

CORPORATE GOVERNANCE



The bank has been operating for nearly three years since the merger. In that time FAB has committed itself to developing a strong and robust corporate governance model/structure. There has been a consistent focus on developing governance across all areas of the business, both in the UAE and internationally.

Good corporate governance is important, to our shareholders, customers, employees and the communities in which we operate.

Our emphasis has been on improving the quality of decision-making and continuing to strengthen relationships with our stakeholders through transparent disclosures. In FAB, we believe that good governance supports ethical conduct and allows us to focus on running the business and complying with the applicable laws and standards.

Our governance structure includes a comprehensive code of conduct which all employees must be aware of and comply with in their daily interactions. This is supported by robust values which are communicated throughout the organization and influence the way in which we do business. How we conduct our business is as important as what we do.

FAB is highly focused on achieving best practices in corporate governance, business integrity and professionalism. Its Board of Directors (“the Board”) approved the Group corporate governance framework which is aligned with its strategic objectives and reflects applicable regulatory guidelines, including those of the Central Bank of the UAE (“CBAUAE”) and its other regulators.

The framework was recently enhanced to reflect the provisions of the new 2019 CBAUAE Corporate Governance Regulation for Banks and the accompanying Corporate Governance Standard for Banks (the “CBAUAE CG Regulations and Standards”).

Under Article 2 of the CBAUAE CG Regulations and Standards, members of the Board must ensure that a bank has robust corporate governance policies and processes commensurate with its risk profile and systemic importance. The Framework, together with the Bank’s Corporate Governance Policy, also approved by the Board in 2019, is designed to meet this requirement. Our goal is to be perceived as the best governed bank in the GCC.

FAB's overarching corporate governance protocols are overseen by the Board, which directs the Group's affairs and works with executive management to set the bank's strategic objectives.

FAB is driven by the selection of productive strategies and management of risk. It also has a closely monitored delegation of authority ("DOA") framework that supports the need for independence in decision-making and escalation of reporting, with clearly articulated individual and collective accountabilities and compliance with all applicable laws and regulations.

This allows the bank to satisfy the interests of stakeholders through transparent and material disclosures, meet its regulatory obligations and engage positively and transparently with the community and its customers.

High-level overview of the FAB Corporate Governance Framework

FAB is governed by a framework of boards and committees. The bank undertook a comprehensive structural review of the management committees as part of its continuing work to establish a streamlined and effective reporting structure to the Board Committees.

This included a review of the charters for each committee in order to maximise the efficiency of operations and to ensure clear lines of accountability for decisions.

The corporate governance framework identifies the responsibilities and accountabilities for: the Board and individual Board Directors, Board Committees, the Executive Committee and its supporting Management Committees, and the organisation's support and control functions.

FAB Governance Structure



Indicates flow of information and not reporting lines.

** The Bank also operates Internal Shari'ah Supervision Committee which advises all relevant parts of the FAB business on key aspects of its Islamic Banking activities (more details are included later in this report).*

Board of Directors

Good governance starts with the Board. Pursuant to the FAB Group's Articles of Association and in accordance with Federal Law No. 2 of 2015 concerning Commercial Companies, the FAB Board consists of nine (9) members. The composition of the Board satisfies best practice relating to the separation of Chairman and Group Chief Executive and the majority membership of non-executive Directors.

The Board considers that a Director is independent if neither himself nor any of his first-degree relatives have been a member of the Senior Management of FAB during the last two years or has a relationship that creates any financial transactions or deals with FAB or any of its subsidiaries totalling a value of 5% of the paid-up capital of FAB, or exceeds AED 5 Million (or an equivalent amount in a foreign currency, whichever is less).

The Board of FAB has overall responsibility for directing the Group's affairs, to create and preserve value through the group's operations, and to consider the shareholders' and other stakeholders' interests.

The Board, either directly or through its committees, is responsible for oversight in the following areas: strategic planning, defining risk appetite, the bank's risk management framework, capital management, fostering a culture of integrity including oversight of the FAB code of ethics/conduct and whistleblowing procedures, internal controls, succession planning and evaluation of senior management, material Compliance and Financial Crime policies, communication, public disclosure and corporate governance. It has documented its roles and responsibilities in a Board Charter and associated policies.

The Board Charter and its associated policies have been reviewed and amended as necessary to reflect the evolution of the FAB Group and in line with changes to the legal and regulatory landscape. This includes a comprehensive Code of Conduct for Directors which reflects their fiduciary duties and role in setting the tone for the conduct of the whole organisation.

The Board delegates its authority to executive management through the Board and Board Committees and the delegation of authority framework. Aside from certain authorities and powers reserved by the Board for its own decision-making, the Group Chief Executive is delegated full responsibility for the management, operations and compliance of FAB.

To satisfy its oversight role, the Board has defined a clear control structure, which monitors management activities, in addition to creating supporting controls and reporting structures both internal and external to the bank. The delegation and control structure is also subject to compliance with and oversight by regulators and third parties, including the CBUAE and the Securities and Commodities Authority of the UAE ("SCA"), and regulators in jurisdictions where FAB operates.

The emerging governance issues and associated risks makes the role of a board director more complex than ever. Continuing Board education was introduced in 2019 to address the need for the board to receive materials and insight into emerging governance and environmental issues to support their role. These included, amongst other governance issues, information security, financial crime and sustainability. In addition the Board is committed to continuous enhancement, and agreed to conduct a self-assessment for the year 2019.

The anonymous survey is used to assess the operation and dynamics of the board, the adequacy of information provided to directors, board structure and composition, agenda planning and strategic direction and process. It helps to provide the Board with assurance that it is dealing with the right strategic issues, and is efficient in its operation. A similar self-assessment is used for the Board committees.

Strategic Planning

The Board provides governance and oversight to strategic planning at FAB and oversees the execution of the strategies. The board approves and monitors the Group strategy and long term objectives, ensuring alignment with the Group's risk appetite and the Group risk management framework.

The Board also reviews financial performance in light of the strategy, long term objectives and budget of FAB. Directors receive updates on the progress of strategic plans, including those for each principal business group, throughout the year.

Risk Oversight

The Group's Enterprise-wide Risk Management ("ERM") framework, approved by the Board, is comprised of a governance structure that includes a robust committee structure and a comprehensive set of corporate policies, which are approved by the Board and its committees, together with supporting Standard Operating Procedures ("SOPs").

The ERM framework is governed through the Group Risk Committee and through a hierarchy of individual responsibilities.

All elements of our risk management framework are reviewed on a regular basis by the Group Risk Committee with oversight from the Board Risk and Compliance Committee to provide effective guidance for the governance of our risk-taking activities.

Board Sub-Committees

To enable the Board to carry out its objectives, authority is delegated to the committees appointed by the Board as required.

The Board has established the following four Board sub-committees:



Board Management Committee (“BMC”)

The BMC approves and oversees execution of the FAB Group’s business plan as per the strategy approved by the Board, and oversees and reviews material aspects of the Group’s business.



Board Audit Committee (“BAC”)

The BAC ensures the quality and integrity of financial statements and financial reporting, including oversight of the internal and external auditor, and assesses the effectiveness of internal control, risk management and governance systems, including oversight of compliance related matters such as fraud and whistleblowing.



Board Risk and Compliance Committee (“BRCC”)

The BRCC provides oversight and advice to the Group Board in relation to current and potential future risk and compliance exposures of the FAB Group. It also considers and helps direct future risk strategy, including the determination of risk appetite and tolerance, and the promotion of a risk and compliance awareness culture among the Group.



Board Remuneration and Nomination Committee (“REMCO”)

The REMCO oversees the composition of the Group Board Directors and succession planning for the Group Executive Committee members. This includes an assessment of the skills, knowledge and expertise needed to ensure they are positioned to discharge their responsibilities in the interests of the shareholders and FAB Group.

It also reviews FAB’s reward policy framework, approves and oversees reward design and ensures it is appropriate and consistent with the FAB Group’s culture, values, business performance and risk strategy.

Each of these committees remain an integral part of the Board, and its members are composed of Board Directors and the Chief Executive Officer. The remit of these committees is to research and consider topics in greater detail and provide recommendations to the Board, to manage conflicts of interest, to satisfy regulatory requirements, provide leadership, satisfy the interests of shareholders and provide management oversight to ensure the proper governance of the Group. The Committee Charters are reviewed annually to align closely with the evolving business and structure of the Group.

Internal Shari'ah Supervision Committee ("ISSC")



FAB is supervised from a Shari'ah perspective by the Internal Shari'ah Supervision Committee ("ISSC") who are appointed by the FAB Group Board. The ISSC consists of renowned and qualified Shari'ah scholars who are responsible for ensuring that all of the bank's Islamic banking products, services and operations are in compliance to the Shari'ah principles, and reviewing them on an ongoing basis. The bank's Islamic banking operation regularly seeks the guidance of the ISSC on matters relating to Shari'ah.

The ISSC also supervises the bank's Islamic subsidiaries in all matters related to Shari'ah. These subsidiaries are First Abu Dhabi Islamic Finance Pvt. JSC and Aseel Finance Pvt. JSC respectively.

FAB also has an Internal Shari'ah Unit ("ISU") consisting of personnel qualified in Shari'ah and Islamic banking. ISU is responsible for managing and performing all related Shari'ah functions including Shari'ah review, advisory and structuring; Shari'ah Secretariat to the ISSC; Shari'ah research and training; Shari'ah audit; and Shari'ah risk management.

The Federal UAE Banking Law No. (14) of 2018 made a number of changes to Islamic Banking. It established the Higher Shari'ah Authority ("HSA"), which will, among other things, determine the rules and standards for Islamic financial institutions. Included within the powers of the HSA is the pre-approval of all members of the ISSC, and pre-approval of any proposed new Islamic banking products.

The appointment of ISSC members must be pre-approved by the HSA before being elected at the Bank's General Assembly. The ISSC is required to produce an annual report which is required to be approved by the HSA and is presented at the Group General Assembly.

In addition, all business must be conducted in accordance with the Shari'ah Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Management Committees

FAB has a number of management committees, including the Executive Management Committee. The management committees' structure helps drive senior-level management decision-making within the bank across a range of matters including the management of issues pertaining to strategy, finance, capital, risk, compliance business operations, information technology and employees.

The committee structure has continued to evolve and considerable work was undertaken in the year around the leadership and administration of the committee meetings, including the introduction of self-assessments that are aimed to review the performance of the committee and suggest areas to enhance quality. The composition, guiding principles and detailed roles and responsibilities of all FAB management committees are set out in their respective charters.

Subsidiary company and International governance

Dubai First Pvt. JSC, Aseel Finance Pvt.JSC, First Abu Dhabi Islamic Finance Pvt.JSC, and FAB Securities LLC are regulated subsidiary companies of FAB in the UAE, and each operates within the bank's overarching corporate governance framework. FAB subsidiary companies operate governance arrangements suited to their business.

They have their own boards and supporting committees as required by applicable laws and regulations. To assist, guide, direct and challenge the senior management of FAB subsidiary companies, these subsidiary boards consist of senior professionals with substantial banking, finance, Islamic banking and risk experience.

They are primarily FAB Group employees unless legal and/or regulatory requirements mandate the need for independent (non-FAB) directors. However, these Directors are chosen from a different line of business so that they can offer an independent perspective. The boards of FAB subsidiary companies have a majority of UAE Nationals as required under the UAE Commercial Companies Law.

In addition to its UAE subsidiaries, FAB has several international subsidiaries with their own fully constituted Board and committee structure. However, the majority of the bank's international presence is through branches and representative offices, providing operations and services at a local level and supported by regional and Group management as appropriate.

FAB has developed a risk control governance framework for each international location that sets out the governance structure, including the senior management organisation structure, committees, decision-making forums and reporting lines.

This is complemented by effective two-way communication and close oversight from Head Office to ensure that appropriate issues are escalated to group level and the governance for each international location is consistent with the governance at Group level.

2019 CBUAE Corporate Governance Regulations and Standards for Banks

In September 2019, the CBUAE issued its long awaited Corporate Governance Regulations and the accompanying Standards for Banks (the “CBUAE CG Regulations and Standards”). There is a three-year implementation period for the CBUAE CG Regulations and Standards.

Each UAE bank is required to submit to the Central Bank a plan approved by the Board that describes when and how the bank will meet its obligations under the CBUAE CG Regulations and Standards. Following its release, the bank prepared an analysis to assess the current status of compliance with it.

This analysis was used as a basis for preparing the plan, which includes a timeline for implementation. The key governance documents were updated in line with the CBUAE CG Regulations and Standards, and are subject to internal approval, which is in progress. The Bank will monitor the implementation of the plan that will be presented to the CBUAE by end of January 2020.

Regulatory Compliance

FAB is regulated by the CBUAE and is therefore required to comply with CBUAE regulations, circulars and notices. In addition, FAB is required to comply with all applicable laws and regulations of the UAE, including, without limitation, the UAE Commercial Companies Law No. (2) of 2015 and the Federal UAE Banking Law No. (14) of 2018, rules and standards established by the SCA and the bank’s Articles of Association, the latter which are reviewed annually.

FAB has a specialist compliance team that reviews new laws and regulations and assesses their impact on the bank, advising the Board as necessary through the Committee framework.

FAB is also impacted by international regulations that have global or regional impact where the bank conducts business, such as BASEL III and the General Data Protection Regulations (“GDPR”).

The bank is also mandated to comply with international regulations in all jurisdictions in which it operates. This is achieved through local compliance staff, with oversight and guidance provided as necessary at Group level. Senior management has the responsibility to ensure compliance with applicable laws and regulations across the geographic spread of the Group and report on such matters to the Board.

Developing a strong relationship with our UAE and international regulators and partnering with them as appropriate is a key focus for FAB as it is considered good governance. In UAE, this includes providing a response to regulator consultations through the UAE Banks Federation (“UBF”).

Codes of Conduct

In addition to the Directors Code of Conduct noted above, the Bank has a comprehensive Employee Code of Conduct which applies to directors, employees and subsidiaries of FAB. The Code encourage appropriate behaviour, defines inappropriate behaviour and the process and outcomes for the identification and reporting of such behaviour period.

Consistent with FAB's approach to employing high standards for transparency and disclosure for the benefit of shareholders and other stakeholders, the bank publishes a wide range of reports containing financial and non-financial data through its Investor Relations function, in addition to disclosures required for regulatory purposes. This includes FAB's Environmental Sustainability Governance (ESG) report, and a detailed Corporate Governance annual report, both of which can be found on the bank's website.

FAB has established a number of functions committed to engagement and communication with external stakeholders. These include Investor Relations, Corporate Communications, Sustainability, Regulatory Compliance and Corporate Governance.

In addition, internal transparency and disclosure is considered from operational, ethical and regulatory perspectives, ensuring that staff are aware of developments, strategies and risks pertaining to FAB, as well as their personal responsibilities and duties, whilst protecting customer and personal data confidentiality, sensitive information and confidential commercial information.

These considerations are embedded in the Employee Code of Conduct and the bank's values system. Shareholder rights and interests include powers reserved in the UAE Commercial Companies Law No (2) of 2015 the Federal UAE Banking Law No (14) of 2018 and FAB's Articles of Association, and are supported by the duty of the Board to act in the best interests of the Company. FAB acknowledges that there are diverse interests within the shareholder base and the Board considers such interests when determining the objectives and strategies for the Group.

Executive Management Compensation

Executive Management compensation at FAB aims at achieving sustainable business growth and protecting stakeholder value. Our compensation structure contains a mix of fixed and discretionary variable pay.

The fixed pay is aligned to external market benchmarks to ensure that senior leadership is adequately compensated and that there is relative stability at those levels. Variable pay is linked to achievement of results as per the elements of the balanced scorecard (Financials, Customer, Process and People) as well as demonstration of their achievement in line with Bank's stated values. Managerial discretion is also applied to ensure that there is a true reflection of 'how' the business growth is achieved in addition to 'what' was achieved.

Additionally, adequate safety measures such as partial deferral of variable compensation are in place to ensure that decision making is on the basis of long term sustainability. Such deferrals are applied on the basis of the value of the discretionary variable pay and is commensurate with the level of decision making and impact to the business. The deferral scheme segregates payments into retention based awards and organisation performance dependent awards that vest over a defined time frame. In the event performance parameters thresholds are not achieved, the performance based deferral for the year is subject to forfeiture.

Variable reward amounts (paid amounts as well as deferrals) are subject to claw-back conditions. Additionally, unvested deferred amounts are subject to forfeiture based on specific conditions.