Board and management Committees and developments in the Bank's business.

Members of senior management were invited to all these meetings to enhance the Board's engagement with management and understanding of the business. In addition, Board Members regularly visited divisions of the Bank to enrich their knowledge of our operations.

The Board has four standing Committees, which cover: Audit & Compliance, Corporate Governance, Risk & Credit, and Nomination, Compensation & Human Resources. Each member of the Board, with the exception of Ala'a Eraiqat, the Group Chief Executive Officer, serves on at least one standing Committee. The Committees met a total of 53 times in 2018. Chairmanships and memberships of the Board Committees are reviewed on a regular basis to ensure suitability. Membership is rotated as needed.

### **DIRECTORS' INDEPENDENCE AND MANAGEMENT REPORTING**

Independence is an important factor in our ability to serve in the best interest of the Bank and all its stakeholders. All non-executive Directors are considered independent, according to the independence criteria of the Bank and local regulations.

On the management side, the Group Chief Internal Auditor reports to the Board's Audit & Compliance Committee, the Group Chief Risk Officer reports to the Board's Risk & Credit Committee, and the Board Secretary reports to the Board.

To ensure that the Board has the benefit of an even greater range of independent thinking, Sir Gerry Grimstone was appointed as independent Adviser to the Board in 2013. In 2018, Sir Gerry attended five Board meetings, and the Board strategy session. His background and experience continues to enrich the Board's deliberations, particularly in the areas of strategy, Board reporting and effectiveness, performance assessments for senior management, succession planning, and assessment of risk appetite and rewards.

### **THE BOARD'S AGENDA IN 2018**

The Board of Directors regularly discusses certain items that are fundamental to the direction of the Bank, such as business performance, long-term planning, strategy, risk appetite and management, succession planning, and human resources. Details of the agenda items discussed by the Board and its Committees during 2018 are set out on pages 105 and 106.

**BOARD AND BOARD COMMITTEE AGENDA ITEMS**

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
<b>Governance</b>	<ul style="list-style-type: none"> <li>• 2018 Annual General Assembly agenda</li> <li>• Reports from Committee Chairmen, Committee minutes and other reports</li> <li>• Outcome of the 2017/2018 Board Evaluation</li> <li>• Board expenses summary for the year 2017</li> <li>• Review of Directors' independence</li> <li>• External review of corporate governance action tracker</li> <li>• IT Governance</li> <li>• Conflict and related parties report</li> <li>• Review of Board Committee composition</li> <li>• IFRS 9 governance update</li> </ul>	<ul style="list-style-type: none"> <li>• Reports from Committee Chairmen, Committee minutes and other reports</li> <li>• IFRS 9 governance update</li> </ul>	<ul style="list-style-type: none"> <li>• Reports from Committee Chairmen, Committee minutes and other reports</li> <li>• Conflict of interest and related parties report</li> <li>• Procurement governance presentation</li> <li>• Update on sustainability strategy</li> <li>• Board evaluation 2017/2018 action tracker</li> <li>• Update on best practices developments</li> <li>• IFRS 9 governance process</li> </ul>	<ul style="list-style-type: none"> <li>• Reports from Committee Chairmen, Committee minutes and other reports</li> <li>• Conflict of interest and related parties report</li> <li>• Annual Report 2018</li> <li>• 2019 Board agenda</li> <li>• IFRS 9 governance update</li> </ul>
<b>Financial Performance, planning and controls</b>	<ul style="list-style-type: none"> <li>• 2017 financial results, including business performance by Group</li> <li>• External Auditor presentation</li> </ul>	<ul style="list-style-type: none"> <li>• Q1 financial results, including business performance by Group</li> <li>• External auditor presentation</li> </ul>	<ul style="list-style-type: none"> <li>• Q2 financial results, including business performance by Group</li> <li>• Forecast for 2019</li> <li>• External auditor presentation</li> </ul>	<ul style="list-style-type: none"> <li>• Q3 financial results, including business performance by Group</li> <li>• External auditor presentation</li> </ul>
<b>Group Chief Executive/ Business update</b>	<ul style="list-style-type: none"> <li>• Group CEO's update</li> <li>• Group Business Services (including technology, operations, customer experience and business &amp; control) update</li> <li>• Results of customer satisfaction survey (including NPS)</li> <li>• Itmam Services update</li> <li>• ADGM Subsidiary update</li> </ul>	<ul style="list-style-type: none"> <li>• Group CEO's update</li> <li>• Wholesale Banking Group update</li> <li>• Abu Dhabi Commercial Properties and Abu Dhabi Commercial Engineering Services update</li> <li>• India branches update</li> <li>• HR Group update (including recruitment, training and development, and employee services)</li> </ul>	<ul style="list-style-type: none"> <li>• Group CEO's update</li> <li>• Consumer Banking update</li> <li>• Market update</li> <li>• Technology briefing</li> </ul>	<ul style="list-style-type: none"> <li>• Group CEO's update</li> <li>• 2019 funding plan</li> <li>• Treasury update</li> <li>• Merger update (including consultant budget)</li> </ul>
<b>HR Related/ Remuneration</b>	<ul style="list-style-type: none"> <li>• Board elections at the 2018 AGA</li> <li>• Emerging UAE National talent</li> <li>• Remuneration for 2017 performance</li> <li>• Board fee recommendation for year 2017</li> <li>• Retention plan effectiveness</li> <li>• Group CEO's evaluation for 2017 and KPIs for 2018</li> </ul>	<ul style="list-style-type: none"> <li>• Variable pay effectiveness</li> <li>• Retention plan: 2018 awards</li> <li>• Semi-annual HR update</li> <li>• Update on LTIP purchases and vested/ unvested shares</li> </ul>	<ul style="list-style-type: none"> <li>• Performance recognition reward</li> <li>• Incentive plans-risk review</li> <li>• Compensation plans</li> <li>• Public reporting on remuneration</li> </ul>	<ul style="list-style-type: none"> <li>• Annual HR update</li> <li>• Reward update and governance process</li> </ul>

**BOARD AND BOARD COMMITTEE AGENDA ITEMS (CONTINUED)**

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
<b>Audit &amp; Internal Controls</b>	<ul style="list-style-type: none"> <li>Internal audit update (including financial budget, staff strength, training plan)</li> <li>Re-appointment of statutory auditors</li> <li>Internal audit plan for 2018</li> <li>Three year audit plan and strategy (2018-2020)</li> <li>Declaration of internal audit independence</li> <li>Internal control effectiveness report</li> <li>Big 4 consultancy fees for year 2017</li> <li>Risk Assessment update</li> <li>Evaluation of statutory auditor for 2017/re appointment for 2018</li> <li>External auditor fees for year 2018</li> <li>Internal quality assurance assessment review 2017</li> <li>ADAA Internal audit assessment (action plan tracker)</li> <li>Directors' shareholdings</li> </ul>	<ul style="list-style-type: none"> <li>Internal audit update</li> <li>Audit and non-audit fees for 2018</li> <li>Central Bank guidance note on IFRS 9</li> <li>Business continuity management</li> <li>EIBOR internal rate setting guidelines</li> <li>Directors' shareholdings</li> </ul>	<ul style="list-style-type: none"> <li>Internal audit update</li> <li>Review of external auditors management letter for year 2017</li> <li>ADCB India's concurrent auditors</li> <li>Whistleblowing policy update</li> <li>Sanctions policy update</li> <li>Directors' shareholdings</li> </ul>	<ul style="list-style-type: none"> <li>Internal audit update</li> <li>Suitability assessment policy</li> <li>Anti-bribery &amp; corruption policy</li> <li>New Central Bank regulations</li> <li>External auditor's plan for 2018</li> <li>Directors' shareholdings</li> </ul>
<b>Risk</b>	<ul style="list-style-type: none"> <li>Risk update, including risk appetite</li> <li>Portfolio Risk update</li> <li>Compliance update</li> <li>Contracting segment update</li> <li>Enterprise wide liquidity stress test results</li> <li>Cyber security assessment</li> <li>Operational losses for year 2017</li> <li>ICAAP policy</li> <li>ICAAP stress testing 2018</li> <li>Country risk appetite review</li> <li>Geographic and FI risk update</li> <li>SME portfolio update</li> </ul>	<ul style="list-style-type: none"> <li>Portfolio risk update</li> <li>Chief economist update</li> <li>Compliance update</li> <li>IT security update</li> <li>Effectiveness of credit bureau</li> <li>Retail portfolio scorecard</li> <li>2017 Central Bank stress testing</li> <li>Market risk update</li> <li>Enterprise wide liquidity stress test results</li> <li>Liquidity contingency plan</li> <li>UAE GRE risk appetite review</li> <li>Real estate segment review</li> <li>ADCB India RBI risk assessment report</li> </ul>	<ul style="list-style-type: none"> <li>Risk update (including risk appetite statement)</li> <li>Portfolio risk update</li> <li>Risk appetite framework</li> <li>Compliance update</li> <li>IT risk and security update</li> <li>The Equator principles</li> <li>Hospitality sector review</li> <li>Market risk model validation and new methodologies</li> <li>ADCB India ICAAP 2018-2019</li> <li>Market risk update</li> <li>Commercial banking credit &amp; risk policy</li> <li>Wholesale model validation</li> <li>Automotive dealers update</li> </ul>	<ul style="list-style-type: none"> <li>Chief Economist's update</li> <li>Compliance update</li> <li>Credit risk policy for master risk participation agreements</li> <li>Trade invoice financing program update</li> <li>Underwriting and syndication policy</li> <li>Liquidity update</li> <li>Fraud update</li> <li>Market risk update</li> <li>Retail risk update</li> <li>Portfolio risk update</li> <li>Contractor segment review</li> <li>ALM policy</li> </ul>
<b>Strategic items</b>	<ul style="list-style-type: none"> <li>Performance versus strategy &amp; KPIs</li> <li>Competitor analysis— financial and strategic</li> </ul>	<ul style="list-style-type: none"> <li>Three year capital plan and forecast</li> <li>2018 strategy day</li> <li>Digitization update</li> </ul>	<ul style="list-style-type: none"> <li>Competitor analysis— financial and strategic</li> <li>Performance versus strategy &amp; KPIs</li> </ul>	<ul style="list-style-type: none"> <li>2019 budget</li> </ul>

### **PERFORMANCE EVALUATION**

The Board undergoes a rigorous in-house performance evaluation regularly in line with global standards. It also regularly engages an independent external consultant to conduct a performance evaluation. These evaluations cover a wide range of topics and include an assessment of individual Board Members' performance, their skills and expertise at Board level, succession planning, development of the Bank's strategy, and the form and content of management information supplied to the Board. The evaluation also addresses training requirements. In 2018, the Board continued to ensure that its members received professional development in several areas, including operational risk, sanctions, and compliance (anti-money laundering and KYC.)

### **BOARD REMUNERATION**

Directors' remuneration is set annually by the Bank's shareholders. Any proposals for changes are considered by the Nomination, Compensation & Human Resources Committee prior to obtaining Board and shareholder approvals. According to applicable laws and the Bank's articles of association, Directors may not receive any remuneration in years when the Bank does not achieve net profits.

As at 31 December 2018, the Bank's Directors were not eligible for any bonus, long-term or other incentive schemes. Directors do not receive any pension benefits from the Bank. The Bank's Group Chief Executive Officer has waived his right to receive Director's fees. He receives variable pay as a member of senior management of the Bank, not as a Director.

The following table shows the amounts paid to the Directors for their service on the Board and its Committees in 2018.

Members	Status	Year of appointment	Expiration of current term of office	Board Member remuneration (AED, paid in 2018 for the year 2017)			Nomination, Compensation & HR Committee		
				Chairman/Member	Meetings <sup>2</sup> : 8		Chairman/Member	Meetings <sup>2</sup> : 4	
					Sessions attended	Amount (AED)		Sessions attended	Amount (AED)
Eissa Mohamed Al Suwaidi	Non-Executive Director	2008	2020	C	8	1,150,000	M	4	16,000
Mohamed Sultan Ghannoum Al Hameli	Non-Executive Director	2004	2019	VC	8	875,000	C	4	20,000
Ala'a Eraiqat	Executive Director	2009	N/A	M	8	0			
Khaled H. Al Khoori	Non-Executive Director	2012	2018	M	6	700,000			
Mohamed Darwish Al Khoori	Non-Executive Director	2004	2018	M	8	700,000	M	4	16,000
Abdulla Khalil Al Mutawa	Non-Executive Director	1997	2018	M	8	700,000	M	2	8,000
Mohamed Ali Al Dhaheri	Non-Executive Director	2007	2019	M	7	700,000			
Sheikh Sultan bin Suroor Al Dhaheri	Non-Executive Director	2009	2018	M	6	700,000			
Khalid Deemas Al Suwaidi	Non-Executive Director	2009	2020	M	6	700,000	M	1	4,000
Aysha Al Hallami	Non-Executive Director	2013	2019	M	8	700,000			
Faisal Suhail Al Dhaheri	Non-Executive Director	2016	2020	M	5	700,000			
<b>Total</b>						<b>7,625,000</b>			<b>64,000</b>

1. Non-BRCC members (who attended SBRCC meetings).
2. Meetings attended in 2018 year.
3. Chairman/Chairwoman from/until 13 March 2018.

Board Risk & Credit Committee			Audit & Compliance Committee			Corporate Governance Committee			Board Committee meeting fees (AED, paid in 2018)	Total (AED)
Meetings <sup>3</sup> : 38			Meetings <sup>3</sup> : 9			Meetings <sup>3</sup> : 2				
Chairman/ Member	Sessions attended	Amount (AED)	Chairman/ Member	Sessions attended	Amount (AED)	Chairman/ Member	Sessions attended	Amount (AED)		
C	37	185,000							201,000	1,351,000
M	32	128,000							148,000	1,023,000
										0
M	38	152,000				M	2	8,000	160,000	860,000
M	26	104,000	C <sup>3</sup>	3	22,500				142,500	842,500
*1	8	32,000	M	9	54,000				94,000	794,000
*1	2	8,000	M	7	42,000	C	2	10,000	60,000	760,000
						M	2	8,000	8,000	708,000
			M	8	48,000	M	1	4,000	56,000	756,000
M	29	116,000	C <sup>3</sup>	9	63,000				179,000	879,000
*1	9	36,000							36,000	736,000
		761,000			229,500			30,000	1,084,000	8,709,500

**ADCB DIRECTORS' SHAREHOLDINGS** (as at 31 December 2018)

	As at 31 December 2017	As at 31 December 2018	Change in shareholding
Abdulla Khalil Al Mutawa	2,347,277	2,347,277	0
Ala'a Eraiqat*	2,271,758	2,569,797	298,039
Aysha Al Hallami	0	0	0
Eissa Mohamed Al Suwaidi	0	0	0
Khalid Deemas Al Suwaidi	0	0	0
Khaled H. Al Khoori	0	0	0
Mohamed Ali Al Dhaheri	0	0	0
Mohamed Darwish Al Khoori	91,892	91,892	0
Mohamed Sultan Ghannoum Al Hameli	0	0	0
Faisal Suhail Al Dhaheri	0	0	0
Sheikh Sultan bin Suroor Al Dhaheri	2,835,147	2,835,147	0

\* Excluding: 271,758 restricted units in the Bank's LTIP scheme of which (1) 148,267 vested on 31 December 2018 and (2) 123,491 will vest on 31 December 2019 subject to early vesting.

**APPOINTMENT, RETIREMENT AND RE-ELECTION**

All Directors are required to seek re-election by shareholders every three years, and one-third of the Board must seek re-election each year. The Abu Dhabi Investment Council has the right to elect a percentage of the Board that is proportionate to its holdings of the Bank's share capital. As of year-end 2018, the Abu Dhabi Investment Council held 62.52% of the Bank's issued share capital and, consequently, had the right to elect six Directors and to vote a further 2.52% of the Bank's capital at the Board elections.

**BOARD OVERSIGHT OF RISK MANAGEMENT**

Risk management is a key part of ADCB's corporate governance framework. The Board of Directors has overall responsibility for setting our risk appetite and for ensuring risk is effectively managed. The Board Risk & Credit Committee (BRCC) oversees risk monitoring and management. It works with management to refine risk appetite and strategy as appropriate for particular sectors, geographic regions and customer types. The BRCC also reviews the suitability and effectiveness

of the Bank's risk management systems and controls, reviews stress tests and the Bank's stress-testing methodologies, oversees the management risk Committees, and ensures that our risk governance supports prudent risk-taking at all levels in the Bank.

The Board and management also foster a culture of compliance. They have created an environment where employees at all levels are empowered to confront improper behaviour, raise grievances and suggest better ways to pursue the Bank's strategic goals.

### BOARD OVERSIGHT OF FINANCIAL REPORTING

Oversight of financial reporting and integrity of the Bank's financial disclosures are also key roles performed by your Board.

In 2018, the Board Audit & Compliance Committee assessed the objectivity and effectiveness of the Bank's financial reporting and disclosure process. This included monitoring the Bank's choice of accounting policies, principles and judgements. The Committee also

reviewed the IFRS 9 governance process and models, and the implications of IFRS 9 on the financial statements and ensured the Bank's compliance with UAE Central Bank regulations relating to IFRS 9.

### MANAGEMENT COMMITTEES

Committee name	Number of meetings held in 2018	Responsibilities of the Committee
Management Executive (MEC)	27 (including management offsite)	Most senior management Committee; oversees all Bank businesses and operations
Senior Management (SMC)	2	Responsible for administration, change management, strategy, and project updates and dissemination of other information; pre-screens certain matters before MEC review
Assets & Liabilities (ALCO)	7	Formulates the Bank's overall assets and liabilities strategy. Makes investments and executes asset/liability transactions within delegated limits; guides the MEC and the Board on investments and asset/liability transactions above those limits
Management Risk & Credit (MRCC)	54 (50 Credit related MRCCs and 4 Policy MRCCs)	Approves credits within delegated limits; considers risk appetite and strategy issues; sets and recommends risk policies; guides the Board Risk & Credit Committee and the Board on credits above delegated limits and on general risk and risk policy issues
Management Recoveries (MRC)	0	Approves recoveries within delegated limits, and guides the MEC and the Board on recoveries above those limits
Capital Expenditure (CEC)	8	Reviews and approves project capital expenditures within delegated limits, and makes recommendations to the MEC and the Board on project capital expenditures above those limits
Liabilities & Initiatives (LICO)	4	Formulates the Bank's tactical liabilities initiatives at the business/product levels with ongoing monitoring of achievements of different product groups; responsible for cross-selling initiatives, monitoring product performance, and approving pricing and marketing of products to ensure a focussed approach to the market on gathering deposits
Management HR (MHRC)	2	Acts as a forum for prior screening, discussion and recommendation of all human resources-related matters that are ultimately determined by the MEC
Financial Performance Management (FPMC)	8	Monitors financial performance of the Bank's business lines
International Operations & Alliances (IO&AC)	4	Supports the MEC in its responsibility to oversee and manage the Bank's international operations and alliances (excluding the Bank's Jersey branch), including the India branch, the UK representative office, the Singapore representative office, and alliances in place from time to time

*In addition, management has established several working groups that cover, amongst other things, customer experience, insurances and compliance.*

## AUDIT ARRANGEMENTS

Deloitte & Touche, the external auditors, were appointed at the 2015 Annual General Meeting (AGM) and reappointed at the 2016, 2017, and 2018 AGMs. Save for certain exceptions, Local laws and Bank policy restrict the external auditors' tenure to no more than three consecutive renewals.

Deloitte & Touche is paid on a fixed annual fee basis, as approved by the shareholders at the AGM. In 2018, the audit fees for the Bank and its subsidiaries excluding India operations amounted to AED 1,437,095, and fees for non-audit work amounted to AED 1,613,546. Non-audit work comprised: a comfort letter related to the Bank's Global Medium Term Note Programme, review of IFRS 9 implementation, prudential returns for the Bank's Jersey Branch, and consultancy on tax matters.

## THE BANK'S APPROACH TO DISCLOSURE

The Bank is committed to high standards of transparency and to enhancing our disclosures regularly to reflect local and international best practices. In this year's annual report, we have again focussed on giving a clearer picture of our performance, business model and strategy.

In keeping with our leadership role on governance matters, we are confident that the Bank is one of the most transparent institutions in the region. We publicly communicate relevant financial and non-financial information in a timely manner through this annual report, our quarterly market updates, our press releases, and the Bank's website. The Bank's Investor Relations department ensures strong communication with our investors and potential investors.

Finally, we take internal communications extremely seriously: Staff are kept aware of all new developments—including the Bank's strategic direction, objectives, ethics, risk policies, general policies and procedures, new regulations, and other relevant information—via internal channels.

## REMUNERATION AND REWARD – GUIDING PRINCIPLES

ADCB supports levels of remuneration necessary to attract, retain and motivate employees capable of leading, managing and delivering quality service in a competitive environment. However, our remuneration structure is conservative, and we have practices and policies that promote effective risk management.

To that end, ADCB structures remuneration packages so they reflect duties and responsibilities, are fair and equitable, and incorporate clear and measurable rewards linked to corporate and individual performance. Rewards are based only on the results of a rigorous performance appraisal system with a robust management decision-making, review and approvals process.

As far as possible, bearing in mind market trends and constraints, our remuneration programme incorporates both short- and long-term incentives that align the interests of ADCB's employees with the interests of shareholders and other stakeholders.

Performance-related elements are designed to minimise employee turnover and to inspire employees to perform at the highest levels, consistent with effective risk management.

## TOTAL REWARD – KEY COMPONENTS

As shown in the following table, employees can receive three types of reward at ADCB: fixed pay, variable pay and retention scheme.

**Fixed Pay**

Definition	Components	2018 Key Management Fixed Pay
<p>Fixed pay is based on the market rate for each role and is impacted by the employee's contributions over time. Fixed-pay reviews depend on whether the employee achieved specific and measurable objectives and delivered a prescribed performance level.</p>	<p><i>Basic Salary Allowances</i></p> <ul style="list-style-type: none"> <li>• Social allowance (UAE Nationals)</li> <li>• Job-specific allowances (such as a teller allowance, remote-area allowance or shift allowance)</li> </ul> <p><i>Benefits based on band, such as:</i></p> <ul style="list-style-type: none"> <li>• Leave fare</li> <li>• Private medical insurance</li> <li>• Life insurance coverage</li> <li>• Education allowance</li> <li>• Annual leave</li> </ul>	<p>In 2018, Key Management (defined as the Group CEO and his direct reports) received fixed pay and cash benefits in an aggregate amount of AED 28.795 million.</p>

**Variable Pay**

Definition	Performance Criteria	2017 Variable Pay Awards
<p>Employees may receive variable pay based on their performance over the year. Because it is performance-based, variable pay is at risk, and the amount received, if any, may change each year.</p>	<p>Individual award amounts are dependent on three things:</p> <ul style="list-style-type: none"> <li>• Individual performance</li> <li>• Business function performance</li> <li>• Bank overall performance</li> </ul> <p>For more information, see ADCB's Variable Pay Framework &amp; Governance—Key Facts, on page 114.</p>	<p>For performance in 2017, awards to employees in 2018 consisted of cash variable pay awards of AED 140.96 million and deferred compensation plan awards of AED 46.58 million. Key Management received AED 26.035 million in cash and AED 20.315 million in deferred compensation from the amounts set forth above.</p>

**Retention Scheme**

Definition	Selection Criteria	2018 Retention Scheme Awards
<p>In 2014, ADCB introduced a share-based Retention Scheme for incumbents in key positions deemed 'mission critical' and for UAE Nationals deemed to have exceptional growth potential. The Retention Scheme, which is independent of variable pay awards, is designed to ensure business continuity by mitigating turnover risk and the related operational risk. Invitations to join the Retention Scheme are at the sole discretion of the NCHR Committee; members of the Management Executive Committee are not eligible to participate. Retention Scheme awards vest after four years from the award date.</p>	<ul style="list-style-type: none"> <li>• Incumbents in 'mission critical' positions</li> <li>• UAE Nationals with exceptional growth potential</li> </ul>	<p>In 2018, we awarded AED 14.95 million under the retention scheme. Awards were made to 95 employees, of whom 75% were UAE Nationals.</p>

**BANK-WIDE VARIABLE PAY FRAMEWORK**

The Variable Pay Framework has been designed to align employees’ interests with the long-term interests of the Bank’s shareholders and to incentivise higher performance, while avoiding excessive risk-taking. It also distinguishes amongst different functions of the Bank, to ensure alignment to the relevant market.

The NCHR Committee oversees the design, operation and effectiveness of the framework and allocation of awards, including overall amounts, distribution amongst business groups and actual awards to senior management (including material risk-takers and senior members of the Bank’s control functions).

ADCB uses a balanced scorecard (BSC) approach to measuring performance, including the following KPI categories:

- Financial;
- Customer Service (minimum 30% weightage);
- Risk; and
- Learning and Growth.

**EFFECTIVENESS OF THE VARIABLE PAY FRAMEWORK**

Effectiveness of the Variable Pay Framework is monitored on an annual basis through a set of KPIs, including:

- correlation between total variable pay pool and the Bank’s Net Profits;
- correlation between individual performance and variable pay award;
- attrition rate for the employees awarded deferred variable pay as compared to the overall attrition rate; and
- Leadership Stability-Attrition rate at senior management level (top 100 executives) as compared to industry average for same level.

**ADCB’S VARIABLE PAY FRAMEWORK & GOVERNANCE—KEY FACTS**

Reflects individual, business function and Bank-wide performance	Yes
Distinguishes amongst different functions of the Bank to ensure alignment to the relevant market	Yes
Defers variable pay award above specified threshold	Yes
Currency of deferred compensation	<i>Cash and shares</i>
Duration of deferral of variable pay	<i>3 years</i>
Awards subject to thresholds, caps, clawback rules, malus clause, and deferral and retention provisions	Yes
Managed by remuneration professionals experienced in the governance of all types of compensation and benefits	Yes
Designed in conjunction with, and reviewed by, independent external advisers reporting directly to the Nomination, Compensation & Human Resources Committee	Yes
Relies on regular external benchmarking to ensure alignment with evolving global best practices	Yes
Incorporates constant monitoring of developments in remuneration governance to ensure all variable pay plans evolve in line with the Bank’s needs and external developments	Yes
Designed to avoid excessive risk-taking	Yes
Includes a minimum shareholding rule for Key Management	Yes
Aligns employee interests with the long-term interests of the Bank’s shareholders	Yes

**ISLAMIC BANKING GOVERNANCE**

ADCB Islamic Banking is the brand under which we offer retail and corporate Shari’ah-compliant financial solutions to our Consumer, Wholesale and Treasury clients.

ADCB is regulated by the Central Bank of the UAE, and its Islamic Banking activities are supervised by an independent Fatwa & Shari’ah Supervisory Board (FSSB). The FSSB operates in accordance with the standards and guidelines issued by the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI) and Islamic Financial Services Board (IFSB), and is the final authority within ADCB regarding all Shari’ah-related matters.

ADCB Islamic Banking’s Shari’ah governance is implemented and overseen by the Shari’ah Advisory Lead. Fatwas (pronouncements and approvals) are issued by the FSSB to certify compliance with principles of Shari’ah for all products and services as well as for bespoke structured deals. The FSSB’s comprehensive review covers the product structure, the underlying Shari’ah contract, legal documentation, operational process flow and all associated product literature. Fatwas issued by the FSSB are published on the Bank’s website and are available at all branches.

ADCB Islamic Banking maintains a separate set of financial records to ensure that the accounts for the Islamic business are completely segregated from ADCB’s conventional funds. The Bank’s consolidated accounts include the results of ADCB Islamic Banking and are separately disclosed in the notes.

The respected Shari’ah scholars listed below make up the FSSB of ADCB Islamic Banking.

**PROFESSOR JASSEM ALI AL SHAMSI, CHAIRMAN**

Professor Jassem is the first Emirati Shari’ah scholar to lead the FSSB of ADCB Islamic Banking. He previously served as Dean of the College of Shari’ah and Law, UAE University. In addition, he chairs or is a member of many other FSSBs for Islamic banks/windows and financial institutions (FIs).

**SHEIKH DR. NIZAM YAQUBI, EXECUTIVE MEMBER**

Sheikh Dr. Nizam is one of the most prominent Shari’ah scholars in the world and chairs, or is a member of, the FSSB at several regional and global Islamic banks and financial institutions. He has a strong international reputation for his deep knowledge of banking and Shari’ah coupled with a progressive approach towards modern banking solutions.

**DR. HUMAYON DAR, MEMBER**

Dr. Dar holds a PhD in Economics from the University of Cambridge, UK, and is an expert in the field of Islamic banking and finance. He is a member of the FSSB at several Islamic banks and other financial institutions.

**MR. KAMRAN KHALID SHERWANI, FSSB SECRETARY**

Mr. Kamran is Shari’ah Advisory Lead at ADCB Islamic Banking. He provides Shari’ah guidance on all day-to-day Shari’ah-related matters and obtains FSSB guidance and approvals in respect of each product, service, process and transaction and other Shari’ah-related matters. Mr. Kamran received a degree in Shari’ah and Law from the International Islamic University, and he has served as Shari’ah adviser to several major Islamic banks and other financial institutions.

## STATEMENT FROM THE CHAIRWOMAN OF THE

## Audit &amp; Compliance Committee

**COMPOSITION AS AT 31 DECEMBER 2018:**

Aysha Al Hallami (Chairwoman), Khalid Deemas Al Suwaidi,  
 Mohamed Ali Al Dhaheri, Abdulla Khalil Al Mutawa  
 Secretary: Rami Raslan

**OUR REMIT**

The primary responsibilities and functions of the Audit & Compliance Committee are to provide assistance to the Board to fulfil its duties to ensure and oversee:

- the integrity of the Bank's financial statements;
- the qualifications, independence, performance and remuneration of the Bank's external auditors;
- the qualifications, independence and performance of the Bank's internal audit department;
- the Bank's compliance with legal and regulatory requirements, and the Bank's internal policies; and
- the Bank's internal controls, including controls over financial reporting and disclosure.

Dear Shareholders,

Our Committee held a total of nine meetings this year, during which we:

- assessed the objectivity and effectiveness of the Bank's financial reporting and disclosure process. This included monitoring of the Bank's choice of accounting policies, principles and judgements;
- reviewed and discussed the Bank's IFRS 9 governance process and models and their implications for the Bank's financial statements, and ensured the Bank's compliance with UAE Central Bank regulations relating to IFRS 9;
- evaluated the external auditors' qualifications, performance, independence and objectivity, reviewed the scope of work proposed by the external auditors for 2018, and exercised oversight of all non-audit work carried out by the external audit firm;
- oversaw the activities of the Bank's Group Compliance function, and received regulatory, conduct compliance, fraud and operational risk management updates;
- considered the performance, effectiveness and activities of the Bank's Internal Audit function, and its audit plan, charter, and manual;
- reviewed the effectiveness of the Bank's internal controls and ensured the existence of an effective system of internal controls;
- reviewed the quarterly and annual audited financial statements;
- reviewed and ensured appropriate action against audit and review observations raised by the internal and external auditors, the UAE Central Bank, the Abu Dhabi Accountability Authority, and other regulators;
- reviewed the Committee's terms of reference and the policies sponsored by the Committee, and ensured that new regulations were reflected, as appropriate;
- reviewed quarterly reports on the Bank's Directors' shareholdings in the Bank's shares; and
- reported regularly to the Bank's Board of Directors.

## ACC RISK DISCUSSIONS

(allocation of time)



### IFRS 9 IMPLEMENTATION

One of the areas of key focus in 2018 was on the Bank's implementation of, and transition to, IFRS 9. The Committee regularly met internal management and external auditors to ensure that the Bank's models, methodologies, policies, critical accounting judgements, and financial disclosures were all compliant with IFRS 9 requirements.

In addition to our own oversight, we had validation from an external consultant on the accuracy of the Bank's models. The Committee also reviewed the IFRS 9 expected credit loss (ECL) estimation and reporting process and analysed the IFRS 9 staging of the most significant accounts.

The Board approved the 2018 annual accounts, on the Committee's recommendation, based on the external auditors' report and following the Committee's review. We are satisfied that the Bank remains within its guidelines and policies for provisioning purposes

and that the provisions for year 2018 remain at an adequate level and in accordance with IFRS 9.

We met both the external and internal auditors regularly without the presence of the Bank's management to discuss issues arising. In addition, Committee members attended meetings of the Risk & Credit Committee to ensure adequate flow of information between the two forums and provide suitable insights.

The Committee focussed on ensuring that legal and regulatory requirements continue to be met and that compliance with those requirements is embedded in the Bank's financial and operational business models. In 2018, these included the Net Stable Funding Ratio, VAT, and other Basel III requirements.

We had confirmation from the Bank's Internal Audit Group and external auditors that the Bank's internal controls have been assessed for effectiveness and met

all requirements. In addition, the Bank initiated an exercise to implement an internal controls framework (including internal controls over financial reporting) in accordance with COSO 2013 standards.

### LOOKING AHEAD

We anticipate holding eight meetings in 2019 and expect to focus on the integrity of the Bank's financial statements, its provisioning and ECL models, its Internal Audit and Compliance functions, activities and performance, and the performance of the Bank's external auditors.

The Committee will also oversee the adoption of the COSO 2013 standards and the Bank's transition to IFRS 16. We will continue to work with internal management and external auditors to assess the effectiveness of the Bank's IFRS 9-related policies, governance practices, models and controls including oversight of staging of key accounts and overrides.

We will also continue to coordinate our activities with those of the Board Risk & Credit Committee to ensure a free-flow of information between them. The Committee will look into recommending a new external auditor for the Board's and the shareholders' approval, in line with local and international best practices concerning external auditor rotation.

Finally, we are committed to ensuring that the Bank's Internal Audit and Compliance functions are in adherence to the recently issued Central Bank regulations in this regard.

I am satisfied that we once again made positive progress in delivering our responsibilities and objectives during 2018 and look forward to another rewarding year in 2019.

*Aysha Al Hallami*

CHAIRWOMAN OF THE BOARD'S  
AUDIT & COMPLIANCE COMMITTEE

## STATEMENT FROM THE CHAIRMAN OF THE

## Nomination, Compensation &amp; HR Committee

**COMPOSITION AS AT 31 DECEMBER 2018:**

Mohamed Sultan Ghannoum Al Hameli (Chairman), Eissa Mohamed Al Suwaidi, Khalid Deemas Al Suwaidi, Mohamed Darwish Al Khoori  
Secretary: Rami Raslan

**OUR REMIT**

The Nomination, Compensation & HR Committee is responsible for:

- ensuring the appropriate composition of the Board;
- ensuring Independent Directors remain independent on a continuous basis;
- selection and appointment of Directors;
- orientation and training sessions for new and existing Directors;
- succession planning for Board Members and senior management;
- selection and appointment of senior management;
- performance assessment of the Board, individual Directors and senior management;
- development, application and review of human resources and training policies;
- determining ADCB's requirements for executive managers and employees;
- remuneration policies for management and the Board, and the Bank's remuneration and incentive plans; and
- ADCB's public reporting on remuneration matters.

Dear Shareholders,

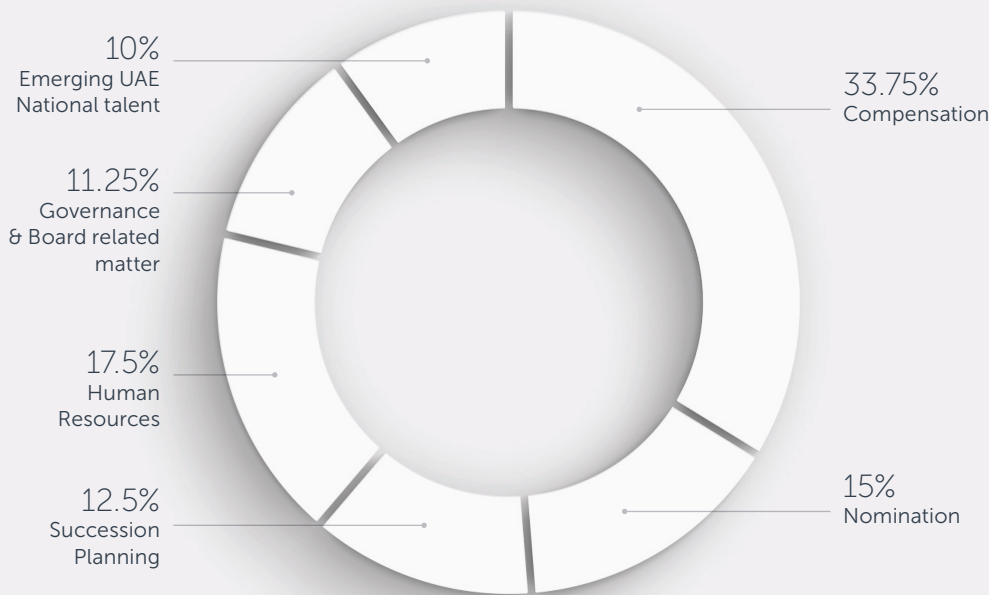
During 2018, our principal areas of focus were on the Bank's Human Resources strategy, the effectiveness of our remuneration strategy, the strength of the Bank's retention plans, and the Board's independence and composition, including, in particular, the collective mix of skills and experience. The Committee met five times throughout the year.

In particular, the Committee:

- received regular updates from the Bank's Human Resources team;
- reviewed key principles of the Bank's retention plan and assessed its effectiveness;
- reviewed the Board's composition, including considering rotation of memberships of the Board Committees;
- assessed Directors' remuneration and fees;
- assessed Board Members' independence status as per the UAE Central Bank's draft corporate governance guidelines, in addition to institutional investors' views about independence of the Bank's Board Members;
- considered the performance evaluation, key performance indicators, and remuneration of the Bank's Group Chief Executive Officer;

- reviewed and supervised the operation of the Bank's remuneration framework, including fixed and variable pay, retention awards and performance recognition awards, and assessed the effectiveness of the Bank's remuneration strategy;
- approved the compensation of senior management;
- reviewed the framework for, and operation of, the Bank's incentive plans and commission schemes, considered a risk assessment of those schemes, and recommended certain changes;
- considered the Bank's disclosure and transparency practices with regards to the Bank's public reporting on remuneration;
- managed the Bank's long-term succession strategy, assessed succession plans for key executives and focussed on talent management;
- reviewed the Bank's key Human Resources policies and processes;
- remained focussed on the Bank's Emiratisation strategy. In particular, the Committee ensured that the Bank exceeded the target set by the Central Bank in this regard for year 2018;
- reviewed the approach to diversity and diversity metrics across the Bank; and
- considered and assessed the contributions of the Board Adviser to the Board's activities.

**NCHR RISK DISCUSSIONS**  
(allocation of time)



The 2018 evaluation showed a positive effectiveness trend for each KPI. We believe that the Bank’s remuneration policies remain appropriate for the Bank’s size and status, and that the remuneration framework is in line with international best practices.

**LOOKING AHEAD**

Integration and shared best practices are likely to be the key agenda items in the coming year as we seek to benefit from the merger with UNB and our acquisition of Al Hilal Bank, subject to shareholder and regulatory approval.

In 2019, the Committee will continue the focus on our Emiratisation strategy and HR activities, working to enhance the Bank’s culture through talent acquisition, retention and development as well as encouraging staff training and our on-going digital transformation.

The Committee will consider Board Committees’ memberships, the design of incentive and compensation schemes (including independent assessments of compensation practices), and the Bank’s diversity policies. The Committee will also further address diversity in the workplace and consider diversity objectives and strategies.

The Committee considers that it made positive progress towards meeting its responsibilities in 2018 and looks forward to providing additional value to the Bank next year.

**Mohamed Sultan Ghannoum Al Hameli**  
CHAIRMAN OF THE BOARD’S NOMINATION, COMPENSATION & HR COMMITTEE

**INDEPENDENCE**

During 2018, the Board tested the independence status of each Director as well as the mix of skills they bring to the Board in relation to draft guidelines on corporate governance from UAE Central Bank.

As part of our drive for continuous development, the Committee recommended that the Board develop its skills further either through the appointment of new members, by participating in a number of high-level training programmes, or by engaging experts in advisory capacities. We also highlighted the importance and value of rotating the members of the Board Committees.

**DIVERSITY**

Our commitment to diversity and the Bank’s Emiratisation strategy was another area of focus throughout 2018. We exceeded the Emiratisation target set by the UAE Central Bank, increased the overall number of UAE Nationals employed by the Bank and increased the number of UAE Nationals holding critical roles at the Bank.

The Bank also continued to prioritise UAE National development: UAE Nationals attended more than 45,000 hours of learning sessions and learning and development numbers are expected to grow further as ADCB introduces new UAE National learning curricula.

Meanwhile, we reviewed our variable remuneration and continued to develop KPIs to assess the effectiveness of the Bank’s remuneration schemes. Applying those KPIs, the Committee observed that the remuneration schemes continue to deliver the desired objectives.

## STATEMENT FROM THE CHAIRMAN OF THE Risk & Credit Committee

### COMPOSITION AS AT 31 DECEMBER 2018:

Eissa Mohamed Al Suwaidi (Chairman), Mohamed Sultan Ghannoum Al Hameli, Khaled H Al Khoori, Aysha Al Hallami, Mohammed Darwish Khoori  
Secretary: Rami Raslan

### OUR REMIT

The Risk & Credit Committee is responsible for:

- development of risk management tools;
- development and implementation of risk management strategies and limits, and the Bank's risk appetite;
- compliance with regulatory requirements relating to risk management;
- public reporting on risk management matters; and
- major credit commitments of the Bank.

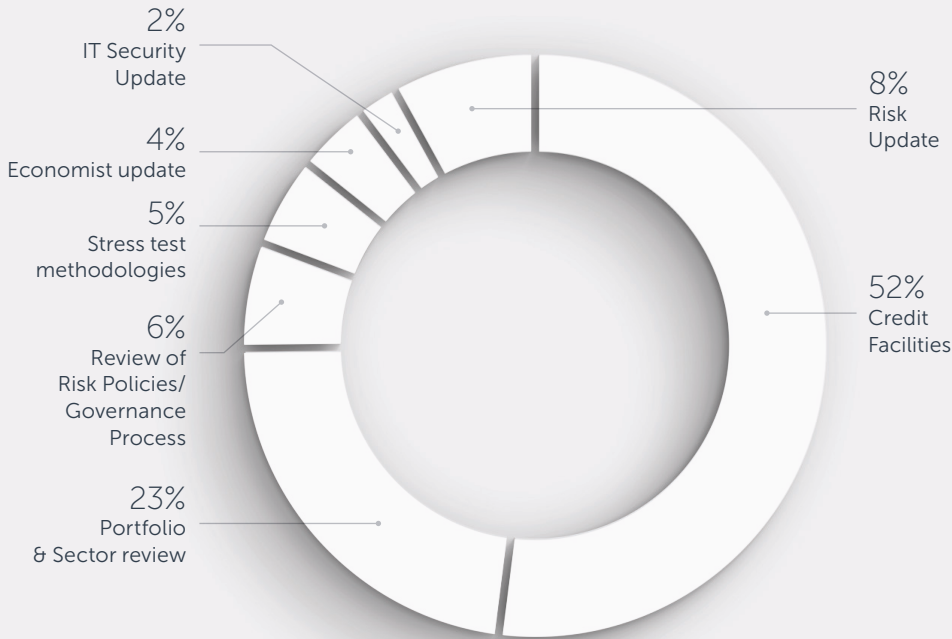
Dear Shareholders,

We held a total of 38 meetings during 2018, during which the Committee:

- assisted the Board in defining the Bank's risk appetite and risk strategy, and ensured that its risk exposures conform to the risk appetite approved by the Board;
- reviewed the Bank's key risk limits including liquidity, credit, market, and operational risk limits, and ensured that these risks are being managed within the Bank's internal controls framework;
- considered the Bank's concentrations and sectoral credit exposures, and ensured that its overall concentration and sectoral credit exposures are in line with the UAE Central Bank regulations;
- reviewed management decisions on credit exposures;
- reviewed and discussed the Bank's strategy to transition to IFRS 9;
- ensured that the Bank's IFRS 9 governance process is prudent and in line with the UAE Central Bank requirements;
- reviewed the Bank's IT, physical security and cyber risks, and ensured that it has implemented a proactive approach towards managing these risks;
- kept abreast of UAE's economic developments and analysed related geographic risks;
- approved the Bank's adoption of the Equator Principles to ensure determination, assessment and management of environmental and social risks in projects underwritten by the Bank;
- monitored the effectiveness of the Bank's risk management functions;
- reviewed and discussed the Bank's implementation of its digital strategy;
- considered the outcome of stress tests and reverse stress tests conducted on various key portfolios, and ensured that outcomes of such tests were reflected in the Bank's risk appetite, capital adequacy assessments, budgets, capital and liquidity plans;
- considered the Bank's enterprise-wide liquidity stress testing results;
- reviewed the Bank's contingency funding plan and monitored the Bank's liquidity risk;
- considered the Bank's business continuity plan; and
- approved and oversaw the implementation of key policies, including, but not limited to, the internal capital adequacy assessment process, and ensured that new regulations were reflected as appropriate.

**BRCC RISK DISCUSSIONS**

(allocation of time)



**RISK APPETITE**

One of the key focus areas for the Committee in 2018 was to review the Bank’s adherence to its risk appetite and strategy. In particular, we ensured that the Bank’s risk appetite metrics remain appropriate in light of changing market conditions and regulatory requirements.

Together with our colleagues on the Audit and Compliance Committee, we oversaw the Bank’s implementation of, and transition to, IFRS 9. In particular, the Committee assessed the Bank’s

IFRS 9 expected credit loss estimation and reporting process, staging of the most significant accounts, and ensured the validation of the Bank’s IFRS 9 models.

Due to the sustained economic challenges in the market, we continued to focus on ensuring that the UAE Central Bank requirements on stress testing were met. The Committee, in collaboration with management, ensured that the Bank’s stress testing methodologies and models were reviewed and validated by independent consultants.

**LOOKING AHEAD**

In 2019, we anticipate holding eight meetings focussed on the Bank’s risk strategy, appetite, and stress testing.

We will also continue to consider high-value or sensitive credit decisions. In line with recent UAE Central Bank regulations, the Committee may consider being involved (along with the Board Audit and Compliance Committee) in assessing the performance of the Bank’s compliance functions. We will assess the Bank’s compliance with new UAE Central Bank regulations on market risk, operational risk, and interest rate risk management.

We will also continue to assess the effectiveness of the Bank’s IFRS 9 policies and governance practices, while assessing the appropriateness of the Bank’s risk strategy and limits against the nature, size, and complexity of its business.

Finally, I am pleased to note that our Committee made positive progress in 2018 as we continued to meet our responsibilities and objectives. I look forward to continuing this progress in 2019.

*Eissa Mohamed Al Suwaidi*  
CHAIRMAN OF THE BOARD’S RISK & CREDIT COMMITTEE

## STATEMENT FROM THE CHAIRMAN OF THE

## Corporate Governance Committee

**COMPOSITION AS AT 31 DECEMBER 2018:**

Mohamed Ali Al Dhaheri (Chairman), Sheikh Sultan bin Suroor Al Dhaheri,  
Faisal Al Dhaheri, Khaled H Al Khoori  
Secretary: Rami Raslan

**OUR REMIT**

The Corporate Governance Committee is responsible for:

- development of corporate governance procedures and best practices within the Bank;
- compliance with regulatory requirements relating to corporate governance;
- public reporting on corporate governance matters;
- overseeing the annual Board evaluation process, and implementation of recommendations arising from that process; and
- ensuring compliance with the Bank's Code of Corporate Governance.

The role of the Corporate Governance Committee is advisory. Recommendations are made to the Board for final approval.

Dear Shareholders,

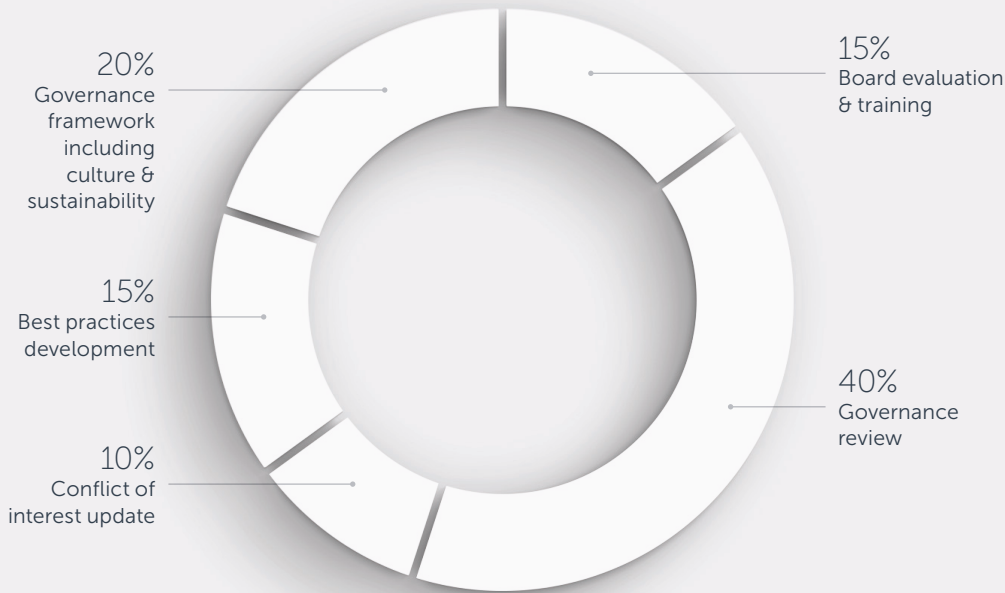
In 2018, we held two meetings where the Committee:

- assessed the outcome of the Board evaluation and the adoption and monitoring of the action plan arising from it (see details below);
- reviewed the Bank's Information Technology governance (see details below);
- reviewed the Bank's approach to procurement governance and vendor management practices (see details below);
- reviewed the Bank's sustainability strategy and approach;
- provided guidance on enhancing governance practices by engaging with the Bank's divisions and various businesses on the governance framework;

- assessed Directors' professional development requirements for 2018, and oversaw the Directors' training program, including training on market risk, information security, anti-money laundering and sanctions, and operational risk;
- published corporate governance information, including information included in the Bank's annual report and on the Bank's website;
- monitored for Directors' conflicts of interest and related parties' transactions; and
- reviewed and enhanced best practices in corporate governance.

## CGC RISK DISCUSSIONS

(allocation of time)



### GOVERNANCE FRAMEWORK

During 2018, we focussed on developing the Bank's governance framework. In particular, the Committee addressed observations and followed up on recommendations from reviews of the Bank's corporate governance framework carried out in 2017 by KPMG and the Bank's Internal Audit Group.

We also reviewed the 2017/2018 Board evaluation results, following up on actions that came out of this study, including enhancing the flow of information to and from the Board on the Bank's digital transformation strategy and KPIs.

The Bank's procurement governance was assessed by the Committee again this year. I am pleased to note that the procurement process, set out in an internal procurement policy, aligns with international best practice. This process and policy are reviewed and approved annually.

Similarly, we reviewed and assessed ADCB's Information Technology governance, testing it against international standards of best practice, and were satisfied it remains strong.

The Committee also discussed recent developments around sustainability and approved enhancements to the Bank's sustainability program.

### LOOKING AHEAD

We expect a large part of our work in 2019 to be focussed on integration and best practice, once the merger with UNB and our acquisition of Al Hilal Bank is approved by regulators and shareholders. Ensuring world-class governance processes remains fundamental to our success.

The Committee's agenda for 2019 reflects our ongoing commitment to raising governance standards across the Bank. The Committee will focus on the Board's effectiveness, particularly in defining the Bank's purpose and assessment and engagement with stakeholders. We will also consider subsidiary governance, risk governance, sustainability, monitoring culture and values, as well as ethics and compliance. Finally, we anticipate new regulations on corporate governance from the UAE Central Bank. We are confident our existing compliance will meet all the requirements of these new regulations.

I believe the Committee made positive progress this year in implementing the Bank's corporate governance programme. The Committee believes that all levels of the Bank, including the Chairman, Board Members, Group Chief Executive Officer, senior management and staff, remain committed to the Bank's corporate governance framework and to maintaining a strong governance culture.

*Mohamed Ali Al Dhaheri*

CHAIRMAN OF THE BOARD'S CORPORATE GOVERNANCE COMMITTEE

**GOVERNANCE DOCUMENTS AVAILABLE ON OUR WEBSITE**

- Articles of Association
- Code of Corporate Governance
- Codes of Conduct for our employees and our Directors
- External Auditor's Appointment Policy
- Board Performance Evaluation Policy
- Procedures for selecting and appointing the Bank's Directors
- Conflicts of Interest Policy for Directors
- Directors' Share Dealing Policy
- Committee terms of reference

**OUR WEBSITE ALSO CONTAINS INFORMATION ABOUT THE FOLLOWING SUBJECTS:**

- Our disclosure standards, communications with shareholders, and investor relations
- Our strategy-setting process
- The structure and composition of our Board
- Board oversight of risk management
- Our process for inducting new Directors and ensuring the professional development of all Board Members
- Matters reserved for the Board
- How we ensure Board Members are updated about important developments
- Retirement and re-election of Directors
- Remuneration of Directors for service on the Board and Board Committees
- The Board's Adviser
- Directors' independence
- Role of the Board Secretary
- Management Committees
- Internal controls
- Audit arrangements
- Internal audits, regulation and supervision
- Diversity
- Succession planning
- Codes, standards and communications
- Our Variable Pay Framework