THE HAWKAMAH JOURNAL — A JOURNAL ON CORPORATE GOVERNANCE & LEADERSHIP

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INTERVIEW WITH EISSA AL SUWAIDI

Eissa Al Suwaidi, Chairman of Abu Dhabi Commercial Bank

There is nothing ostentatious about the headquarters of Abu Dhabi Commercial Bank, an unassuming office block on a central street corner. Yet these modest surroundings mask a tale of considerable achievement. The bank, which is 58[1] per cent owned by the government through the Abu Dhabi Investment Council, is both highly profitable with a first quarter 2015 return on equity of 22 per cent and an acknowledged regional leader in corporate governance.

Academics will argue at length over the impact of governance on the bottom line, but, even if causality cannot be proved, there is no doubting the bank's long term commitment to governance. It began even before the financial crisis, says Chairman Eissa Mohammed Ghanem Al Suwaidi, when the Bank decided to implement a governance programme with the help of the International Finance Corporation. By the time he became chairman in 2008, the financial crisis had given the move a particularly strong impetus. "The crisis provided us with the best opportunity to put in place a very stringent framework. We found that essential," he says, "but this is more than doing just what the rules say. You have to respect the spirit." So when the SCA securities regulator developed a code for listed companies during 2008, the bank decided to apply it even though banks were exempt.

ADCB understands the importance of developing strong trust between the bank and each of its stakeholders, he explains. Shareholders, investors, depositors, staff, and customers – all stakeholders – need to trust the bank. Strong governance drives that trust and develops a positive loop of investment and support. In addition, strong governance helps the bank to make better, properly considered, decisions on operational and strategic matters.

HE CITES THREE PARTICULAR ADVANTAGES:

• Appropriate Board governance makes the Board more effective. Where the bank ensures that appropriate amounts of information, and appropriate content, flows to the Board, it will make better informed decisions.

• Governance around strategy setting enables it to assess strategic priorities and direction properly.

• Governance around remuneration enables appropriate incentivisation of staff and ensures that their interests are aligned with those of the Bank.

Besides, strong risk governance should enable us to assess our risks properly and position the bank to perform well in both good and bad economic environments. IT security risks can be mitigated by strong governance and oversight. Suppliers can represent huge risks to the Bank - imagine a data security breach at a credit card processing agent- strong vendor governance can help us to understand and mitigate these risks.

Overall, he says, banks can avoid reputational risk and compliance risks by strong governance practices, including oversight of product governance processes. That helps deliver the government's purpose as a shareholder, too. "Government looks to the bank to deliver stability, funding the economy in the right way," he adds. As such, the interests of the Government and the Bank are aligned, and the Government does not want or need to interfere in the management process. Indeed the point of having strong governance is that it provides a framework in which the management can enjoy a high level of independence.

Yet, is it not a challenge to impose governance standards mostly developed abroad where the culture and legal background are different? Less than many might think, he replies.

Most global governance principles can be relatively easily imported. That applies for example to risk, remuneration, and product governance principles. Indeed, when the Basel Committee of bank supervisors recently issued new international principles for banks, ADCB was already compliant with almost all of them. On remuneration, the bank's policy includes claw-back and deferral as well as adjustment of

reward for risk.

The areas which are not so easy to transport, and which are challenges for all institutions in the UAE, are largely at board level. These include challenges around independence, conflicts, board experience, diversity and succession. ADCB has sought to address these challenges by making sure the board is aware of them, and so bringing them into the open. It regularly reminds all its board members about issues of conflicts. It maintains conflict registers, and, on a quarterly basis, obtains declarations from Board member concerning their duties.

On the occasional circumstance where the bank considers entering into a transaction with its major shareholder (such as a lending exposure or guarantee) the shareholders' nominees will not vote on the matter and any negotiations will be on entirely arm's length terms.

To help it maintain international standards of governance, the board has developed a tradition of employing senior outside advisers from the financial sector. The first was Lord (Mervyn) Davies, the former chairman of Standard Chartered and the current one is Sir Gerry Grimstone, Chairman of Standard Life. "We brought them in to provide a third party perspective on our governance practices, and to help us with the continual process of improvement," the Chairman says.

Thus their experience and involvement has helped the bank to refine its governance arrangements. In particular, they have helped the board exercise real independence. Directors are better able to challenge senior management, define management KPIs, refine information flows from management to board, define the bank's risk appetite and strategy, and to conduct board evaluations.

One key change has been the appointment of the bank's first female director. Aysha Al Hallami, a senior strategy executive involved in research and tactical asset allocation at the Abu Dhabi Investment Authority, is also the first female director of any bank in the UAE. This is more than just a token gesture, the Chairman says. She brings valuable expertise in investments and risk assessment.

The bank conducts a board evaluation annually. The process involves a written questionnaire, and self-assessment forms, and subsequent individual and board committee level discussions. The results of these are analysed and the board corporate governance committee develops an action plan which is then implemented. Every third year it appoints an independent third party to conduct the evaluation.

The evaluation process enables the board to take action on points which may not be considered on a day to day basis. The first few evaluations were extremely useful in helping refine the overall framework and adjustments to improve board effectiveness. Subsequent evaluations have resulted in more subtle but also useful adjustments.

The independent expert brings a new perspective and is able to raise issues in a confidential and independent manner. It is helpful to appoint experts who have had significant experience in acting at the Board level, because governance theory can only help to a certain extent and there is little substitute for practical experience.

The Chairman acknowledges that compliance with regulation has become an important issue for the board. Each board meeting involves reports from the Bank's internal auditor and an update from the Chairman of the Board Audit & Compliance Committee; it is important for directors to constantly challenge management "to make sure that the management

knows we are concerned as much about internal controls and compliance as overall strategy and performance." Yet the bank does not see governance as simply a compliance process. Its real contribution is to the development of a healthy culture, he says.

The local banking industry has received a raft of new regulations over recent years, covering matters ranging from consumer products to liquidity. As a general rule, it welcomes these regulations, as they will provide stability to the market and underpin growth over the longer term.

While compliance costs have grown, and continue to grow, the bank does not see any risk that compliance issues will overshadow governance culture. Governance is not a matter of compliance; it is an entirely separate issue. At ADCB governance is coordinated from the corporate secretarial group, but it is clear that suitable governance is the responsibility of everyone, from the board to staff at all levels.

ADCB feels that good culture is an outcome, which is developed over time as a result of consistency of various inputs. In particular, it is vital that the Chairman and board set the appropriate tone at the top, and constantly ensure and look for activity which reinforces this in all interactions and at all levels. All decision making must be made with this in mind, from hiring decisions, to strategic or other operational decisions. Poor governance will be considered in the same light as any other business underperformance. Consistency in these matters ought to develop a strong governance culture over time.

"We like to look not only at what is happening, but also at why things happen," he says. Internal audit plays a part in this process of culture-development, but it will only be a part and the process must be led by the board and senior management.

Listening to the Chairman, there is no doubting the pride in the governance achievements to date. These have been recognised through two Hawkamah awards for bank governance. The bank has also been used as a case study both by the IFC and the INSEAD business school. Yet Mr. Al Suwaidi also acknowledges that embedding governance is a continuous and continuing task.

"What makes me feel more comfortable about the outstanding issues", he says, "is that we are aware of them, and we constantly reviewing and repeating the processes that we have put in place to address them. Embedding a strong governance culture across all levels of the bank is a huge challenge. This will be an ongoing, never ending, process."

So, for example, the bank has just started improving its supplier governance processes, which will continue. Also he hopes it can continue to deepen and improve the Bank's risk governance, product governance, IT security governance, and subsidiary governance processes over the short to medium term. Maintaining the independence of the board and succession planning is another challenge which requires careful work with the controlling shareholder.

Above all, the challenge is not to drop ones guard in the good times. "The most difficult moments come when the economy is strong and the challenge from the competition is intense. Then the quest for profit can be overwhelming," he says.