

ABU DHABI COMMERCIAL BANK PJSC

Code of Corporate Governance

Approved by the Nomination, Compensation, HR & Governance Committee on 16th September, 2021



CODE OF CORPORATE GOVERNANCE

1. Definitions

In this code, the following words and phrases shall have the meanings assigned to them below:

“Bank”	means Abu Dhabi Commercial Bank PJSC;
“Board”	means the Board of Directors of the Bank;
“BREC”	means the Board Risk & Executive Committee;
“BACC”	means the Board Audit & Compliance Committee;
“Central Bank”	means the Central Bank of the United Arab Emirates;
“Corporate Governance Regulations”	means all applicable regulations and standards on corporate governance, including, but not limited to, the Central Bank’s Corporate Governance Regulation and Standards for Banks (Circular No.:89/2019 dated July 18, 2019) and the Securities & Commodities Authority (SCA) Chairman’s Resolution No. 03/TM of 2020 Regarding the Approval of the Public Joint-Stock Companies Governance Guide;
“Chairman”	means the Chairman of the Board;
“Code”	means this Corporate Governance Code;
“CEO”	means the Group Chief Executive Officer;
“CFO”	means the Group Chief Financial Officer;
“CRO”	means the Group Chief Risk Officer;
“CCO”	means the Group Chief Compliance Officer;

“Director”	means a member of the Board, who are non-executive directors as defined by the Corporate Governance Regulations;
“Group”	means a group of entities which includes the Bank and (a) any subsidiary of the Bank, and (b) any affiliate and joint venture of the Bank;
“Independent Director”	means a member of the Board who is considered independent pursuant to the Corporate Governance Regulations;
“KPIs”	means the Bank's key performance indicators, as assessed by the Board;
“NCHRG”	means the Board Nomination, Compensation HR & Governance Committee;
“Senior Management”	means the executive management of the Bank responsible and accountable to the Board for the sound and prudent day-to-day management of the Bank;
“Staff”	means all persons working for the Bank, including the members of Senior Management, except for the Board;
“Stakeholder”	means any person who has an interest in the Bank, including shareholders, Staff, creditors, clients, suppliers, investors and potential investors; and
“Subsidiary”	means an entity, owned by another entity by more than 50% of its capital, or under full control of that entity regarding the appointment of the Directors.

2. Approach to Corporate Governance

- 2.1. The Group believes in and is committed to good corporate governance, to provide a basis for its future development and sustainable growth, to support trust in its activities as a recipient of depositors' funds and shareholders' capital, and to enable it to contribute to the successful development of the financial system of the UAE.
- 2.2. The Code has been approved by the Board and conforms with the Corporate Governance Regulations, and should be read in conjunction with the Directors' Code of Conduct. The guiding principles of the Group's Code are fourfold:
 - **Responsibility** - including for the clear division and delegation of authority;
 - **Accountability** in the relationships between the Bank's Senior Management and the Board, and between the Board and the shareholders and other stakeholders;
 - **Transparency and disclosure** to enable Stakeholders to assess the Group's financial performance and condition; and
 - **Fairness** in the treatment of all Stakeholders.
- 2.3. The Bank considers the Corporate Governance Regulations to be important in establishing a robust governance framework. The Board shall periodically review the Group's corporate governance framework to ensure it remains appropriate to the Group's operational structure and the risks that it faces, as well as its size, complexity, business strategy, risk profile, markets and regulatory requirements.
- 2.4. The Bank's Islamic window, products and services shall comply with Shari'ah rules and has established a sound and effective Shari'ah governance framework, with the key mechanisms and functionalities to ensure effective and independent Shari'ah oversight, as per the requirements set out by the Central Bank and the Higher Shari'ah Authority.

3. Board Secretariat

- 3.1. The Board Secretariat function acts as an interface between the Board and Senior Management. As well as acting as administrator for the Board's activities, the Board Secretariat function works closely with both the Board and the Senior Management to facilitate communication and transparency. The Board Secretariat function assists the Senior Management by helping them to understand the requirements and

directions of the Board and proactively facilitates the governance of the Group. To facilitate this role, the Board Secretariat function has full visibility of all management committees and activities. The function is both administrative and strategic.

4. Board's Responsibilities

4.1. Responsibilities of the Board

- 4.1.1. The Board is the Bank's principal decision-making forum and has overall responsibility for the organizational structure of the Group and for leading, supervising and controlling the Group and is accountable to the shareholders for creating and delivering sustainable shareholder value through its guidance and supervision of the Group's business. The Board is responsible for the operations and the financial soundness of the Group, and ensures that the interest of shareholders, depositors, creditors, Staff, and other stakeholders, including regulators are met. In particular, it sets the goals, strategies and policies of the Group. The Board monitors the performance of the Group's businesses and guides and supervises the Bank's Senior Management.
- 4.1.2. The Board shall act in the best interests of its various stakeholders while meeting regulatory expectations. Treating customers fairly shall be an integral part of the Group's corporate culture. The Board recognises that depositors' interests take precedence over shareholders' interests.
- 4.1.3. The Board has adopted a rolling agenda to ensure that each of its responsibilities is satisfied on a periodic basis, and considers other agenda items on an 'as required' basis.

For further details, please refer to the Board's terms of reference.

4.2. Independence of Directors

- 4.2.1. The Bank complies with the independence requirements of the Corporate Governance Regulations. The NCHRG is responsible to ensure that Independent Directors remain independent on a continuous basis, unless a Director's independence is compromised in accordance with the Corporate Governance Regulations.

4.3. Board Practices

- 4.3.1. The Bank's Board meetings take place on a regular basis, usually between six and eight times a year, or more where so required. In order to ensure that a full range of

topics are considered, it is the Bank's practice to schedule specific topics to be highlighted at certain meetings. The attendance of individual Directors is recorded and also made public in the Bank's annual report.

- 4.3.2. The Bank's policy is that the Board should include a strong, challenging, and independent element in order that it can exercise objective judgment. Through the participation of the Independent Directors and the conduct of the meetings of the Board, guided by the Chairman, the Board maintains a level of checks and balances to balance the influence of all parties including Senior Management and significant shareholders, and ensures that decisions are taken in the Group's interests.
- 4.3.3. The Bank provides adequate information to Directors sufficiently in advance of meetings to enable them to reach informed decisions.
- 4.3.4. A written record of Board discussions, resolutions, and Directors' votes is kept by the Company Secretary.
- 4.3.5. It is a key responsibility of Directors to ensure they be kept informed of developments within the Group, and in the banking industry as a whole, both local and international. Accordingly, the Bank provides Directors with appropriate orientation and briefings on joining the Board and throughout their tenure. In addition, the Bank maintains a secure electronic iPad Portal through which all Directors are able to access relevant documentation relating to Board meetings, meetings of management committees, available training courses, and other matters of reference.
- 4.3.6. The categories of transactions that require Board approval (including loans larger than a set amount, or transactions with related parties) have been clearly defined in writing in the Board committee and management committees' terms of reference and the Related Party Transactions Policy.
- 4.3.7. The Directors of the Bank meet on a regular basis without the presence of Senior Management.
- 4.3.8. Individual Directors have independent access to Senior Management, and in particular the committees of the Board have access to Senior Management.
- 4.3.9. The Group has drawn up an organisation chart, showing lines of reporting and authority.
- 4.4. **Board activities: appointment of CEO**

The Board's policy is to appoint a CEO with integrity, technical competence, and experience in banking.

4.5. Board activities: self-assessment and management performance appraisal

4.5.1. The Board, led by the Chairman, oversees an evaluation process, including an assessment of the performance of the Board as a whole and individual Directors, at least once a year. An external facilitator conducts the performance appraisal at least once every three (3) years, unless otherwise exceptionally recommended by the NCHRG and approved by the Board.

4.5.2. The Board supervises the performance appraisal of the Senior Management, including the CEO.

4.6. Board activities: planning, controls, ethics, conflict of interest policy

4.6.1. The Group has established its business objectives, and accordingly draws up a strategy for achieving them. The Board is required to approve the objectives, and the strategy, and the Board ensures that performance against plan is reviewed and that corrective action is taken as needed. The Group's budgeting process is part of the short term planning and performance measurement.

4.6.2. The Group's planning process includes a plan for the development of the Group's capital position, with stress-tested and alternate scenarios under different business and economic conditions as appropriate, and with guidelines for setting the amount of dividends paid to shareholders.

4.6.3. The Board ensures that the Group maintains a high degree of integrity in its operations. Formal policies on ethics, share dealings and code of conduct have been established and are required to be assented to by all Staff and these have been published. The Bank has also established a formal Conflict of Interest Policy for the Board to ensure that all decisions are made in the best interests of the Group.

4.7. The Board Advisor

4.7.1. In order to benefit from the experience of high-profile individuals who are leading experts in financial services, governance and governing large listed corporations, the Board may, from time to time, engage a suitably experienced advisor. That advisor will have such responsibilities as are determined by the Board, but may include attending Board meetings and strategy meetings, and providing his views on governance issues.

5. Board's own Structure and Practices

5.1. Board Committees

- 5.1.1. The Board is ultimately responsible for the conduct of the Group's affairs, but for greater efficiency, Board committees have been set up with formally-delegated objectives, authorities, responsibilities, and tenure. The Board committees regularly report to the full Board.
- 5.1.2. The Board has established four Board committees to assist it in carrying out its responsibilities. These include:
- the Board Audit and Compliance Committee;
 - the Board Nomination, Compensation, HR, and Governance Committee; and
 - the Board Risk and Executive Committee.
- 5.1.3. The purpose, powers, duties and responsibilities of each Board committee are set out in their respective terms of reference, which are published on the Bank's website.
- 5.1.4. There is a formal and transparent process for appointments to the Board committees, their mandates and membership (including members who are considered to be Independent) which is disclosed in the Bank's annual report and on the Bank's website. The members of the Board committees are appointed by the Board, with due consideration of the recommendations of the NCHRG, where appropriate, and with due consideration of the Bank's Articles of Association and the Corporate Governance Regulations. The Board considers an occasional rotation of members and of the chair of such committees to help avoid undue concentration of power and promote fresh perspectives.
- 5.1.5. Each Board committee has direct access to appropriate members of the Senior Management, in accordance with the provisions of its respective terms of reference.
- 5.1.6. Each Board committee has access, as required, to external resources, including independent professional advisors, to enable it to adequately fulfil its mandate.
- 5.1.7. A written record of Board committee discussions, resolutions, and Directors' votes is kept by the committee Secretary.

For further details, please refer to the BACC, NCHRG and/or BREC terms of references.

6. Governance of the Group Structure

- 6.1. The Board has overall responsibility for the Group and for ensuring that there is a clear governance framework appropriate to the structure, business and risk profile of the Group. The Board and Senior Management are required to know and understand the Group's organizational structure both at the legal entity and business line, and the risks that it poses.
- 6.2. The Board is responsible for being aware of the material risk and issues that might affect the Group. It should exercise adequate oversight over the Group, while respecting the independent legal and governance responsibilities that might apply to each Subsidiary.
- 6.3. The Board is responsible for setting policies and clear strategies for establishing new structures and legal entities, which ensure that they are consistent with the policies and interests of the Group.
- 6.4. The Board is responsible for ensuring that the Group's corporate governance framework includes appropriate processes and controls to identify and address potential intragroup conflict of interest, such as those arising from intragroup transactions.
- 6.5. The Board is responsible for ensuring that there are effective systems in place to facilitate the exchange of information among the various entities, to manage the risks of each Subsidiary as well as of the Group as a whole, and to ensure effective control of the Group.
- 6.6. There are sufficient resources to monitor the compliance of all entities with all applicable legal, regulatory and governance requirements.

7. Risk Management

7.1. Risk Management

- 7.1.1. To support the Board's overall responsibility for identifying, monitoring and ensuring that adequate risk control measures are in place, the Bank adopts a multi-faceted approach:
 - the Board and the BREC delegates some of their authorities to management through the Bank's management executive committee, as deemed appropriate;

- the Banks' internal control systems, which include internal and external audit, risk and compliance;
 - the Bank has a separate risk management function which separates the function and responsibility of reviewing and monitoring risk from the risk-taking business units of the Bank. The CRO heads the risk management department;
 - the Bank has a separate compliance function, which separates the function and responsibility of reviewing and monitoring compliance from the risk management function. The CCO heads the compliance function.
- 7.1.2. To ensure independence, the CRO and the risk management function shall report directly to the BREC and on a day-to-day operational basis to the CEO. Only the Board may appoint or remove the CRO to and from office.
- 7.1.3. The CRO's performance, compensation and budget should be reviewed and approved by the BREC and/or the Board.
- 7.1.4. Specific responsibilities of the Bank's risk management function include, amongst other things:
- analysis of credit risk, market risk, and operational risk;
 - development, updating and implementation of policy guidelines, risk strategies, risk systems and tools;
 - development of methodologies for the measurement and control of each type of risk;
 - setting of limits and approval, reporting and recording of exceptions to policy;
 - provision of information on risk metrics and on the Bank's risk profile to Senior Management and to the Board (the BREC reviews the risk statistics of the Bank, both qualitative and quantitative, on a quarterly basis) and to external stakeholders such as rating agencies, etc.;
 - restructuring of problem loans and loan recoveries;
 - development of a method to identify and measure hard-to-quantify risks such as reputational risk;
 - independent input and oversight of the provisioning policies, processes and adequacy of specific and collective provisions;

- control liquidity/funding risks and capital adequacy issues, in close conjunction with the Bank's Finance and Treasury functions and, in conjunction with the Treasury function, develop a formal contingency funding plan which sets out the strategies for addressing potential liquidity shortfalls in times of crisis;
- provision of risk information for use in the Bank's public statements and reporting; and
- enabling the BREC to effectively discharge their responsibilities as listed in their respective terms of reference.

7.1.5. The responsibilities of the risk management function are complemented by the Bank's management committees, including the risk and credit committee and the assets & liabilities committee.

8. Oversight of Strategy and Performance

8.1. Setting and Monitoring Strategy

8.1.1. The Group's strategic direction is set by the Board; however, key members of Senior Management participate in the process of setting strategy.

8.1.2. The Board concentrates on the forward-looking strategic direction of the Group and not on operational issues.

8.1.3. The Board ensures effective oversight of the Group's strategy by assessing the Group's past operational and financial performance for a given period or periods against (a) the Group's agreed-upon strategy for the same timeframe(s); (b) the KPIs set for the period under review and approved by the Board; and (c) the performance of its key competitors.

8.2. Performance Objectives ("KPIs")

8.2.1. The Bank ensures that it adheres to a clear process, led by the CEO, through which the performance objectives of the Group (and its Senior Management) are set for the coming year. KPIs are focused and well-articulated performance metrics against which management's performance can be tangibly measured by the Board.

8.2.2. The Group's performance objectives reflect the strategic direction endorsed by the Board.

8.2.3. Once approved by the Board, Senior Management are responsible for ensuring that the KPIs are embedded throughout the organization.

8.3. Budget Process

8.3.1. The Group ensures that it abides by a clear budget policy and procedure.

8.3.2. The budget process enables the Board to conduct an effective and timely review of the draft budget proposed by Senior Management and, to this end, requires Senior Management to make its budget presentation to the Board.

8.3.3. The Group's budget process reflects the strategic direction endorsed by the Board.

9. Control Environment

9.1. Internal Controls

9.1.1. The Board is responsible for ensuring that the Group establishes and maintains internal controls suitable for its business.

9.1.2. The Group's structure of internal controls is reviewed at least once a year, by internal and external auditors.

9.1.3. The Bank's Senior Management recognizes and respects the independent duties of the risk management, compliance, internal audit, Shari'ah compliance and Shari'ah audit functions, and they do not interfere with the exercise of such duties.

9.1.4. The Bank's compliance function reports to the BACC, which monitors compliance with applicable laws and regulations, as well as the Bank's internal policies and procedures.

9.1.5. The compliance function shall ensure compliance with regulatory guidelines, Anti Money Laundering (AML), Know Your Customer (KYC) norms and reporting of suspicious activity to Senior Management, the Central Bank and the BACC.

9.2. Internal Audit

9.2.1. The internal audit function provides an independent assurance to the Board and supports the Board and Senior Management in promoting an effective governance process and the long term strategies of the Group.

9.2.2. The Bank's policy is that its internal audit function should be adequately resourced, trained, remunerated, be provided full access to Bank records and staff members

and be given sufficient standing and authority within the Bank to adequately carry out its tasks.

9.2.3. The internal audit function reports to the BACC and acts in consultation with the CEO. This reporting structure is intended to ensure independence and balance the function's capacity to monitor as well as obtain in-depth information on the effectiveness of controls and processes. To promote independence, internal audit staff do not have operational responsibilities.

9.2.4. The internal audit function is responsible for proposing the structure and scope of the audit schedule, and any potential conflicts of interest are to be reported to the BACC.

9.2.5. Internal audit reports may be discussed with the departments and operational units being reviewed, but the internal audit function is permitted to operate and make reports without outside influence or interference.

9.2.6. The internal audit function has responsibility for the review of:

- the Group's financial reporting;
- compliance with external laws and regulations;
- compliance with the Group's internal policies; and
- risk focused audits, and compliance with the Group's risk and credit policies and guidelines.

9.2.7. The internal audit function provides a periodic assessment of the Group's overall governance framework including, but not limited to, an assessment of:

- the effectiveness of the risk management and compliance functions;
- the quality of risk reporting to the Board and Senior Management; and
- the effectiveness of the Bank's system of internal controls.

For further details, please refer to the Internal Audit Charter.

9.3. External Audit

9.3.1. The BACC is responsible for recommending to the Board the appointment, re-appointment, and rotation of the external auditors and/or the principal partner in charge of the Group's external audit to the Board.

- 9.3.2. The principal reporting line of the external auditors is to the BACC. The external auditors meet the BACC regularly, without management present, when financial results are presented for the BACC's approval, and attend Board meetings, when required.

10. Compensation

- 10.1. The Board is responsible for the overall oversight of the compensation system for the entire Group. In addition, the Board regularly monitors and reviews outcomes to ensure that the Group-wide compensation system is operating as intended.
- 10.2. The Bank seeks to ensure that compensation is effectively aligned with the Group's risk management and promotes the long-term health of the organisation and appropriate risk taking behaviour.
- 10.3. Directors' remuneration is set annually by the Board following delegation by the Bank's shareholders. The payment of the annual fixed amount to the Directors will include a part relating to their service on the Board and another on the Board committees, with greater weighting applied to chairing Board committees. The payment may also include the value of other non-monetary benefits, e.g. insurance and healthcare. Directors shall be reimbursed all reasonable expenses incurred in carrying out their duties as a Director. Any proposals for changes are considered by the NCHRG prior to obtaining Board and, if necessary, shareholder approvals.
- 10.4. According to Corporate Governance Regulations, negative financial performance or net loss reported by the Bank in a financial year may lead to a contraction of the Board's total compensation. The Central Bank may impose additional reductions to the Board's total compensation where the negative financial performance was due to non-compliance with applicable regulations, omission or error by the Board.
- 10.5. In line with the Group's commitment to sound governance and promotion of long-term sustainable shareholder value, the Group's objective is to provide transparency to shareholders and other stakeholders about its remuneration principles and initiatives. The Group supports levels of remuneration necessary to attract, retain and motivate employees of the calibre necessary to lead, manage and deliver in a competitive environment. However, the Group seeks to avoid paying more than necessary for this purpose and has practices and policies in place that promote effective risk management.
- 10.6. The Bank seeks to ensure that remuneration packages reflect duties and responsibilities, are fair and equitable, and incorporate clear and measurable

rewards linked to corporate and individual performance. Rewards shall be based only on the results of a rigorous appraisal process.

- 10.7. As far as possible, bearing in mind market trends and constraints, remuneration shall align the interests of Staff with the interests of shareholders and other stakeholders, and shall blend short and long-term incentives. Performance related elements shall be designed to minimise Staff turnover and to give Staff incentives to perform at the highest levels, whilst recognising the need to promote effective risk management.
- 10.8. The BREC shall, without prejudice to the tasks of the NCHRG, regularly review the Groups' remuneration framework and examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings. The Group's compensation structure shall be regularly monitored and reviewed by the Board.
- 10.9. The Bank values transparency in relation to its compensation practices. To these ends, it publishes details of its compensation practices on its website and a published report on compensation within the Bank's annual report.

11. Disclosure and Transparency

- 11.1. The Bank believes that the governance of the Group should be adequately transparent to Stakeholders.
- 11.2. The Bank monitors best practices in financial reporting by its comparable local and international peers. The Bank's Senior Management reports on these developments to the Board, and makes recommendations for the regular enhancement of the Group's own disclosure practices.
- 11.3. The Bank recognises its obligation to provide meaningful information on its activities to shareholders, depositors, financial market counterparties, regulators, and the public in general. The Bank also has a duty to gather input on its activities, and to address shareholder concerns. The Bank discloses such information on a timely basis, and makes it available to all.
- 11.4. The Board accepts responsibility for the Group's financial statements and the contents of the annual report, for their accuracy, and for their completeness.
- 11.5. The Bank commits to developing and maintaining the following information channels with its shareholders, investors, financial market counterparts, and the public in general:

- professionally-staffed Investor Relations function that provides comprehensive, objective, and up-to-date information on the Group, its financial condition and performance, and its activities;
 - annual report, produced promptly after the end of the financial year;
 - quarterly reports, providing quarterly financial information and the Board's report on the Group's trading position and financial condition during the year;
 - regular meetings between Senior Management, investors and shareholders; and
 - regular briefings by Senior Management, especially the CEO and the CFO, for shareholders, financial market analysts, and financial journalists.
- 11.6. Information provided through the Group's annual report, or its quarterly reports, and the text of any public presentations given by executives, is made available to interested parties both in writing through the Bank's Investor Relations function and, in a timely manner, on the Bank's website, in both Arabic or in English, as appropriate.
- 11.7. In its annual reports and quarterly reports, the Senior Management includes commentary that assists investors to understand current and future operating results and the financial condition of the Group, including the possible impact of known trends, events and uncertainties. The Bank commits to ensuring that such commentary is reliable, complete, fair balanced, understandable and is grounded in the Group's financial statements as reported. The commentary comprises non-financial as well as financial information about the Bank.
- 11.8. As part of its commitment to transparency and full disclosure, the Bank includes in its annual report, amongst other things, the following information:
- disclosure of the Directors' Code of Conduct;
 - a discussion of its corporate governance practices during the year;
 - reference to the terms of references of the Board and Board committees;
 - reports of the Board committees on matters considered during the year;
 - the frequency of Board and Board committee meetings;

- information on each individual Director including: qualifications and experience; whether an independent Director; the membership of Board committees; dates of appointment to the Board; attendance at Board and Board committee meetings; and remuneration;
- the recruitment approach for the selection of members of the Board and for ensuring an appropriate diversity of skills, backgrounds and viewpoints;
- information on the policy and actual figures of female candidates' consideration and representation on the Board;
- the Board's performance evaluation;
- disclosure of Directors' conflicts of interest;
- a description of the Bank's dividend policy;
- incentive and compensation policy including the decision-making process used to determine the Group's compensation policy, the most important design characteristics of the compensation system and aggregate quantitative information on compensation;
- key points concerning its risk exposures and risk management strategies
- a discussion of the Bank's internal controls systems;
- annual Shari'ah Reports on the compliance with Shari'ah rules and the resolutions of the Higher Shari'ah Authority; and,
- the Bank's engagement and achievements in corporate sustainability during the year.

12. Treatment of Shareholders

- 12.1. The Bank takes active steps to encourage shareholders to participate in the Annual General Meeting and also to vote either in person or in their absence by proxy.
- 12.2. The Bank's policy is that all Directors should be present at the Annual General Meeting, physically or virtually, and are invited to address relevant questions from shareholders.
- 12.3. Representatives from the external auditors are present to answer questions about the audit and their auditors' report.

- 12.4. The Bank assigns separate resolutions for separate issues that are raised at the Annual General Meeting, with voting on each.
- 12.5. As required by the Bank's articles of association, appointment of the Bank's Directors and external auditors is confirmed by voting at the Annual General Meeting.

13. Publicly available information

The Code shall be published on the Bank's website.

14. Review and administration of the Code

The NCHRG shall review the Code at least once every two years and amend it, as and when required.

15. Applicable regulatory requirements

- The Central Bank's Corporate Governance Regulation for Banks (Circular No.89/2019 dated July 18, 2019)
- The Central Bank's Corporate Governance Standards for Banks (Circular No.89/2019 dated July 18, 2019)
- The Securities and Commodities Authority Chairman's Resolution No.03/TM of 2020 Regarding the Approval of the Public Joint-Stock Companies Governance Guide

The Code is dated 16th September, 2021 and supersedes any Code of Corporate Governance previously in force.