

Internal Audit Charter

Version 3.0

Al Hilal Bank

Internal Audit Department

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1. Glossary

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| Abu Dhabi Accountability Authority (ADAA) | Independent governing body established in 2008 under the authority of HH the Crown Prince of Abu Dhabi, the capital of the United Arab Emirates. ADAA is primarily responsible for enhancing and promoting transparency and accountability across Abu Dhabi government and public entities ensuring that these subject entities are managing and utilizing their resources and funds efficiently, effectively, economically, ethically and in alignment with achieving the overall vision of Abu Dhabi. |
| Add Value | The internal audit activity adds value to the bank (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes. |
| Administrative Reporting | The dotted line relationship to the Chief Executive Officer of the Bank through whom the Chief Internal Auditor receives various day-to-day administrative services related activities such as leave plan, travel plan, internal communications etc. |
| Auditee | Is any unit/branch or activity of the organization that qualifies to be audited. |
| Auditee Management | The management of any unit/branch or activity of the organization that is audited. |
| Best Practices | Practices that have produced outstanding results and that could be used by the organization. |
| Board | A board is an organization's governing body, such as a board of directors, supervisory board, or any other designated body of the Bank, including the BAC, to whom the Chief Internal Auditor functionally reports. |
| Board Audit Committee | The Committee formed by the Board of Directors to oversee audit operations and circumstances. |
| CB UAE | Stands for Central Bank of the UAE, regulatory body for banks in the United Arab Emirates (UAE). |
| Code of Conduct | Set of rules outlining the responsibilities of or proper practices to be applied through the Bank's employees. |

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| Code of Ethics | The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing. |
| Competency | The ability of an individual to perform a job or task properly, being a set of defined knowledge, skills, and behavior. |
| Compliance | Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements. |
| Conflict of Interest | Any relationship that is or appears to be not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively. |
| Control | Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved. |
| Control Processes | The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process. |
| Engagement | A specific internal audit assignment, task, or review activity, such as an internal audit, Control Self-Assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives. |
| External Auditor | Audit firm who is assigned to provide external audit services. |
| Fraud | Any illegal acts characterized by deceit, concealment or violation of trust. |
| Governance | The set of regulations, criteria and procedures that ensure institutional discipline in managing the Bank with best practices by determining responsibilities and obligations of the directors and executive management, taking into consideration the protection of shareholders' rights and other stakeholders' interests. |
| Chief Internal Auditor | Chief Internal Auditor describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics, and the |

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| | Standards. The Chief Audit Officer or others reporting to the Chief Audit Officer will have appropriate professional certifications and qualifications. The specific job title of the Chief Audit Officer may vary across organizations. |
| Independence | The freedom to carry out the responsibilities in an unbiased manner. |
| Internal Audit | Department, that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. |
| Internal Auditors | Employees of Bank's Internal Audit Function. |
| Internal Audit Charter | Describes the mission, independence and objectivity, scope and responsibilities, authority, accountability and standards of the Internal Audit Function. |
| International Professional Practices Framework | The conceptual framework that organizes the authoritative guidance promulgated by The IIA. Authoritative Guidance is comprised of two categories—(1) mandatory and (2) strongly recommended. |
| Non-Audit Services | Additional services provided by Internal Audit such as special reviews, investigations, consultancy, review of policies/procedures and whistle blowing. |
| Objectivity | An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires internal auditors not subordinate their judgment on audit matters to that of others. |
| Risk | The uncertainty of an event occurring that could have a negative impact on the achievement of the objectives. |
| Risk Management | Processes to identify, assess, manage and control potential events or situations, to provide reasonable assurance regarding the achievements of the Bank's objectives. |
| Significant | The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives. |
| Standard | A professional pronouncement promulgated by the professional bodies. |

2. Introduction

This charter primarily aims to define and establish the Mission, Core Principles, Objectives, Code of Ethics, Standards of Internal Auditing, Scope, Authority, Responsibility, Accountability, Reporting, and Independence of Internal Audit Department (IAD) of Al Hilal Bank (AHB).

3. Purpose and Mission

The purpose of IAD is to provide independent, objective assurance and consulting services designed to add value and improve Bank's operations. The mission of IAD is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight to its stakeholders for achieving their business objectives.

4. Values

Core values of Internal Audit Department are:

- Integrity
- Care
- Ambition
- Respect
- Discipline
- Risk focus

5. Core Principles

IAD shall adhere to the Core Principles for the Professional Practice of Internal Auditing:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the Bank.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.

- Is insightful, proactive, and future-focused.
- Promotes organizational improvement.

6. Standards for the Professional Practice of Internal Auditing

IAD shall be governed by requirements of Central Bank of the UAE (Regulations & Standards for Internal Audit), the Abu Dhabi Accountability Authority (The Internal Audit Regulations for the Entities Subject to the Mandate of Abu Dhabi Accountability Authority) and The Institute of Internal Auditors' (Definition of Internal Auditing, International Standards for the Professional Practice of Internal Auditing, Guidance, Core Principles, and Code of Ethics). The IIA's Mandatory Guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the internal audit activity's performance, which is also mandated by Central Bank of the UAE.

The Chief Internal Auditor will report periodically to the BAC and Senior Management regarding IAD's conformance to the Code of Ethics and the Regulations & Standards.

7. Definition of Internal Audit

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve operations of the Bank. It assists the Bank in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of Bank's Risk Management, Control and Governance processes.

8. Scope

The scope of internal auditing encompasses objective examination and evaluation of adequacy and effectiveness of the Bank's governance, risk management and internal controls. This will encompass as deemed necessary conducting independent reviews and evaluations of any and all Bank operations and activities including those outsourced to appraise:

- Adequacy of identification and management of potential risks;
- Reliability, integrity, timeliness and adequacy of financial, managerial and operational information;
- Adequacy of systems established to ensure employees' compliance with policies, standards, procedures, code of ethics and applicable laws and regulations;
- Effectiveness and efficiency in use of Bank's resources and assets and well as relevant safeguarding measures;
- Quality of retail facilities portfolio and retail credit management processes across different Bank functions;

- Effectiveness of interaction amongst governance functions;
- Achievement of Bank's set programs, plans, and objectives;
- Adequacy of recognition and addressing of legislative or regulatory compliance issues impacting the Bank.

IAD may perform consulting and advisory services related to governance, risk management and control as appropriate and deemed necessary for the Bank. Each assignment will be assessed individually for independence as required by relevant standards of the Institute of Internal Auditors.

The CIA also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. IAD may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided IAD does not assume management responsibility.

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

There is an inherent limitation in any internal control system and accordingly errors or fraud may occur and may not be detected by the IAD. IAD's work is not designed specifically to investigate fraud or other irregularities. Further, the internal audit process does not relieve the management/unit managers of their responsibility for the maintenance and improvement of controls in their respective areas.

9. Authority

CIA and IAD staff are authorized to:

- Have full and unrestricted access to the Board and communicate and interact directly with the BAC including private meetings without management presence.
- Receive all Board, Board Committees and Management Committees minutes of meeting.
- Have full, free and unrestricted access to all Bank's functions, activities, records, data files, property and personnel pertinent to the performance of Internal Audit duties. IAD staff members shall exercise discretion and due care to ensure the confidentiality and safeguarding of records and information reviewed.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives and issue reports; and
- Obtain the necessary assistance from the Bank personnel where they perform audits, as well as other specialized services from within or outside the Bank in line with the approved budget.

Any action or conduct that restricts audit access or that obstructs or hinders audit assignments or is aimed at concealment of data, providing false information or any other act that may affect the result of an assignment may be construed as scope limitation. Such violations will be reported to the BAC and the Bank's CEO.

10. Responsibility

The IAD has the responsibility to:

10.1 Strategy & Governance

- Develop a long term (three years) strategy for the IAD that is streamlined with the strategy of the Bank. The strategy shall be supported by annual action plans and shall be presented to the BAC for their approval.
- Develop a strategic audit plan for 3 years using appropriate risk based methodology including any risk or control concern identified by the Management and submit that plan along with risk assessment outcome and report to BAC for review and approval.
- Provide annually a report on IAD's purpose, authority and responsibility, and conformance with the IIA's code of Ethics and standard, and action plans to address any conformance issues.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.

10.2 Annual Audit Plan (Development & Execution)

- Develop a flexible annual audit plan using appropriate risk based methodology including any risk or control concern identified by the Management and submit that plan along with risk assessment outcome/report to Board Audit Committee (BAC) for review and approval.
- Present annual budget, training plan, staffing, organization structure, charter, strategy and internal audit manual to BAC for review and approval.
- Implement the annual audit plan, including as appropriate any special tasks or projects requested by BAC, Chief Executive Officer and the Management.
- Obtain approval for changes (cancellation and replacement of audits) to audit schedule before implementation.
- Coordinates audit activities with external auditors, Central Bank examiners, Abu Dhabi Accountability Authority and other regulatory agencies.
- Monitor and evaluate performance of Internal Audit Service providers, as and when appointed and report the results to Audit Committee.
- Conduct regular follow-up on raised recommendations to ensure that the effective remedial action is taken. Report to the CEO and the BAC periodically any corrective actions not effectively implemented.

10.3 Non-Audit Services

- As appropriate, provide consulting and advisory services to management that add value and improve Bank's governance, risk management, and controls, without IAD assuming the management responsibilities.
- Evaluate and assess important merging/consolidating functions and new or changing services, business units, processes, systems, operations and control processes coincident with their development, implementation and/or expansion.

- Non-audit services requested by any party other than the BAC and/or Board of Directors, where the assignments impact the approved audit plan in terms of resource/time constraints shall be reported and validated/approved by the BAC before initiation.
- Evaluate the impact on objectivity and independence of IAD prior to accepting/providing non-audit services. Engagements/assignments that impact the objectivity and independence of IAD shall not be performed.

10.4 Standards

- Ensure adherence and compliance with CB UAE Regulations and Standards on Internal Auditing. Promptly report to the Central Bank violations of the Central Bank Law, Regulations, instructions and any matters of significance. Also report to CB UAE any significant deviation from Internal Audit Department Charter approved by the BAC.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Establish and ensure adherence to policies and procedures designed to guide the IAD staff.
- Ensure adherence to the Bank's relevant policies and procedures, unless such policies and procedures conflict with the IAD charter. Any such conflicts will be resolved or otherwise communicated to the BAC and Senior Management.
- Ensure trends and emerging issues that could impact the Bank are considered and communicated to the BAC and Senior Management as appropriate.
- Execute Quality Assurance and Improvement Program for ongoing and annual internal assessments as well as five-year independent external assessment by a qualified assessor. The results of internal and external assessments shall be presented to the BAC and the Senior Management.

10.5 Resources Management

- Develop Key Performance Indicators (KPIs) for the Internal Audit Department along with targets and present to the BAC annually for review, discussion and approval. Report status of Key Performance Indicators (KPIs) for the Internal Audit Department against the agreed targets to the BAC at least annually for review, evaluation and approval.
- Ensure that evaluation/performance criteria are set for Internal Audit staff and assessed on a regular basis.
- Maintain requisite professional audit staff strength with sufficient knowledge, skills, experience, and professional qualifications to meet the requirements of this Charter and report staff profile details to the BAC annually for their review/ monitoring.

10.6 Anti-Fraud & Whistle Blowing

- Conduct/assist in the investigation of significant suspected fraudulent activities and notify BAC, Chief Executive Officer and the Management of the results.
- Ensure that the Compliance Officer attends to the complaints related to suspected breach of any laws, regulations or code of conduct submitted by employees/customers/public. Collects necessary information and provides reports/notifications to relevant departments and notify Abu Dhabi

Accountability Authority (ADAA) of any violations as per law 14 of year 2008 of ADAA.

- Establish 'Compliance Officer – IAD' Charter covering scope, authority, responsibility, and reporting of the incidents.

11. Accountability

The IAD shall be accountable to:

- Provide annually an assessment on the adequacy and effectiveness of AHB's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues related to the processes for managing risk and controlling the activities of AHB, including potential improvement to those processes and provide information concerning such issues.
- On quarterly basis, provide information on the status and results of the annual audit plan and the sufficiency of the function's resources.
- Coordinate with and provide coverage of other control and monitoring functions (risk management, governance, compliance, security, legal, ethics, environmental, external audit and code of conduct).
- Establish a follow-up process to track and monitor the effective implementation of management actions related to important audit observations and recommendations.
- Review of Internal Audit Function as per standards of the Institute of Internal Auditors.
- Keep BAC informed of emerging trends and developments in internal auditing practices and give recommendations for necessary revisions in Internal Audit Charter.

12. Reporting

IAD will issue reports on a timely basis to BAC, Chief Executive Officer and Management Summarizing results of Internal audit engagements.

The internal audit report shall be issued on a timely manner to Auditee Management and should 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 timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

13. Independence and Objectivity

To maintain the independence of IAD from other AHB departments, branches and subsidiaries, its personnel shall report to the Chief Internal Auditor, who shall report functionally to the Board via the BAC and administratively to Chief Executive Officer.

Functional reporting includes:

- Approval by BAC for the internal audit charter, internal audit manual covering roles, responsibilities, policies & procedures, internal audit strategy, annual risk assessment outcome/report, the risk based internal audit plan, changes to audit schedule during the year (cancellation and replacement of audits), the internal audit budget and resource plan, staff training plan, decisions regarding the appointment and removal of the Chief Internal Auditor and the remuneration of the Chief Internal Auditor.
- Providing communications to BAC on the internal audit activity's performance relative to its plan and other matters.
- Responding/reporting to BAC regarding inappropriate scope or resource limitations.

Administrative reporting to Chief Executive Officer for day-to-day operations, Chief Internal Auditor leave plan, travel plan, internal communications & information flows and administration of internal policies and procedures.

In order to preserve its objectivity and independence, the IAD staff members are not allowed to:

- Assess specific operations for which they had responsibility within the previous year.
- Perform any operational duties for AHB outside IAD's function.
- Initiate or approve accounting transactions external to IAD.
- Direct the activities of any AHB employee not employed by IAD, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

In carrying out their work auditors will act objectively, and in an unbiased manner without subjecting their judgment on audit issues. Any conflict of interest or impairment of objectivity should be declared by the affected auditor. The Chief Internal Auditor shall confirm to BAC, at least annually, the organizational independence of the internal audit activity. The Chief Internal Auditor shall disclose to BAC any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

14. Quality Assurance and Improvement Program (QAIP)

IAD will maintain a QAIP that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards. The program will also assess the efficiency and effectiveness of IAD and identify opportunities for improvement.

The CIA will communicate to the BAC on the IAD's QAIP, including results of ongoing internal assessments and external assessments conducted at least once every five years by a qualified, independent assessment firm the selection of which shall be approved by the BAC. The results of internal and external assessments shall be presented to the BAC and the Senior Management

15. Review/ Update of the Charter

This Charter governs the activities and operations of the Internal Audit Department of AHB. The Charter is updated at least every 3 years and if and when required to reflect any changes and amendments. All updates to this charter will be approved by BAC.

16. Approval

The Charter is dated 8 May 2023 and supersedes any Internal Audit Charters previously in force and is approved by the Board Audit Committee:

| Name | Signature |
|---|-----------|
| Mr. Kevin Taylor Chairperson – Board Audit Committee | |
| Mr. Mohammed Al Jayyash Member – Board Audit Committee | |