

AL HILAL BANK PJSC
Terms of Reference of the Board Audit Committee
Approved by the Board of Directors on 1st September,
2022

Terms of Reference of the Board Audit Committee

1. Definitions

In these Terms of Reference the following words and phrases shall have the meanings assigned to them below:

“ADAA”	means Abu Dhabi Accountability Authority;
“AML/CFT”	means Anti Money Laundering/Combating the Financing of Terrorism;
“AML/CFT Law”	Decree Federal Law No. (20) of 2018 on Anti-Money Laundering and Combating the Financing of Terrorism and Illegal Organisations;
“Bank”	means Al Hilal Bank PJSC;
“Board”	means the Board of Directors of the Bank;
“Central Bank”	means the Central Bank of the United Arab Emirates;
“Corporate Governance Regulations”	means all applicable regulations and standards on corporate governance, including, but not limited to, the Central Bank’s Corporate Governance Regulation and Standards for Banks and the Securities & Commodities Authority (SCA) Public Joint-Stock Companies Governance Guide;
“Chairman”	means the Chairman of the Board Audit Committee;
“Committee”	means the Bank’s Board Audit Committee;

“Companies Law”	means UAE Federal Law No.32 of 2021 concerning Commercial Companies (and its amendments from time to time);
“Director”	means a member of the Board;
“External Audit Regulations”	means the Financial Reporting and External Audit Regulations 162/2018;
“CEO”	means the Chief Executive Officer;
“Group”	means a group of entities which includes the Bank and (a) any subsidiary of the Bank, and (b) any affiliate and joint venture of the Bank;
“Financial Reporting Regulations”	means the Financial Reporting and External Audit Regulations 162/2018 and the Financial Reporting and External Audit Standards 162/2018;
“Independent Director”	means a Director who is assessed as independent pursuant to the Corporate Governance Regulation;
“Internal Control Regulations”	means the Internal Controls, Compliance and Internal Audit Regulations 161/2018 and the Internal Controls, Compliance and Internal Audit Standards 161/2018;
“Internal Shari’ah Supervisory Committee / ISSC”	means a body appointed by the Bank, which comprises of scholars specialized in Islamic financial transactions, which independently supervises transactions, activities, and products of the Bank and ensures they are compliant with Islamic Shari’ah in all its objectives, activities, operations, and code of conduct;

“Non-Executive Director”	means a Director who does not have any management responsibilities within the Bank, and may or may not qualify as an Independent Director;
“Risk Governance Framework”	means the framework through which the Board and Senior Management establish and make decisions about the Group’s risk approach; articulate and monitor adherence to the risk appetite and risk limits relative to the Group’s strategy, and identify, measure, manage, and control risks;
“Senior Management”	means the executive management of the Bank responsible and accountable to the Board for the sound and prudent day-to-day management of the Bank; and
“Staff”	means all persons working for the Bank, including the members of Senior Management, except for the members of the Board.

2. Purpose of the Committee

- 2.1. The purpose of the Committee is to enable the Board to fulfil its responsibilities in relation to the oversight of:
- 2.1.1. the integrity of the Group’s financial statements;
 - 2.1.2. the qualifications, independence and performance of the Group’s external auditors;
 - 2.1.3. the qualifications, independence and performance of the Bank’s Internal Audit and Compliance departments;
 - 2.1.4. the Group’s internal control framework to ensure it is adequate to establish a properly controlled operating environment for the conduct of the Group’s business, taking into account the Group’s risk profile, including internal controls over financial reporting and disclosure;
 - 2.1.5. the Group’s compliance with applicable legal and regulatory requirements, and with the Group’s policies (unless specifically delegated to other Board committees); and
 - 2.1.6. the qualifications, independence and performance of the Bank’s Internal Shari’ah Audit department.

3. Membership

- 3.1. The Committee members shall be appointed by the Board, after duly considering the recommendations of the Board Nomination, Compensation, HR & Governance Committee. Any member of the Committee may be removed or replaced at any time by the Board.
- 3.2. The Committee shall consist of a minimum three (3) and maximum five (5) Non-Executive Directors. At least one of the Committee members should also be a member of the Board Risk Committee to ensure a good flow of information between them and effective coverage of all risks, including emerging risks, and any needed adjustments to the Group's Risk Governance Framework.
- 3.3. At least one of the Committee members should be also be a member of ISSC to ensure effective governance of the requirements on profit equalisation. For the purposes of profit equalization, the ISSC members' vote shall be counted and his exclusion from Committee meetings shall not to be constituted as being absent from Committee meetings.
- 3.4. The Committee shall collectively have experience in audit practice, financial reporting, accounting, compliance and AML/CFT. All members of the Committee must be financially literate, at least one member must be an accounting and financial expert, and at least two members must have an understanding of the financial services industry.
- 3.5. The members of the Committee shall elect from among its members a Chairman who shall be distinct from the chairman of the Board and the chairs of other committees. The chairman of the Board may not be a member of the Committee.
- 3.6. Any previous partner of the current external auditor of the Group may not be a member of the Committee for two years commencing on the expiry date of their capacity as partner or any of their financial interests in the independent audit firm, whichever comes later.
- 3.7. The Bank's Chief Internal Auditor shall be the only permanent invitee from Senior Management to attend the Committee's meetings. The Bank's Chief Internal Auditor may, with the agreement of the Committee's Chairman, invite members of Staff, or third parties, to attend certain items being presented.
- 3.8. The Bank's Chief Compliance Officer, the Head of Internal Shari'ah Audit, and the external auditor shall have the right of direct access to the Committee.
- 3.9. The Committee members shall be appointed for an initial period of three (3) years. Following expiration of that period, the Committee member may be re-appointed by the Board.
- 3.10. Where a Director who is a member of the Committee leaves office, the Board shall appoint a new member to the Committee.

4. Administration

4.1. Meetings

- 4.1.1. Meetings of the Committee shall be held at the head office of the Bank, by means of telephone or video-conference, or at any other place deemed appropriate by the Committee. Meetings shall take place at least once in every three months. Meetings shall be convened upon a written notice of the Chairman or the Committee's Secretary, upon the Chairman's instructions. Committee meetings may also be convened by the Chairman on the request of the Bank's Chief Internal Auditor, the Bank's Chief Compliance Officer or the external auditors, if they consider it necessary, or by the Committee's Secretary on the request of two (2) members of the Committee. The chairman of the Board, the Bank's Chief Executive Officer, the Bank's Chief Risk Officer or the Bank's Chief Financial Officer may also request meetings through the Committee's Secretary, who shall consult with the Chairman to determine whether a meeting should be convened.
- 4.1.2. Meetings of the Committee shall be held before finalization of the Group's annual financial statements and to coincide with the announcement of AHB's interim results.
- 4.1.3. The Chairman shall develop the agenda for each Committee meeting, with the contribution from the Committee's Secretary, the Bank's Chief Internal Auditor, the Bank's Chief Compliance Officer and, where appropriate, other members of Senior Management, and circulate it to all members of the Committee sufficiently in advance of the meeting, along with adequate supporting materials on the topics to be discussed.
- 4.1.4. Majority of the members shall attend all meetings in person (physical attendance and by audio-visual means) and shall not be represented in the meetings by proxy from other members for constitution of quorum. The Committee shall meet periodically with the Risk Committee to ensure effective exchange of information and effective coverage of all risks, including emerging risks and any needed adjustments to the Risk Governance Framework of the Bank and the Group in light of its business plans and the external environment and to assist the Committee in the attainment of its objectives.

4.2. Resolutions

- 4.2.1. Resolutions of the Committee shall be adopted by a majority of votes of members present or represented. In the event of a tie, the Committee's Chairman shall have a casting vote.
- 4.2.2. An absent Committee member may authorize another member to vote on their behalf provided that the member present does not hold more than one proxy.
- 4.2.3. Without prejudice to the above clause, the Committee may exceptionally take some decisions based on resolutions by circulation, provided that:

- a) members unanimously agree that the case that necessitates a resolution by circulation is urgent;
- b) the resolutions are delivered to the members in writing (which may include delivery by email) and accompanied by all the supporting documents and papers as necessary for revising it; and
- c) any resolution by circulation must be unanimously agreed upon by the members and must be submitted to the succeeding meeting of the Committee to be included in the minutes of such meeting.

4.3. Minutes

4.3.1. Minutes of Committee meetings shall be recorded and signed by the members attending the meeting and the Committee's Secretary. The meeting minutes shall include details of issues discussed, recommendations made, decisions taken, dissenting opinions and the person responsible for completion of tasks discussed at the Committee meeting. In case one of the members refuses to sign, his objection shall be recorded in the minutes together with the reason(s) for their objection, if given, and a copy of the minutes.

4.3.2. Drafts of the minutes of Committee meetings shall be circulated to the members for comments, which shall be incorporated and approved by the Committee at the subsequent Committee meeting.

4.3.3. Final copies of the meeting minutes shall be:

- a) signed by attending Committee members (digital or wet ink signature accepted);
- b) submitted to the Board for consideration at the next Board meeting;
- c) submitted to the Board Secretariat for filing; and
- d) published on the Bank's Board portal.

4.3.4. A member of the Bank's Board Secretariat department shall act as the Committee's Secretary.

5. Reporting

5.1. The Committee shall report to the Board and will provide periodic updates on matters which have been delegated to the Committee herein. The Committee shall, where appropriate, make recommendations for action by the Board at their next meeting subsequent to that of the Committee.

5.2. The Committee shall submit a written report to the Board specifying with absolute transparency its actions, findings and recommendations. The report shall be submitted annually or more frequently as and when requested by the Board.

- 5.3. The Committee shall make short presentations to the Board, as and when required by the Board.
- 5.4. Where so required by the Board, the Committee shall submit reports to the Board on the following:
 - 5.4.1. the performance of the external auditor in the review of the financial statements and information for the Committee;
 - 5.4.2. management's cooperation with the external auditor;
 - 5.4.3. the procedures applied to appoint and dismiss the external auditor (including compliance with Statutory Auditors Appointment Rules issued by ADAA) and whether the current appointment should be renewed or not; and
 - 5.4.4. the evaluation of the Committee on the independence of the external auditor.

6. Powers of the Committee

- 6.1. The Committee shall have the appropriate authority to discharge its duties and responsibilities, as set out in these Terms of References and to sub-delegate those duties and responsibilities as it considers appropriate, provided that such sub-delegation is notified to the Board at its next meeting. All sub-delegation granted before the date of adoption of these Terms of Reference shall remain in place.
- 6.2. The Committee is specifically empowered to:
 - 6.2.1. institute or authorize investigations into any matter;
 - 6.2.2. seek information from any Staff member; and
 - 6.2.3. appoint or retain external independent professionals and consultants for advising or assisting the Committee on legal, accounting, or other matters to the extent it deems necessary or appropriate.

7. Responsibilities

7.1. External Auditors

- 7.1.1. The Committee shall establish the Group's policies for the selection and rotation of the external auditors (including compliance with Statutory Auditors Appointment Rules issued by ADAA) and, by following this process, shall recommend the appointment, reappointment, dismissal and compensation of the external auditors to the Board for approval.

7.1.2. The Committee shall review and agree the terms of engagement of the external auditor prior to their confirmation and review and recommend the fees to be paid to the external auditors to the Board for approval.

7.1.3. The Committee shall make recommendations on the rotation of the external audit firm, or of the partner of the firm in charge of the Group's external audit in line with the Central Bank's regulations, to ensure the independence of the external auditors.

7.1.4. The Committee shall review with Senior Management and the external auditors:

- the audit plan and scope prior to commencement of an audit to ensure it reflects changes in the size, business mix, or complexity of the Group or the instruction of the Central Bank;
- the external auditor's qualitative judgments about the appropriateness of accounting principles and financial disclosures;
- the external auditor's opinion on the effectiveness of the Group's internal controls over financial reporting;
- any changes to the Group's accounting and financial reporting that are recommended by management or by the external auditors;
- the adequacy of the Group's provisioning, including the accounting treatment of significant risks and uncertainties including manual (i.e. not model driven) IFRS9 staging overrides;
- key estimates and judgments of management that may be material to the Group's financial reporting;
- significant auditing and financial reporting issues discussed during the period, and their resolution;
- any serious difficulties or disputes with management encountered during the course of the audit; and
- any significant findings and recommendations made by the external auditors, together with management's responses to them.

7.1.5. The Committee shall:

- monitor the effectiveness, independence and objectivity of the external auditor, consider whether the external auditor followed the audit plan, obtain feedback on the external audit from Senior Management and report to the Board on any matters that, in the Committee's opinion, require action and provide recommendations on the necessary steps;

- assess the external auditor’s effectiveness at least annually. In monitoring the work of the external auditor, the Committee must obtain the external auditor’s view on any significant matters arising during the audit, including those resolved and those outstanding. The Committee must also review the statements provided by the Board and Senior Management in the representation letter to the auditor and consider whether the information is complete and appropriate;
- ensure the Committee meets with the external auditor in the absence of Senior Management to discuss any issues that may have arisen between the external auditor and Senior Management and how these should be resolved;
- discuss with the external auditor, any matters arising from the audit that may have an impact on regulatory capital or regulatory disclosures;
- obtain observations from the external auditor arising from the audit that are relevant to the Committee’s oversight responsibility for the financial reporting process, including any information on significant difficulties encountered during the audit, areas of significant risk or material misstatement in financial statements, areas of significant management misjudgement, use of external experts to assist with the audit, significant internal control deficiencies noted, the extent to which the external auditor has used the Internal Audit
- department, matters relating to accountability, significant qualitative aspects of financial statement disclosures and feedback on the external auditor’s relationship with Senior management; and
- ensure the timely action by the Bank relating to matters contained in the external auditor’s letters.

7.1.6. The Committee shall conduct a post-audit discussion to ascertain areas of any concerns. The Committee shall review the external auditors’ management letter and ensure appropriate corrective actions by Senior Management.

7.2. Financial statements and disclosures

7.2.1. The Committee shall oversee the financial reporting process of the Group and the establishment, review or amendment of significant accounting policies and practices.

7.2.2. The Committee shall:

- monitor, and as part of its normal course of activity and after closure of accounts in any quarter, ensure the integrity of the financial statements and the yearly, half-yearly and quarterly reports and in this regard particularly pay close attention to:
 - a. any changes to the accounting policies and practices;
 - b. the aspects subjected to Senior Management’s judgment;

- c. the substantial amendments resulting from the audit;
 - d. ongoing concerns;
 - e. assumptions of business continuity;
 - f. compliance with the accounting standards; and
 - g. compliance with legal requirements and regulations as relevant to the preparation of financial reports.
- consider any significant and unusual matters contained or to be contained in such financial reports and accounts and give due consideration of any issues raised by the Banks' Chief Financial Officer (or the person taking up his tasks) or external auditors.

7.2.3. The Committee shall review with the Banks' Chief Internal Auditor, the Banks' Chief Financial Officer and the external auditors and approve or, if appropriate, recommend for approval by the Board before the Bank publicly discloses the following information:

- the annual audited financial statements, together with the report of the external auditors, and the interim unaudited financial statements, together with the interim review report of the external auditors thereon, before they are approved by the Board;
- management's discussion and analysis relating to the annual audited financial statements and interim financial statements; and
- all financial information in material public disclosure documents including press releases, prospectuses and other public offering documents.

7.2.4. The Committee shall ensure that a process is in place to prevent former employees of external auditors from being employed by the Group before the lapse of two years from the date of such employees' competition of, or termination from, an audit engagement with the Bank.

7.3. Internal Audit department

7.3.1. The Committee shall establish an independent, permanent and effective Internal Audit department appropriate for the size and nature of the Group's business and commensurate with the risks to which the Group is exposed. The Internal Audit department must provide independent assurance to the Board and the Committee as to the quality and effectiveness of the internal controls, risk management, compliance, corporate governance, and the systems and processes used throughout the Group.

7.3.2. The Committee shall ensure that the Internal Audit department has sufficient independence of audited activities and has a sufficient standing and authority within the

Group, thereby enabling the Internal Audit department to carry out their assignments without objectivity.

- 7.3.3. The Committee shall ensure that the Internal Audit function has full access to and communication with any member of staff as well as full access to records, files or data of the Group, whenever relevant to the performance of its duties.
- 7.3.4. The Committee shall ensure the Bank has an Internal Audit Charter approved by the Committee that articulates the purpose, standing and authority of the Internal Audit Department within the Group. The Charter should be reviewed at least every three (3) years.
- 7.3.5. The Committee shall annually confirm and assure the independence of the Internal Audit department. The Committee shall have responsibility and authority to appoint and, where necessary, remove, the Banks' Chief Internal Auditor. The Committee shall ensure that the person appointed is a person holding sufficient qualifications knowledge, experience, integrity and seniority in the Bank, such that they can credibly challenge all business units and provide the support required, and that the person appointed ensures that the Internal Audit function complies with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. It is required by the Internal Control Regulations that the Banks' Chief Internal Auditor holds at least 5 years' experience in financial services auditing and any such appointment shall be made after consultation with, and where the Committee considers appropriate, the Bank's CEO's opinions.
- 7.3.6. The Committee shall also have the responsibility and authority to conduct the performance evaluation and set remuneration levels for the Banks' Chief Internal Auditor. Such evaluation and remuneration shall be finalized only after consultation with and, where the Committee considers appropriate, the Bank's CEO's opinions. The final decision shall remain with the Committee.
- 7.3.7. The Committee shall review the coordination of the internal and external audits with the Internal Audit department and the external auditors, to assure completeness of coverage, to reduce redundancy and to make effective use of audit resources.
- 7.3.8. The Committee shall appoint a compliance officer within the Internal Audit department to receive and examine complaints through the whistle blowing mechanism, collect necessary information and provide reports/notifications to relevant departments and notify ADAA of any violations as per Law 14 of year 2008 of ADAA.
- 7.3.9. The Committee shall ensure an annual review of the performance of the Bank's Internal Audit department and every five years an external quality assurance review will be carried out.
- 7.3.10. The Committee, together with Senior Management and the Banks' Chief Internal Auditor, shall annually review and assess:

- any changes (cancellation and replacement of audits) to audit schedule during the year;
- any significant findings during the period and management's responses to them;
- any difficulties the Internal Audit department encountered while conducting audits, including any restrictions on the scope of their work or access to required information;
- the Internal Audit department's staffing to ensure the staff within the department is sufficient, competent and collectively have the appropriate experience to understand and evaluate all of the business activities, support and control functions of the group;
- any investigations or special project assignments carried out by the Internal Audit department;
- internal audit reports, including the response and follow up by Senior Management to ensure effective actions are taken to address internal audit findings, particularly any control weaknesses or deficiencies in risk management and compliance;
- the effectiveness of the Internal Audit department including compliance with the Institute of Internal Auditors' Standards for Professional Practice of Internal Auditing;
- results of annual internal quality assurance program of the Internal Audit department's activities and
- Oversight over any Internal Audit activities which have been outsourced.

7.3.11. The Committee shall approve:

- the annual risk assessment methodology/approach and its outcome/report;
- annual internal audit plan, schedule and scope, which allocates resources based on its own risk-based assessment employing a methodology that identifies the material risks run by the Group;
- the changes (cancellation and replacement of audits) to audit plan during the year;
- the Internal Audit department's budget;
- organization structure, staffing;
- the Internal Audit Charter and manual; and
- Outsourcing of any Internal Audit activities to specialised external parties.

7.3.12. The Committee shall ensure that the periodic inspection and testing of all aspects of the Group's AML/CFT compliance programmes, including ML/FT risk assessment and mitigation measures, and customer due diligence policies, procedures and controls, are incorporated into the internal audit plan.

7.3.13. The Committee shall oversee the independent assessment of the Risk Governance Framework by the Internal Audit department and the Internal Audit department's independent assessment of implementation of the Bank's comprehensive approach to risk management.

7.3.14. The Committee shall ensure that the aggregation and reporting process is subject to high standards of validation through periodic review by members of the Internal Audit department with specific systems, data and reporting expertise, particularly where the process requires substantial manual intervention.

7.4. System of internal controls

7.4.1. The Committee shall:

- review and oversee the financial and internal control systems and risk management;
- discuss the internal control system with Senior Management to ensure the development of effective and efficient internal control systems;
- consider the findings of principal investigations in internal control matters assigned thereto by the Board or carried out by the Committee's initiative with Senior Management's knowledge; and
- ensure coordination between the internal auditors and the external auditor, the availability of necessary resources, and verification and monitoring of the efficiency of the internal control body.

7.4.2. The Committee shall ensure that the staff of the control functions have sufficient, resources, expertise and authority with the Bank, a sound understanding of applicable laws, regulations, rules and standards, and sufficient access to the Board/Board Committees.

7.4.3. The Committee shall annually review the effectiveness of the Group's internal control processes and systems, including information systems, and technology security and control by means of:

- periodic discussions with Senior Management;
- review of the evaluations of internal controls made by Senior Management, internal auditors and external auditors

- ensuring Senior Management has promptly followed up on recommendations and concerns expressed by internal auditors and the Central Bank of any identified internal control weaknesses; and
- periodic review of the appropriateness of the Group's strategy and risk limits.

7.4.4. The Committee shall review the scope of the internal and external auditors' review of the Group's internal controls over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

7.4.5. The Committee shall review all related party transactions, investigation reports relating to any misconduct, related party transactions, conflict of interest, and fraud and make necessary recommendation to the Board.

7.4.6. The Committee shall review/investigate all matters related to integrity of Senior Management including conflict of interest or non-adherence to standards of conduct.

7.5. **Compliance department**

7.5.1. The Committee shall establish an independent, permanent and effective Compliance department appropriate for the size and nature of the Group's business and commensurate with the risks to which the Group is exposed.

7.5.2. The Committee shall ensure that the Staff within the Compliance department are sufficiently competent and collectively have the appropriate experience within the Bank to ensure that compliance risks within the Group are managed effectively.

7.5.3. The Committee will ensure that the Bank's approach to compliance is Group wide and that compliance is part of the culture of the Bank. The Committee will also require that all those with an active role in the Compliance and the Shari'ah Compliance function are familiar with, and adhere to, the Internal Control Regulations.

7.5.4. The Committee has been delegated by the Board to review and approve the Group's compliance policies and programs and monitor their ongoing implementation to assess the extent to which the Group is managing its compliance and conduct risks effectively. Where necessary, the Committee shall recommend changes to the policies and programs to the Board.

7.5.5. The Committee shall review the outcome of the Enterprise Wide Risk Assessment (EWRA) and any overdue action.

7.5.6. The Committee shall review compliance reports from regulators and oversee implementation of recommendation/actions plans arising from such review.

7.5.7. The Committee shall review the effectiveness of the system for monitoring compliance with legal and regulatory requirements, and the results of management action relating to any instances of non-compliance.

7.5.8. The Committee shall obtain regular reports from both Senior Management regarding compliance and conduct risk matters and the Bank's Compliance department regarding adherence to applicable laws, regulations, compliance and conduct related policies, code of conduct, conflict of interest policy, agreements and major legislative and regulatory developments. At minimum, the Committee shall review the following:

- compliance risk assessments from the most recent reporting period, including any changes to the Bank's compliance risk profile;
- conduct risk management reports from the most recent reporting period, including any changes to the Bank's conduct risk profile and key conduct risk exposure;
- summaries of any material breaches or deficiencies and any corrective measures to remedy these breaches and deficiencies; and
- details of corrective measures already taken.

7.5.9. The Committee shall work closely with the Board Risk Committee to ensure the Group has robust AML/CFT policies in line with the AML/CFT Law (and any specific requirements of the law's executive regulations). The Committee shall enable the Board to fulfil its responsibilities with regards to oversight of the effectiveness of the Group's AML/CFT framework, ensuring it is based on a sound governance structure, and is held together by a strong compliance culture. The Committee shall ensure that the Group maintains adequate internal policies, procedures and controls for combating AML/CFT in line with the AML/CFT Law and regulations that should be commensurate with the risks, and with the nature and size of the Group, and to continuously update them, and to apply them to the Group. The Committee shall monitor compliance with the AML/CFT policies on a Group-wide basis and ensure that expectations regarding the responsibilities and accountability of all Staff in relation to these policies are clearly communicated.

7.5.10. The Committee shall work closely with the Board Risk Committee to ensure that the Risk Governance Framework of the Group incorporates a "three lines of defence model" approach, that is effective for the size, complexity, business mix and risk profile of the Group. In addition, the Committee shall assist the Board Risk Committee to articulate and monitor the adherence of the Bank to the compliance and financial crime risk appetite and risk limits.

7.5.11. The Committee shall establish and monitor implementation of appropriate policies and procedures for the exchange of data and information, including customer due diligence and transaction-related information, between foreign and local Group entities and the head office, for the purpose of combating the crimes of money laundering and the financing of terrorism and of illegal organisations, and for reporting suspicious transactions.

- 7.5.12. The Committee must understand legislative/regulatory restrictions/challenges with regards to implementation of AML/CFT framework in the Group entities outside the UAE and shall implement the necessary additional measures, commensurate with the nature and size of such entities' business operations in order to manage and mitigate the AML/CFT risks.
- 7.5.13. The Committee shall ensure maintenance of all records, documents, and data for all transactions, whether local or international, and make this information available to the competent authorities promptly upon request, as stipulated in the executive regulation of the AML/CFT Law.
- 7.5.14. The Committee shall recommend to the Board the appointment and/or removal of the Banks' Chief Compliance Officer.
- 7.5.15. The Committee must assess, at least annually, the performance of the compliance function. This must include an independent external quality assurance review of the compliance function at least once every five years.
- 7.5.16. The Committee shall provide direction and oversight to ensure the Group's adoption of appropriate disclosure practices for financial products and/or services, in line with the Central Bank regulations, standards and amendments from time to time.
- 7.5.17. The Committee shall report promptly to the Board on any self-identified material compliance failures or shortcomings (any serious failures that may result in a significant risk of legal actions, regulatory sanctions, material financial loss, or loss to reputation) and provide recommendations to remediate the shortcomings.
- 7.5.18. The Committee shall monitor the Bank's adherence to the principles of the Consumer Protection Regulation to ensure a culture of fairness, transparency, and disclosure. This is extended to consider, but not limited to, considerations of vulnerable consumers, people of determination and special needs. Additionally, there should be no discrimination of individuals based on religion, gender, age, income level, and marital status, across the workforce by providing them with the right to access banking products, services, channels and facilities, and ensure that the Bank's frontline staff specifically have the necessary skills, capabilities and education. Monitoring of this will be incorporated as an integral aspect of the Consumer Protection Governance Framework which will serve to fully embed the Consumer Protection principles within the Bank's operating model.
- 7.5.19. The Committee shall ensure that appropriate measures and actions are taken across the Bank to successfully implement of Consumer Protection Regulation and Standards; by placing strict internal controls, risk and governance framework, policies, procedures, practices, service standards, director and employee code of conduct, performance measures and incentives to effectively protect Consumers' related assets, information and personal data, against internal frauds. This also extends to incorporate monitoring of responsible market conduct amongst Staff.

- 7.5.20. The Committee shall ensure that Consumer Education and Awareness is promoted as per the regulatory requirements of the Consumer Protection Regulation.
- 7.5.21. The Committee shall enforce a culture of Conduct Risk awareness throughout the Bank. The Committee shall be delegated by the Board to review and approve a Conduct Risk Framework that establishes clear standards for the effective management and control of conduct risks Bank wide (including relevant conduct related policies).
- 7.5.22. The Committee shall review the Bank's Conduct Strategy and Risk Appetite and recommend to the Board of Directors.
- 7.5.23. The Committee shall review the output of monitoring activity carried out by Compliance on the overall Conduct governance and control framework.
- 7.5.24. The Committee shall identify any significant conduct risk issues, practices, or events that may have major implications on the Bank and make prompt recommendations to the Board for actions to be taken.

7.6. Periodic responsibilities

- 7.6.1. The Committee shall review any issues raised by the Risk Committee or the Executive Committee.
- 7.6.2. The Committee shall review policies and procedures covering Senior Management's expense accounts and perquisites, including their use of corporate assets, and consider the results of any review of those areas by the Internal Audit department or by the external auditors.
- 7.6.3. The Committee shall develop and oversee implementation of the whistle blowing policy mechanism through which Staff of the Bank can confidentially submit any of their doubts on potential abnormalities in the financial reports or internal controls or any other matters and ensure proper arrangements are available to allow independent and fair investigation of such abnormalities.
- 7.6.4. The Committee shall prepare and oversee the Bank's procurement policy.
- 7.6.5. The Committee shall review and monitor trading in the Bank's shares by Directors, and Staff, including Senior Management.
- 7.6.6. The Committee shall ensure timely disclosure of the Directors' shareholdings and all trades carried out by the Directors and Senior Management during the reporting year.
- 7.6.7. The Committee shall monitor the Bank's adherence to professional conduct rules.
- 7.6.8. The Committee shall consider other issues as determined by the Board.

7.6.9. The Committee shall review legal and regulatory matters that may have a material effect on the Group's financial statements.

7.6.10. The Committee shall review reporting on complaint management and resolutions to ensure that the standards followed are compliant with the Consumer Protection Regulation and Standards.

7.6.11. The Committee shall oversee the Group's effectiveness and reliability of reporting under IFRS 9. At minimum, this should include the following:

- timely monitoring, review and challenges of IFRS 9 implementation plans, key decisions and outputs;
- considering whether assumptions and methodologies are consistent with business and risk management practices and strategies, including assessing whether they are consistent with those used in other areas of reporting and planning (e.g. forecasts used for IFRS 9 versus those used for assessing the recoverability of goodwill or those used for regulatory capital planning) and, if not, why and what changes are required;
- establishing a strong governance and controls framework over ECL estimation and reporting, focusing on data integrity and model validation given the large population of data, models and systems that either did not previously exist or were not used in financial reporting;
- establishing key performance indicators ("KPIs") relating to expected credit losses ("ECL") estimation and processes for regular reporting of those KPIs; and
- establishing a plan to deliver high quality disclosures during and after transition in accordance with IFRS.

7.7. Non-audit work performed by external auditors

7.7.1. The Committee shall monitor the provision of non-audit services by the external auditor and ensure that the external auditor does not carry out any additional work for the Bank which is not part of the audit program if it may affect their impartiality and independence.

7.7.2. Any non-audit work proposed to be carried out by the external auditor shall be subject to the Committee's approval and the Committee shall ensure that appropriate disclosure are included in the Bank's corporate governance report.

7.7.3. The Committee shall develop and recommend to the Board a formal policy on the provision of non-audit services by the external auditor, including approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have direct or material effect on the audited financial statements.

7.8. Shari'ah governance

7.8.1. The Committee shall evaluate the effectiveness of the Bank's policies as approved by the Internal Shari'ah Supervision Committee, designed to monitor compliance of the Bank's Islamic Shari'ah.

7.8.2. The Committee shall assess the effectiveness and adequacy of internal Shari'ah audit and its contribution in ensuring the Bank's compliance with Islamic Shari'ah. The Committee's responsibilities shall include the following:

- Appoint, remove and assess the performance of the Head of Shari'ah Internal Audit;
- Assess the independence, effectiveness and adequacy of internal Shari'ah audit scope and programs;
- Review internal Shari'ah audit scope and programs;
- Review the reports prepared by the internal Shari'ah audit division to ensure that all necessary measures have been undertaken;
- Facilitate the work of the internal Shari'ah audit division; and
- Hold regular meetings with the Head of Internal Shari'ah Audit division twice a year, at minimum.

7.8.3. The Committee shall, where required or applicable, review the scope, results, and adequacy of the external Shari'ah audit review. The Committee's responsibility in this case shall be the following:

- Facilitate the work of the external Shari'ah auditor;
- Review the reports prepared by the external Shari'ah auditor to ensure that Senior management have taken all necessary measures in this regard; and
- Hold meetings with the external Shari'ah auditor with a minimum of one meeting per financial year.

7.8.4. The Committee shall invite a member of the Internal Shari'ah Supervision Committee to attend its meetings when discussing the internal Shari'ah audit report to ensure the Bank's compliance with the resolution of the Internal Shari'ah Supervision Committee concerning the report. The Committee and the member of the Internal Shari'ah Supervision Committee shall not be authorized to change the resolution in this regard.

For further details on the Committee's Shari'ah responsibilities, please refer to the Bank's Shari'ah Governance Framework.

7.9. Profit equalisation

7.9.1. The Committee shall oversee policies, processes and procedures over the following:

- financing and investment activities undertaken using investment account holders funds;
- fiduciary duties, which must be in accordance with the terms and conditions of the Mudarabah and Wakala contracts between the Bank and its Investment Account Holders; and
- the level of reserve allocation, ensuring that it is appropriate and fair to both existing and new Investment Account Holders.

7.9.2. Evaluate the disclosures made by the Bank regarding its asset allocation and investment strategies in respect of Investment Accounts, in order to monitor closely the performance of the Banks as managers of such accounts.

8. Publicly available information

8.1. The following information will be made publicly available, and updated as required, by posting the material on the Bank's website:

8.1.1. the Committee's Terms of Reference; and

8.2. information on procedures for the selection and appointment of the external auditors, and for the rotation of the external auditor firm or partners. The following information will be included in the Bank's corporate governance report:

8.2.1. the names and details of the qualifications of the members of the Committee;

8.2.2. the number of meetings of the Committee; and

8.2.3. a description of the Committee's responsibilities and how the responsibilities were fulfilled.

9. Self-Assessment

The Committee shall annually conduct an evaluation of its performance, as prescribed by the Nomination, Compensation, HR, & Governance Committee of the Board and the Audit Committee itself.

10. Review and administration of the Terms of Reference

The Committee shall review this Terms of Reference on a regular basis and at least once every two years and amend it, if and when required, and requesting Board approval for the proposed changes.

11. Applicable regulatory requirements

- Anti-Money Laundering and Combating the Financing of Terrorism and Illegal Organisations Guidelines for Financial Institutions dated June, 2021
- Cabinet Decision No. (10) of 2019 Concerning the Implementing Regulation of Decree Law no. (20) of 2018 on Anti-Money Laundering and Combating the Financing of Terrorism and Illegal Organizations
- Decretal Federal Law No. 14 of 2018 regarding the Central Bank & Organization of Financial Institutions and Activities
- The Central Bank's Corporate Governance Regulation & Standards for Banks (Circular No.:83/2019 dated July 18, 2019)
- The Central Bank's Board of Directors Decision No 59/4/2019 regarding Procedures for Anti-Money Laundering and Combatting Financing of Terrorism and Illicit Organizations
- The Central Bank's Financial Reporting and External Audit Regulations & Standards (Circular No.:162/2018 dated August 29, 2018)
- The Central Bank's Internal Controls, Compliance and Internal Audit Regulation & Standards (Circular No.:161/2018, dated August 29, 2018)
- The Securities & Commodities Authority Chairman's Resolution No. 03/RM of 2020 Regarding the Approval of the Public Joint-Stock Companies Governance Guide
- The Securities and Commodities Authority's circular on need for immediate disclosure of the decisions of the Board concerning the dealings of conflict of interest (dated May 28, 2013)
- The Securities and Commodities Authority's Decision No. (3) of 2000 concerning the Regulations as to Disclosure and Transparency
- The Central Bank's Standard regarding Shari'ah Governance for Islamic Financial Institutions dated 3 May, 2020
- The Central Bank's Standard Regarding Minimum Regulatory Requirements for Financial Institutions housing an Islamic Window dated 26 October, 2020
- The Chairman of the Securities and Commodities Authority's Board of Directors' Decision No. (21/R.M) of 2019 concerning procedures of Anti-Money Laundering and Counter-Terrorism and Illegal Organizations Financing
- The Central Bank's Consumer Protection Regulation & Standards (Circular No.: 8/2020, dated 25/11/2020)



These Terms of Reference are dated 1st September, 2022 and supersede any Committee's Terms of Reference or charter previously in force.