

# Board Audit Committee Charter

## “BAC” Charter



**Version V2**

**Approved by Board of Directors**

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## 1. ORGANIZATIONAL PRINCIPLES

### 1.1. Introduction

The scope of the Board Audit Committee (“The Committee”) will cover Arab Bank for Investment and Foreign Trade (“Al Masraf” or “The Bank”) and all its businesses. The primary purpose of the Committee is to assist the Board of Directors (“The Board”) fulfilling its oversight on the quality and effectiveness of the Bank’s internal controls, risk management, compliance, corporate governance, and the systems and processes created by the business units, support and control functions in line with CBUAE rules and regulations including CBUAE corporate governance regulations, regulations related to Internal Audit & related Basel Committee on Banking Supervision (BCBS) principles related to financial institutions as well as any applicable law.

### 1.2. Purpose & Scope

The Committee has been established by the Board to assist in the oversight, monitoring and review of the following:

- The quality and integrity of financial statements and financial reporting process and the establishment or amendment of significant accounting policies and practices.
- Internal Audit activity, statutory audit process and external auditors, and other providers of assurance.
- The effectiveness of governance, risk management and internal control systems.
- Compliance with Central Bank UAE rules and Regulations
- Compliance with laws and regulations.
- Compliance with the Sharia in respect of Islamic Banking products and services.
- Any other items referred to by the Board.

The scope of the committee will cover Al Masraf and all its businesses and subsidiaries.

### 1.3. Mandate

The mandate for the establishment of the Committee is derived from the Central Bank of UAE regulations on 1) Corporate Governance for Banks; 2) Internal Controls, Compliance, and Internal Audit; 3) Financial Reporting and External Audit & 4) IIA Standards requirements.

## 2. OPERATIONAL PROCEDURES

### 2.1. Composition of the Board Audit Committee

- Appointments to the Committee shall be for a period of up to three years, which may be extended for further periods, provided the Directors still meet the criteria for membership of the Committee.

- The members of the Committee shall be appointed, removed, or replaced by the Board. The Board may appoint a minimum of three Directors.
- The Chairperson of the Committee shall be elected by the Board & should be an independent member of the Board.
- Committee membership will automatically end at such time as a member cease to be a Director of the Board.
- The Chairman of the Board shall not be eligible to be appointed as a Member of the Committee.
- Members appointed shall be financially literate or become financially literate within a reasonable period of time after appointment to the Committee. At least one Member shall have relevant Audit, Financial reporting and Accounting or Financial Management experience and qualifications.
- The Committee is free to consult with specialists or consultants to assist the committee with the performance of its functions, subject to a Board-approved process.
- The Chairperson of the Committee may at his discretion invite non-members such as the Chief Executive Officer, the General Counsel, the Chief Financial Officer, the Chief Risk Officer, other Senior Managers of the Bank, and representatives of the External Auditors to the Committee meetings as deemed necessary. There will be standing 'ex officio' invitation to the Members of the Committee.

## **2.2. Secretariat Services**

- The Chief Internal Audit Officer shall be the Secretary to the Committee;
- The Secretary to the Committee shall prepare the meeting's agenda and forward to the Chairperson of the Committee for approval, once approved the notice of meeting confirming the venue, time and date together with an agenda of the items to be discussed, shall be forwarded to each Committee Member and any other person required to attend, no later than five (5) days before the date of the meeting;
- The Secretary to the Committee shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance;
- The Secretary to the Committee shall formally inform related stakeholders within the Bank of the Committee's decision pertaining to their areas (if any).

## **2.3. Meetings & Decision Making**

- The quorum shall be any three members (a majority of the Committee Members). In the absence of the Committee's Chairperson, the Chairperson shall sub-delegate his/her authorities to any other BAC member noting that the designate shall be a Board member.
- Committee members are obligated to prepare for and participate in committee meetings. Attendance at meetings must be by physical presence or via audio or audio-videoconferencing subject to appropriate safeguards to preserve confidentiality and accuracy of deliberations;
- The Committee will meet at periodic intervals at the discretion of the Chairperson, but not less than (6) times a year, however, additional meetings can be arranged as and when required;
- The External Auditors as well as Internal Auditors may request a meeting with the Committee or its Chairperson if considered necessary;

- The Committee may, based on management recommendation, take decisions on resolutions by circulation, provided that any resolution made through by circulation must be agreed upon by the majority of committee members (including Chairperson) and must be submitted to the following meeting of the Committee to be included in the minutes of such meeting; An electronic transmission sent by a member of the Committee shall be regarded to be a writing signed by such member;
- All decisions of the Committee require majority approval of the members. In the absence of a majority vote, the decision taken by the side of the BAC Chairperson vote will be considered as the majority decision;
- The Chair establishes agendas for Committee meetings in consultation with its members, Senior Management, and the Chief Internal Audit Officer; and
- All decisions taken by the BAC are subject to the Board approval.

#### **2.4. Minutes**

- Meetings can be electronically recorded as tool to prepare detailed minutes, if approved by the members of the Committee.
- The final minutes of meeting shall be approved by the Chairperson of the Committee and circulated promptly to all Members.
- The minutes shall be presented at the subsequent Board of Directors meeting.

#### **2.5. Conflict(s) of Interest**

BAC members shall adhere to the Al Masraf Professional Ethics & Code of Conduct and any value and ethics established by Al Masraf as well Al Masraf Corporate Governance Code. It is the responsibility of the Committee members to disclose any conflict of interest or appearance of a conflict of interest to the committee. If there is any question as to whether the committee member(s) should recuse themselves from a vote, the committee should vote to determine whether the member should recuse himself or herself.

#### **2.6. Orientation and Training**

- Committee members will receive formal orientation training on the purpose and mandate of the committee and on the bank's objectives; and
- The bank will provide the committee members with training related the financial sector or matters related to the committee responsibilities.

#### **2.7. Remuneration of Committee Members**

Committee members may be remunerated as decided by the Board of Directors.



### 3. AUTHORITY

In discharging its duties and responsibilities & in line with regulatory requirements, the Committee is empowered and authorized to:

- Have full and unrestricted access to the Bank's records, management and employees and have the power to require any executive officers or employees to furnish it with any information that it requires or to make an oral report to the Committee at a meeting or any private session as deemed necessary to discharge its responsibilities;
- At its discretion, be entitled to seek and rely on legal and accounting advice for which the Bank will pay;
- Require Internal Audit to carry out specific tasks or reviews;
- Meet with Chief Internal Audit officer (CIAO) or Internal Auditors at least once a year without Management being present;
- Meet with External Auditors, without the presence of Management, at its discretion;
- Appoint, compensate, and oversee all audit and non-audit services performed by auditors, including the work of any registered public accounting firm employed by the bank and outsourcing providers;
- Appoint, compensate, and oversee all audit/review activities or engagements performed by outsourcing providers; "outsourcing" any of the audit engagements to external party including receiving and reviewing related reports and management actions;
- Initiate or authorize investigation into any matter;
- Invite a member from the Internal Sharia Supervisory Committee ("ISSC") to attend its meetings when discussing the Internal Sharia Audit Department ("ISAD")'s reports to ensure the Bank's compliance with the decisions of the ISSC concerning the report. Neither the Committee nor the ISSC member have the authority to change decisions of the ISSC in this regard;
- Any other matter required by the CBUAE or applicable rules and regulations.

### 4. RESPONSIBILITIES

#### 4.1. Values and Ethics

To obtain reasonable assurance with respect to the Bank's value and ethics practices, the Committee will:

- Review and assess the policies, procedures, and practices established by the governing body to monitor conformance with the code of conduct and ethical policies by all managers and staff of the Bank;
- Provide oversight of the mechanisms established by the Management to establish and maintain high ethical standards for all the managers and staff of the bank; and
- Review and provide on the systems and practices established by the Management to monitor compliance, with laws, regulations, policies, and standards of ethical conduct and identify and deal with any legal or ethical violations including Conflict of Interest related matters and incidents.



#### **4.2. Organizational Governance**

To obtain reasonable assurance with respect to the bank's governance process established and maintained within the bank and the procedures in place to ensure that they are operating as intended and meeting the related Rules and Regulations.

#### **4.3. Risk Management**

To obtain reasonable assurance with respect to the bank's risk management practices, the Committee will:

- Obtain from the Chief Internal Audit an annual report on management's implementation and maintenance of an appropriate enterprise-wide risk management process.
- Provide oversight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
- Provide oversight of the adequacy of the combined assurance being provided.
- Review and provide advice on the risk management processes established and maintained by management and the procedures in place to ensure that they are operating as intended.
- Communicate and coordinate with the risk committee to facilitate the exchange of information and effective coverage of all risks, including emerging risks, and any needed adjustments to the Bank's Risk Governance Framework.

#### **4.4. Fraud**

To obtain reasonable assurance with respect to the bank's procedures for the prevention and detection of fraud, the Committee will:

- Review controls over management's arrangements for the prevention and deterrence of fraud.
- Ensure that appropriate action is taken against known perpetrators of fraud.
- Challenge management and internal and external auditors to ensure that the entity has appropriate antifraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected.

#### **4.5. Compliance**

The Committee will:

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Review the observations and conclusions of internal and external auditors and the findings of any regulatory authority including CBUAE.
- Obtain regular updates from management and the bank's Legal Counsel and Chief Compliance Officer regarding compliance matters.

#### **4.6. Internal Control**

To obtain reasonable assurance with respect to the adequacy and effectiveness of Al Masraf 's controls in responding to risks within Al Masraf's governance, operations and information systems, the BAC will:

- Consider the effectiveness of Al Masraf's control framework, including information technology security and control.
- Review and provide advice on the control of Al Masraf as a whole and its individual units.
- Receive reports on all matters of significance arising from work performed by other providers of financial and internal control assurance to senior management and the board.

#### **4.7. Towards Internal Auditors / Internal Audit Department**

Board Audit committee shall ensure that an independent Internal Audit function is established within Al Masraf with sufficient standing and authority and provide independent assurance to the Board and Senior Management on the quality and effectiveness of the Bank's internal controls, risk management, compliance, corporate governance, and the systems & processes created by the business units, support, and control functions.

- BAC is responsible for the oversight of Al Masraf's Internal Audit Department & Internal auditors' activities.
- Internal Audit Department reports directly to the Board Audit Committee & administratively to the Chief Executive Officer (CEO).

##### **4.7.1. Internal Audit Charter and Resources**

- Review and approve the internal audit charter at least every 3 years. The charter should be reviewed to ensure that it accurately reflects the Internal Audit activity's purpose, authority and responsibility, consistent with the mandatory guidance of The IIA's International Professional Practices Framework and the scope and nature of assurance and consulting services, as well as changes in the financial, risk management, and governance processes of the bank and reflects developments in the professional practice of internal auditing.
- Review changes proposed to internal audit resources to achieve the internal audit plan and evaluate whether additional resources are needed permanently or can be provided through outsourcing.

##### **4.7.2. Chief of Internal Audit Performance**

- Advise the Board regarding the qualifications and recruitment, appointment, resignation, or removal of the Chief Internal Audit officer;
- Provide input to the Management related to evaluating the performance of the Chief Internal Audit officer; and
- Recommend to the Management or the Board Remuneration and Nomination Committee the appropriate compensation of the Chief Internal Audit officer.

#### 4.7.3. Internal Audit Strategy and Annual Audit Plan

- Review and provide input on the Internal Audit's strategy, objectives, budget and resource plan, performance measures, and outcomes.
- Review and approve Internal Audit Risk-Assessment methodology implemented to identify material risk run by the Bank.
- Review and approve Internal Audit risk-based annual audit plan and make recommendations concerning internal audit projects.
- Review the Internal Audit performance relative to its audit plan.

#### 4.7.4. Internal Audit Engagement and Follow-up

- Review Internal Audit reports and other communications to management.
- Review and monitor management's responsiveness to the audit findings and recommendations.
- Review and advise management on the results of any special investigations.
- Receive and review Internal Audit reports on the effectiveness of internal control systems on a regular basis and follow up on the implementation of corrective measure of key operating risks arising from such reports.
- Review Internal Audit's assessment of internal control procedures and ensure coordination between the Internal and External Auditors.
- Inquire of the Chief Internal Audit, whether any evidence of fraud has been identified during Internal Audit engagements and evaluate what additional actions, if any, should be taken.
- Ensure any deficiencies identified by supervisory authorities related to the Internal Audit are remedied within an appropriate timeframe and progress on any corrective actions are reported to the Committee.

#### 4.7.5. Standards Conformance

- Ensure the independence of the Chief Internal Audit Officer and the Internal Audit function.
- Ensure Chief Internal Audit officer has appropriate access to information, adequate standing within group and is free from management and other restrictions.
- Meet with Chief Internal Audit Officer at least once annually, without the presence of Management, to discuss the remit of the Internal Audit function, and any issues arising from the Internal Audits conducted.
- Inquire of the Chief Internal Audit about steps taken to ensure that the internal audit conforms to the IIA's International Standards for the Professional Practice of Internal Auditing (Standards).
- Ensure that the Internal Audit has a Quality Assurance and Improvement Program and that the results of these periodic assessments are presented to the Committee.

- Ensure that the Internal Audit has an external quality assurance review every five years and monitor the implementation of the Internal Audit activity's action plans to address any recommendations.
- Advise the Board about any recommendations for the continuous improvement of the Internal Audit activity.
- Advise the Board of escalations by Chief Internal Audit Officer regarding any significant breach of internal controls, which may require immediate attention/remediation.

#### **4.8. Towards External Auditors**

To obtain reasonable assurance with respect to the work of external assurance providers, the Committee will meet with the external assurance providers during the planning phase of the engagement, the presentation of the audited financial statements, and the discussion of the results of engagements and recommendations for management.

The Committee will:

- Oversee the financial reporting process and the establishment or amendment of significant accounting policies and practices.
- Review and approve the policy for the tendering of the audit engagement that includes requirements for knowledge, competence, objectivity, independence, professional skepticism, and quality control.
- Consider and recommend to the Board the appointment, re-appointment, resignation, removal, and compensation of External Auditors.
- Review and approve the terms of the audit engagement and monitor the effectiveness of the audit process.
- Review and approve the annual audit plan, ensure consistency with the scope of the audit engagement, and monitor progress against the audit plan.
- Assess the overall quality of the External Auditor at least annually.
- Obtain an understanding of the External Auditor's view on any significant matters arising during the audit, including both those subsequently resolved and those that remain outstanding.
- Review with the External Auditor the statements provided by the Board and Management in the representation letter to the External Auditor that the information provided for each item is complete and appropriate.
- Consider whether the External Auditor followed the audit plan and understand any reasons for changes in the plan. Obtain feedback from Management on the conduct of the audit. Report to the Board for discussion of findings and any recommendations arising from assessment of the effectiveness of the external audit process.
- Meet with External Auditors, without the presence of Management, at its discretion.
- Discuss with External Auditor any matters arising from the audit that may have an impact on regulatory capital or regulatory disclosures.
- Review and approve the policy governing the provision of non-audit services by External Auditors, specifying the types of non-audit services the External Auditors may provide, or is prohibited from providing.

- Approve the engagement of External Auditors for non-audit services, with due regard to their independent and objectivity and the related remuneration.
- Ensure compliance with the applicable laws, regulations, standards, and policies of the Bank in respect of External Auditors.

#### ***4.9. Towards Financial Statements and Public Accountability Reporting***

The Board Audit Committee is responsible for oversight of the independent audit, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal regulatory compliance, and ethics.

The Board Audit Committee will:

- Review with management and the external auditors the results of audit engagements, including any difficulties encountered.
- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental area, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review the annual financial statements, consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
- Review other sections of the annual report and related regulatory filings and consider the accuracy and completeness of the information before it is released.
- Review with management and the external auditors all matters required to be communicated to the Committee under generally accepted external auditing standards.
- Understand strategies, assumptions and estimates that management has made in preparing financial statements, budgets, and investment plans.
- Understand how management develops interim financial information and the nature and extent of internal and external auditor involvement in the process.
- Review interim financial reports with management and external auditors before filing with regulators and consider whether they are complete and consistent with the information known to committee members.
- Obtain reasonable assurance that Management has acted on the results and recommendations of external audit engagements as may be provided by the External Auditors through a Management Letter or other such similar reports

#### ***4.10. Towards Whistleblowing Arrangements***

- Review and approve with the Whistleblowing Policy that enables the Bank's staff to confidentially report potential violations in financial reports, internal control, or any other issues and sets out procedures for conducting independent and fair investigations concerning such violations.
- Review arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters including consideration of the procedures for:
  - The reception, retention, and treatment of complaints regarding accounting, internal accounting controls or audit matters; and



- The confidential submission by employees of the Bank (which may be anonymous) of concerns on any matter, including those regarding questionable accounting or audit matters.
- Consider the results of primary investigations, as assigned by the Board to the committee as part of its duties.

#### **4.11. Sharia Governance and Compliance**

##### **4.11.1. Sharia Governance Standards**

The committee is required by the Sharia Governance Standards for Islamic Financial Institutions issued by the Higher Sharia Authority ("HSA") of the CBUAE, to assist the Board with the following activities:

- Evaluate the effectiveness of policies established for supervising compliance with the Sharia, as approved by the Internal Sharia Supervisory Committee ("ISSC").
- Assess the effectiveness and adequacy of the Internal Sharia Audit Department ("ISAD") and its contribution in ensuring compliance with the Sharia.
- Assess the independence, effectiveness and adequacy of the scope and programs of the ISAD.
- Review reports prepared by ISAD to ensure necessary measures have been taken in their regard by Senior Management.
- Facilitate the work of the ISAD.
- Hold regular meetings with the Head of ISAD, twice a year at minimum.

##### **4.11.2. External Sharia Audit**

The committee's responsibilities in respect of External Sharia Audit include the following:

- Review the scope, results, and adequacy of the External Sharia Audit Reviews.
- Facilitate the work of the External Sharia Auditor.
- Review reports prepared by the External Sharia Auditor to ensure necessary measures have been taken in their regard by the Senior Management.
- Hold Meetings with the External Sharia Auditor, once a year at minimum

#### **4.12. Other Responsibilities**

In addition, the Committee will:

- Receive and review regulatory inspection reports from the Central Bank of the UAE ("CBUAE") and such other regulators.
- Monitor the Internal Audit compliance with professional conduct rules.
- Review internal controls for the prevention and detection of fraud and bribery and receive reports on any non-compliance.
- Review and investigate any matters pertaining to the integrity of Management, including conflicts of interest or adherence to standards of conduct.
- Resolve any disagreements between Management and Audit (internal and external) regarding audit findings, financial reporting, and investigations.



- Review any other matters referred to by the Chairman or the Board.
- Regularly evaluate its performance and that of its individual members.
- Ensure the effective implementation of the Whistleblowing policy mechanism in the bank.

#### **5. Reporting on the Committee performance**

The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed. The Committee will report to the board whenever required, summarizing the committee's activities and recommendations. The report may be delivered during an Audit Committee meeting attended by the Board or during a regularly scheduled meeting of the Board.

The report should include:

- A summary of the work the Committee performed to fully discharge its responsibilities during the preceding year.
- A summary of Management's progress in addressing the results of Internal and External Audit engagement reports.
- An overall assessment of management's risk, control, and compliance processes, including details of any significant emerging risks or legislative changes affecting the governing organization.
- Details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended.
- Provide information required, if any, by new or emerging corporate governance developments.
- The committee may report to the governing body at any time regarding any other matter it deems of sufficient importance.

#### **6. Evaluation**

The Committee shall conduct an in-house or external annual assessment as prescribed by the Board Remuneration and Nomination Committee.

#### **7. Review of the Committee Charter**

The Committee shall review the Charter on annual basis.

The Committee terms of reference shall be reviewed on an annual basis or earlier if required and submitted for the Board of Directors for approval.

Chairperson, Board Audit Committee

Date:

Chairperson of the Board

Date:

