Internal Audit Charter

Internal Audit Department

Board Audit Committee

Version V2.1

Approved by Board of Directors

Document Control Sheet

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Contents

1. Introduction

This Charter set out the purpose, authority, responsibilities, scope of work and the organizational position of the Internal Audit Department (IAD) within Arab Bank for Investment and foreign Trade PJSC "Al Masraf" . In addition, it describes Internal Audit mission, independence, and objectivity.

Internal Audit Department is governed by the mandatory elements of The Institute of Internal Auditors' "IIA" International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. In addition, Internal Audit Department is governed by the CBUAE rules and regulations related to Internal Audit & Basel Committee on Banking Supervision (BCBS) principles related to the Internal Audit Function in Banks.

2. Purpose and Mission

The purpose of Al Masraf's Internal Audit Department (IAD) is to provide independent, objective assurance and consulting services designed to add value and improve Al Masraf's operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The Internal Audit Department helps Al Masraf accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes and by acting as a strategic adviser to promote continuous improvement.

3. Independence and Objectivity

3.1. The Chief Internal Audit Officer "CIAO" reports functionally to the Board Audit Committee (BAC) and administratively to the Chief Executive Officer "CEO". The CIAO sets the objectives of internal auditors & appraises their performance annually in line with the Al Masraf policies;

3.2. The CIAO will ensure that the IAD responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the CIAO determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to the CEO & BAC;

3.3. Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others;

3.4. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, IAD Staff will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year;
- Performing any operational duties for Al Masraf or its affiliates;
- Initiating or approving transactions external to the IAD; and

- Directing the activities of any Al Masraf employee not employed by the IAD, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

3.5. Where the CIAO has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity. Internal auditors will:
- Disclose any impairment of independence or objectivity, in fact or appearance, to the CEO & BAC;
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined;
- Make balanced assessments of all available and relevant facts and circumstances; and
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

3.6. The CIAO will ensure that all IAD staff have an impartial, unbiased attitude and avoid any conflict of interest;

3.7. The CIAO will confirm to the BAC, at least annually, the organizational independence of the IAD;

3.8. The CIAO will disclose to the BAC any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

4. Authority

The CIAO reports functionally to the BAC and administratively to the CEO.

4.1. To establish, maintain, and assure that Al Masraf's Internal Audit Department has sufficient authority to fulfill its duties, the BAC will (as defined & detailed in the BAC Charter):
- Approve the IAD's charter.
- Approve the risk-based internal audit plan.
- Approve the IAD's budget and resource plan.
- Receive communications from CIAO on the IADs performance relative to its plan & other matters.
- Approve decisions regarding the appointment and removal of the CIAO.
- Approve the remuneration of the CIAO.
- Make appropriate inquiries of management and the CIAO to determine whether there is inappropriate scope or resource limitations.

4.2. The CIAO will have unrestricted access to, and communicate and interact directly with, the BAC, including in private meetings without management present; and

4.3. The BAC authorizes the Internal Audit Department to:
- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.

- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of Al Masraf, as well as other specialized services from within or outside Al Masraf, in order to complete the engagement.

5. *Scope of Internal Audit Activities*

5.1. The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the BAC, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for Al Masraf. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of Al Masraf's strategic objectives are appropriately identified and managed;
- The actions of Al Masraf's officers, directors, employees, and contractors are in compliance with Al Masraf's policies, procedures, and applicable laws, regulations, and governance standards;
- The results of operations or programs are consistent with established goals and objectives;
- Operations or programs are being carried out effectively and efficiently;
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could impact Al Masraf;
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity; and
- Resources & assets are acquired economically, used efficiently, & protected adequately.

5.2. The CIAO will report periodically to CEO & the BAC regarding:

- The IAD's purpose, authority, and responsibility;
- The IAD's plan and performance relative to its plan;
- The IAD's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the BAC;
- Results of audit engagements or other activities;
- Resource requirements; and
- Any response to risk by management that may be unacceptable to Al Masraf.

5.3. The IAD will independently evaluate the:

- Effectiveness & efficiency of internal control, risk management & compliance systems;
- Reliability and integrity of management information systems and processes;
- Compliance with laws, regulations, standards & the instructions of the Central Bank; and
- Safeguarding of assets.

5.4. IAD's scope will also extend to suitable audit coverage of outsourced functions, as per approved and signed outsourced agreement, wherever applicable;

5.5. The CIAO also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed;

5.6. On the basis of the audit plan, the IAD is enabled to perform its assignments on its own initiative in all areas & functions of the Bank. The IAD will not be involved in designing, selecting, implementing, or operating specific internal control measures. Senior Management may request advice from internal audit on matters related to risk and internal controls, nevertheless, the development and implementation of internal controls remains the responsibility of Senior Management;

5.7. Opportunities for improving the efficiency of governance, risk management & control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management;

5.8. The IAD may perform advisory, consultation & related client service activities, the nature & scope of which will be agreed with the client, provided the IAD does not assume management responsibility. Internal Audit may advise on - subject to maintaining full independence:

- Improved accountability and transparency of decision-making;
- Al Masraf's policies and procedures to ensure that these are current, practical, and fit for purpose;
- Proactive advice on emerging issues / risks; and
- Perform evaluations of new or changing services, processes, operations & controls coincident with their development, implementation & or expansion, as appropriate or upon request of the BAC / Senior Management.

6. *Responsibility*

6.1. The IAD is accountable to the BAC on all matters related to the performance of its mandate. The CIAO has the responsibility to:

6.1.1. Submit, at least annually, to CEO and the BAC a risk-based internal audit plan for review and approval;

6.1.2. Communicate to CEO & BAC the impact of resource limitations on the internal audit plan;

6.1.3. Review and adjust the internal audit plan, as necessary, in response to changes in Al Masraf's business, risks, operations, programs, systems, and controls;

6.1.4. Communicate to CEO & the BAC any significant interim changes to the internal audit plan;

6.1.5. Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties;

6.1.6. Undertake special or unplanned audit engagement to address ad-hoc or emerging risk issues;

6.1.7. Follow up on engagement findings and corrective actions, and report periodically to Senior Management and the BAC any corrective actions not effectively implemented;

6.1.8. Ensure the principles of integrity, objectivity, confidentiality & competency are applied & upheld;

6.1.9. Ensure the IAD staff collectively are competent to examine all areas in which Al Masraf operates:

- Ensure the IAD collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter; and

- Ensure the IAD staff acquires appropriate ongoing training in order to meet the growing technical complexity of Al Masraf s' activities, and the increasing diversity of tasks that need to be undertaken as a result of the introduction of new products and processes within Banks and other developments in the financial sector.

6.1.10. Ensure the IAD staff applies the care and skills expected of a reasonably prudent and competent professional and, in case of limited competence and experience in a particular area, will be supervised by more experienced internal audit function staff;

6.1.11. Ensure trends and emerging issues that could impact Al Masraf are considered and communicated to Senior Management and the BAC as appropriate;

6.1.12. Ensure emerging trends and successful practices in internal auditing are considered;

6.1.13. Establish and ensure adherence to policies and procedures designed to guide the IAD;

6.1.14. Ensure adherence to Al Masraf's Code of Conduct & relevant policies and procedures; unless such policies and procedures are in conflict with the Internal Audit Charter. Any such conflicts will be resolved or otherwise communicated to CEO and the BAC;

6.1.15. Receive, review & follow up on reports received from CBUAE examiners, external auditors & consultants as appropriate, for the purpose of providing optimal audit coverage and reasonable assurance to the BAC and Senior Management;

6.1.16. Ensure conformance of the IAD with the Standards, with the following qualifications:

- If the IAD is prohibited by law or regulation from conformance with certain parts of the Standards, the CIAO will ensure appropriate disclosures are made and will ensure conformance with all other parts of the Standards.; and

- If the Standards are used in conjunction with requirements issued by CBUAE, the CIAO will ensure that the IAD conforms with the Standards, even if the IAD also conforms with the more restrictive requirements of the CBUAE.

6.1.17. Other task(s) assigned or requested by the BAC.

6.2. Fraud Risk - The identification, prevention & investigation of fraud is Management's responsibility & the Fraud Prevention Unit (Compliance Department) is primarily responsible for the conduct of fraud investigations & reporting. The IAD can undertake or participate in the investigation of

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incidents involving suspected fraudulent activities when mandated by the Board, BAC or requested by the CEO/ Senior Management. Amongst other issues, such investigations will also focus on identification of control gaps/process weaknesses & make appropriate recommendations.

7. *Outsourcing & Co-sourcing of internal audit engagements/activities*

7.1. Al Masraf's IAD will be provided with all required resources to perform all audit engagement as per the approved annual audit plan. However, outsourcing or co-sourcing of certain internal audit activities (but not the function) on a limited and targeted basis can be used to provide access to specialized expertise and knowledge for an internal audit engagement where the expertise is not available in-house, or due to resource constraints. The Board remains ultimate responsible for the IAD, regardless of whether certain internal audit activities are outsourced or co-sourced; and

7.2. When the CIAO intends to use and rely on the work of a service provider, the CIAO shall seek approval from the BAC. The CIAO shall assess the competency, independence, and objectivity of the service provider in relation to the particular assignment to be performed. When assessing competency, the CIAO should consider:

- Professional certification, license, or other recognition of the outside service provider's competency in the relevant discipline.
- Membership of the service provider in an appropriate professional organization and adherence to that organization's Code of Ethics.

8. *Reporting*

8.1. The CIAO will report periodically to CEO and the BAC regarding the IAD's conformance to the
- Internal audit activity's purpose, authority, responsibility.
- Performance relative to its plan.
- Its conformance with the Code of Ethics and the Standards.

8.2. A written report will be prepared & issued by IAD after being approved by the CIAO or his designate following the conclusion of each internal audit engagement and will be distributed as appropriate;

8.3. The internal audit report will include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response should include a target date for anticipated completion of the action plan;

8.4. Summary of significant audit observations or the full audit report (based on materiality) will be communicated to the BAC or the BAC Chair; and

8.5. The CBUAE & the External auditor may request the internal audit reports, which will be provided by the CIAO.

9. *Board Audit Committee & Senior Management responsibilities*

Al Masraf has implemented the three lines of defense model; Business Units, the control functions and the IAD are the three lines of defense within Al Masraf.

The Three Lines of Defense Model

9.1.1. The business units are the first line of defense as they are expected to undertake risks within assigned limits of risk exposure and are responsible and accountable for identifying, assessing, and controlling the risks of their businesses;

9.1.2. The second line of defense includes the support and control functions, such as risk management, compliance, legal, human resources, finance, operations, and technology. Each of these functions, in close relationship with the business units ensures that risks in the business units have been appropriately identified and managed;

9.1.3. The third line of defense is the Internal Audit Department that independently assesses the effectiveness of the processes created in the first and second lines of defense and provides assurance on these processes as well as value added recommendations to improve the process and promote best practice. As per the Central Bank regulations, the IAD reports to the Board or the Board Audit Committee;

9.1.4. The responsibility for internal control system does not transfer from one line of defense to the next line. For third line defense, Risk based, and periodic approach is used; and

9.1.5. Board of Directors and Senior Management respects and promotes the independence of the IAD by ensuring that Internal Audit reports are provided to the Board or the BAC without Management filtering, and that the IAD staff have direct access to the Board or the BAC.

9.2. Responsibilities of Board or Board Audit Committee (BAC)

9.2.1. Board of Directors is responsible for ensuring that the Al Masraf is having an independent, permanent, and effective Internal Audit Department commensurate with the size, nature of operations and complexity of its organization;

9.2.2. The oversight function of the BAC is defined & detailed in the BAC Charter that includes reviewing and approving the Internal Audit Plan, its scope, and the Budget for the IAD. The plan should be based on a robust risk assessment (including inputs from Senior Management and the Board) and update at least annually (or more frequently to enable an ongoing real-time assessment of where significant risks lie).

9.3. Responsibilities of Senior Management

Consistent with direction given by the Board, Senior Management must implement business strategies, risk management systems, risk culture, processes, and controls for managing the risks to which the Bank is exposed. This includes comprehensive independent risk management, compliance, and audit functions as well as an effective overall system of internal controls. Senior Management must recognize and respect the independent duties of the risk management, compliance, and internal audit functions, and in the case of Islamic Financial services, Sharia 'a compliance and audit functions, and must not interfere with the exercise of such duties.

9.3.1. The Board & Senior Management are responsible for ensuring that the bank has an internal control framework that is adequate to establish a properly controlled operating environment for the conduct of its business, taking into account its risk profile;

9.3.2. Senior Management is responsible for developing an internal control framework that identifies, measures, monitors and controls all risks faced by Al Masraf. As per the CBUAE Regulations, Senior Management must inform the IAD of new developments, initiatives, projects, products, and operational changes and ensure that all associated risks, known and anticipated, are identified, and communicated at an early stage;

9.3.3. The Senior Management assumes the responsibility for establishing adequate processes with the objective of facilitating smooth and efficient workflow within all functions of Al Masraf and establishing operational controls in a manner which provides the Board of Directors reasonable assurance that:

- Data and information published either internally or externally (including websites) is accurate, reliable, and timely;
- The actions of Directors, Managers, & employees are in compliance with Al Masraf's policies, standards, plans & procedures & all relevant laws, and regulations of the CBUAE;
- Al Masraf's resources (including its people, systems, data/information bases, and customer information) are adequately protected;
- Resources are acquired and employed profitably laying special emphasis on adherence to quality and continuous improvement;
- Al Masraf sets realistic plans, programs, goals, and objectives, which are achievable.

9.3.4. Al Masraf will promptly notify the CBUAE in case of resignation of the CIAO and Chief Compliance Officer and the reasons thereof, as well as obtain the no-objection of CBUAE before their replacement or dismissal;

9.3.5. Al Masraf will promptly notify the CBUAE when they become aware of a significant deviation from their Board approved compliance policies and internal audit charter.

9.3.6. Senior Management shall ensure:

- Providing full support to IAD staff to perform their duties established in this charter;
- Timely Implementation of adequate & effective controls to rectify audit observations & controls' deficiencies;
- Informing IAD in a timely manner of any potential or existing significant internal control matters (including any changes to Al Masraf's overall governance framework), frauds, and significant matters that might impact the overall control environment with Al Masraf.

10. Coordination with Control functions

In line with IIA standards and the CBUAE rules & regulation, IAD will coordinate efforts with other control functions within Al Masraf and the internal audit reports are shared with Al Masraf control

functions including Risk Management Department & Compliance Department as required. Likewise, other control functions may also share their reports with IAD.

11. *Coordination with External Auditors*

11.1 Al Masraf's external auditors fulfil a statutory duty for which they are responsible to the Stakeholders. The IAD will co-ordinate its activities with the External Auditor implementing the following procedures:

11.1.1. The IAD will co-ordinate its activities with those of the external auditors, in order to obtain reasonable assurance, efficiency and to avoid duplication of audit effort;

11.1.2. At least annually, the Internal Audit and the External Auditor shall meet to discuss common issues, coordination of efforts, areas of concerns & other relevant issues;

11.1.3. The IAD will carry out follow-ups on comments and recommendations contained in the External auditor reports/Management letter; results shall be communicated to Senior Management and BAC; and

11.1.4. IAD will follow up with the external auditor to ensure no conflict of interest and no scope limitation while performing their reviews.

11.2 The IAD might assist the BAC in reviewing and evaluating the performance of the external auditors as required.

12. *Quality Assurance and Improvement Program*

12.1. The Internal Audit Department will maintain a quality assurance and improvement program that covers all aspects of the IAD. The program will include an evaluation of the IAD's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the IAD and identify opportunities for improvement; and

12.2. The CIAO will communicate to CEO and the BAC on the IAD's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside Al Masraf. The CIAO will discuss with BAC the following:

- The form and frequency of external assessments;
- The qualifications and independence of the external reviewer or review team, including any potential conflict of interest; and
- The CIAO will communicate the results of the quality assurance and improvement program to CEO and BAC.

13. *Review of the Charter*

The Internal Audit Charter will be reviewed at least every three years by the Internal Audit Department

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and shall be presented to the BAC for approval. The charter will be available both internally and publicly on the Bank's internet website.

This Internal Audit Charter should be read in conjunction with the BAC Charter.

Approval/Signatures

Chief Internal Audit Officer   Date

Chair of the Board Audit Committee   Date