



External Audit Independence Policy

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1. Purpose

- 1.1. The Board of Directors of Abu Dhabi Islamic Bank (ADIB) has mandated Group Audit Committee (The Committee) to recommend to the Board the engagement of external auditors and evaluation of their qualifications, independence and performance. The Committee has been entrusted with the responsibility of approving and monitoring application of the policy for contracting with external auditors.
- 1.2. This formal policy on audit engagement and independence has been adopted by the Committee to meet this requirement.

2. Scope and Application

- 2.1 External Auditor Independence Policy is to define the areas that Audit Committee should consider in relation to the provision of external audit services. It is also to ensure that audit independence is maintained both in fact and appearance such as that ADIB's external financial reporting is viewed as being highly reliable and credible.
- 2.2 This policy should be read in conjunction with the Audit Committee Charter, which outlines the responsibilities of the Committee in regard to the provision of external audit services.
- 2.3 This External Auditor Independence Policy applies to all employees of Abu Dhabi Islamic Bank (ADIB) and its bank and non bank Subsidiaries and Affiliates including Directors and Senior Managers.

3. External Auditor Appointment & Reappointment

- 3.1 The Committee has been empowered by the Board to recommend to the Board the appointment, remuneration and removal of the external auditor.
- 3.2 The Board will nominate to the shareholders for appointing the external auditor at the recommendation of the Audit Committee. The appointment will be made and remuneration be fixed by a resolution after shareholders approval at the ADIB's Annual General Meeting.
- 3.3 In the event that a vacancy or change in the external auditor for ADIB occurs, the Committee will conduct a formal, tendering process.
- 3.4 In general, the external auditor will be selected on the ground of efficiency, reputation and experience. Tenders will be evaluated in accordance with the disclosed criteria as appropriate at the time. However, tenders are not assessed solely on price but on a number of key criteria including:
 - Quality and thoroughness of the audit approach and methodology;
 - Independence of the external audit firm and specifically the audit engagement partner;

- Skills and knowledge of the proposed external audit team;
 - Global resources;
 - Understanding of the industry;
 - Partner rotation and succession planning;
 - Value for money; and
 - Firm's reputation in the market.
- 3.5 In making any recommendation, the Committee may consider involving certain senior executives to comment on tender responses received.
- 3.6 In case the Board disapproves the recommendations of the Committee on the selection, appointment, resignation or removal of the external auditor, the Board shall include in the governance report a statement that explains the recommendations of the Committee and causes of the Board's disapproval.

4. External Auditor Independence

- 4.1 The Committee will evaluate the independence of the external auditor annually to ensure that independence of this function is maintained having regard to the provision of non-audit services.
- 4.2 The Committee will also assess the performance of the external auditor to ensure that services provided by the external auditor are of best practices and according to the international standards.
- 4.3 If, in the view of the Committee, the level of fees being paid to the external auditor for audit or non-audit related service, either severally or in the aggregate, are of a magnitude that could impair, or be perceived to impair, auditor independence, the Committee may impose a restriction on the services being awarded to the external auditor.
- 4.4 The external auditor is precluded from providing any services that might threaten their independence or conflict with their assurance and compliance role. Specifically, any firm providing audit services to ADIB will need to satisfy the Committee that:
- no services will be provided that will result in a conflict of interest;
 - neither the firm, a superannuation fund of the firm nor any partner of the firm holds any shares or options, either directly or indirectly, in ADIB or its controlled entities;
 - no member of the current service team holds any shares or Sukuk, either directly or indirectly, in ADIB or its controlled entities;
 - no funds have been received by the firm by way of a loan or other form of capital from ADIB or its controlled entities;
 - any services provided by the firm additional to that of the audit function involving non-audit services traditionally performed by accounting firms,

would not have a material bearing on the audit and would not involve the firm auditing their own work;

- the firm has an audit personnel rotation policy, including lead and signing partners, requiring rotation at least every five years;
- no partner or member of staff or spouse or close relative of an audit partner or member of the audit staff holds a position as a director or executive of ADIB or its controlled entities;
- there will be no situations where the auditor assumes the role of management or where the auditor is placed in the role of advocate for ADIB.

4.5 Those audit and audit related services that are prohibited are set out in clause 8.2 below.

4.6 An annual report on the provision of auditing and related services is provided to the Board through the Committee. The Committee reviews these reports and satisfies itself that any non-audit services do not compromise the external auditor independence.

5. Annual Evaluation of External Auditor Performance

5.1 The Committee shall review the performance of the external auditor on an annual basis. In reviewing the performance of the external auditor, the Committee shall consider:

- the quality and rigour of the audit;
- the quality of service provided;
- the audit firm's internal quality control procedures;
- relationship with the internal auditor and ADIB; and
- the confirmation of independence from the external auditor that they have been provided with all the information and explanations they require during their audit to their satisfaction.

5.2 Where the performance of the external auditor is assessed as being unsatisfactory, the Committee shall determine the course of action, which may include:

- discussion with the external audit firm to resolve performance issues;
- replacement of members within the external audit team; or
- Commencement of a competitive tender process in order to select a new service provider.

6. External Auditor Core Services

6.1 External auditor will be required to provide the core services relating to the statutory audit and reviews of financial statements of ADIB and its subsidiaries as required under the laws and regulations.

- 6.2 They may be required to carry out additional services not prohibited under any law and regulations and do not fall under the prohibited services as specified in this policy.

7. External Audit Related Service

- 7.1 When the External Auditor provides other services, the Audit Committee will verify that:
- policies and procedures are in place to prevent the auditor's employees from making a decision in connection with ADIB's management;
 - the auditor's employees who provide these services may not take part in the audit process;
 - the auditor's fees for these services may not be material; and
 - the subject of service may not be of value or effect on the financial information of ADIB it is assuming the audit thereof.

8. Non-Audit Services

- 8.1 In general, the external auditor may not, while assuming the auditing of ADIB's accounts, perform any technical, administrative or consultation services or works in connection with its assumed duties that may affect its decisions and independence or any services or works that, in the discretion of the Committee, may not be rendered
- 8.2 The external auditor must not be engaged to perform any of the prohibited audit and non-audit related services (prohibited services) listed below:
- Book-keeping or other services related to the accounting records or financial statements of ADIB;
 - Financial information systems design and implementation;
 - Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
 - Any actuary services or works;
 - Internal audit outsourcing services or works by means of sub-contracting;
 - Any assessment or valuation services or works;
 - Management functions or human resource services;
 - Broker or dealer, investment adviser, or investment banking services;
 - Legal services and expert services unrelated to the audit; and
 - Any other service that the Board determines, by regulation, is impermissible.

9. Rotation of Key Audit Partners

- 9.1 The continued appointment of ADIB’s external auditors is to be confirmed annually by the Board. The Committee will be responsible to consider the rotation of external audit engagement partners and review the terms of any such appointment.
- 9.2 A policy of regular rotation of audit firm is not mandated, however, the rotation policy that is widely accepted will be the one that provides an appropriate balance between going concern consideration, risk management, independence and credibility.
- 9.3 Rotation of ADIB’s client service partner and lead audit partner will be required every five (5) years. Those partners will be subject to a two (2) years cooling off period following rotation.

10. Responsibility of External Auditors

- 11.1 The external audit firm shall maintain a quality control system that provides reasonable assurance that its independence will not be impaired. In addition to ADIB’s policies, it is expected that ADIB’s external auditor will rigorously comply with their own internal policies on independence and all relevant professional standards.
- 11.2 The External Auditor shall meet with the Committee at least once a year.
- 11.3 The external auditor shall attend the annual general meeting and shall be available to answer shareholders questions about conduct of the audit and the preparation and content of the auditor’s report.
- 11.4 In addition, the external auditor shall recite the audit report thereof in front of the shareholders, explaining any constraints or interference from the Board or management that the same faces in course of doing his work, his remarks on accounts of ADIB and its financial standing, and any cases of breach therein; their audit report shall independent and impartial.
- 11.5 The external auditor shall inform the regulatory bodies of any substantial cases of breach, any constraints, and the detail thereof in case of Board did not take the appropriate action in its regard.

11. Approvals

(Approved by Group Audit Committee)