



Group Audit Committee Mandate

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Group Audit Committee Mandate

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1 Introduction

This is the mandate ("Mandate") for the Group Audit Committee ("Committee") of the Board of Directors ("Board") of the Gulf International Bank B.S.C. ("Bank"). It governs the procedures of the Committee and outlines the procedures and guidelines in relation to the audit and internal controls of the Bank.

The reference in this Mandate to "Bank" also includes branches and subsidiaries of the Bank, as appropriate.

1.1 Delegation of Power

The Committee has been established pursuant to the Articles of Association of the Bank ("Articles") and the Board has delegated certain powers to the Committee pursuant to Article 22 of the Articles.

1.2 Purpose

1.2.1 The role of the Group Audit Committee is to assist the Board in providing oversight of:

- a) the integrity of the Bank's financial statements;
- b) the Bank's compliance with legal and regulatory requirements;
- c) the Bank's compliance with the rules of good corporate governance;
- d) the external auditors qualifications and independence;
- e) performance of the Bank's internal audit function;
- f) independent audits and regulatory inspections;
- g) the review of Bank's systems of internal controls regarding finance, accounting, legal, compliance and ethics that management and the Board have established;
- h) the review of Bank's compliance, auditing, accounting and financial reporting policies & processes; and
- i) the review of internal audit, external audit and compliance reports and ensure that senior management is taking necessary corrective actions in a timely manner to address any control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors, the compliance officer and other control functions.

1.2.2 Review the disclosures that the Central Bank of Bahrain and the Bahrain Ministry of Industry and Commerce require to be included in the Bank's financial statements in relation to the above functions and duties.

1.2.3 Consistent with this directive, the Committee should encourage the continuous improvement of, and adherence to, the Bank's policies, procedures and practices at all levels.

2 Audit Committee

2.1 Authority

2.1.1 The Committee has the specific responsibilities and authority necessary to comply with the requirements of the Central Bank of Bahrain and the Bahrain Ministry of Industry and Commerce relating to:

- (a) Recommending, based on Board approved objective criteria, appointment, remuneration and termination of external auditors employed by the Bank, to the Board for endorsement and, approval by shareholders;

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- (b) overseeing the work of the external and internal auditors;
- (c) reviewing and approving all external and internal auditing services;
- (d) acting as a mediator between the management and external auditors;
- (e) reviewing and if required, investigating complaints relating to accounting, internal accounting controls or auditing matters;
- (f) authority to engage advisors; and
- (g) funding as determined by the Committee, as described in more detail in this Mandate.

2.1.2 The Bank's management is responsible for preparing the Bank's financial statements and providing an appropriate system of internal controls, and that the external auditors are responsible for auditing the financial statements and reviewing the Bank's internal controls. In fulfilling these responsibilities, the external auditors and management are ultimately accountable to the Committee.

2.1.3 In order to fulfil its oversight responsibility, the Committee must be capable of conducting free and open discussions with the management, internal and external auditors, head of compliance, legal counsel of the Bank, employees and others regarding the quality of the financial statements and the systems of internal controls.

2.2 Composition

2.2.1 The Committee will consist of at least three and no more than five directors. The Board will appoint the members of the Committee. The Committee will elect one of these members as the Chairperson of the Committee. The Chairperson of the Committee must be independent, not be the chairperson of the Board, unless he/she is considered independent, and not be the chairperson of any other Board committee. The CEO and other senior management of the Bank must not be members of the Committee.

2.2.2 The majority of the members of the Committee including the Chairperson of the Committee have to be independent and have no conflict of interest with any other duties they have.

2.3 Qualification

2.3.1 The Audit Committee members must have sufficient experience in audit practices, financial reporting and accounting and relevant financial ability and experience as defined by applicable legislation, regulation and directive.

2.3.2 The Chairperson of the Committee ensures that each new member receives a formal and tailored induction to the Bank's business and corporate governance, as applicable to the Committee.

2.4 Removal or Resignation

2.4.1 If a member of the Committee retires, is removed or resigns from the Board, that member ceases to be a member of the Committee. The Board will appoint a successor.

2.5 Invitees

2.5.1 The Committee may invite any person to attend a meeting of the Committee, as it considers appropriate.

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2.5.2 The invitees cannot be present at any discussion in relation to themselves unless the Committee has invited them to discuss these issues with them. None of the invitees shall be considered members of the Committee.

2.6 Secretary

2.6.1 The Group Chief Auditor or his delegate will act as the Secretary to the Committee. The Secretary will only be present in an administrative capacity and will only participate in the discussions of the Committee if he/she is invited to participate in such discussions.

2.6.2 The Secretary will not participate in any decision or vote of the Committee.

2.6.3 The Secretary shall ensure, on an annual basis, the disclosure of Audit Committee Members of any related party involvement, outside interests and activities and communicate such disclosures to the Governance Unit.

2.7 Meetings

2.7.1 Frequency

The Committee will meet as frequently as required but not less than four times a year. The Committee Chairperson or no fewer than any other two members of the Committee may call a Committee meeting.

2.7.2 Calling Meetings and Notice

A notice of each meeting confirming the date, time, venue and agenda must be forwarded to each member of the Committee (with a copy to all Board members) five working days before the date of the meeting. The notice for the Committee members will include relevant supporting papers for the agenda items to be discussed. The Chairperson will approve the agenda for the meetings and any member may suggest items for consideration.

2.7.3 Quorum and Voting

- a) A quorum will comprise of the majority of the Committee members. In the absence of the Committee Chairperson or an appointed delegate, the members will elect one of their member as Chairperson for that meeting.
- b) Each member will have one vote and the Chairperson of the Committee will not have a second or casting vote. In case of a tie, the matter will be referred to the full Board for a decision.
- c) The invitees to the meeting will not have the right to vote on any matters being discussed by the Committee.

2.7.4 Resolution by circulation

The Committee may, when necessary, make resolutions by way of consultations through circulation, and such decisions taken in this manner require the majority vote of its members.

Decisions made by circulations shall be ratified at the following meeting of the Committee and shall be recorded in the minutes of such meetings.

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2.7.5 Minutes

Minutes of proceedings and resolutions of Committee meetings will be kept by the Secretary. Minutes will be distributed to all Committee members and the Chairperson of the Board, within a period not exceeding 3 days, after the Committee Chairperson has given the preliminary approval. Minutes, agenda and supporting papers will be made available to any director upon request to the Secretary, providing no conflict of interest exists.

2.8 Resources

2.8.1 The Committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, accounting or the other advisors as it deems necessary and appropriate, without seeking approval of the Board or the management. The Bank shall provide appropriate funding for the compensation of any such persons.

2.8.2 The Committee may meet with these external advisers without the management being present.

2.9 Special Investigation and Access to Employees

2.9.1 The Committee is entitled to direct any special investigation that the Committee considers appropriate and to consult any independent expert that the Committee considers appropriate to carry out its duties. The Bank will bear the costs of any such investigation or consultations.

2.9.2 The Committee is entitled to call on and use any employee of the Bank to the extent that the Committee considers appropriate.

2.9.3 On a regular basis, but at least once a year, the Committee shall meet with the Group Chief Auditor, the Legal Counsel, the Group Chief Compliance Officer and other relevant management personnel to discuss any matters that the Committee or these groups believe should be discussed.

2.9.4 The Committee must meet at least once a year in the absence of the CEO and any executive management, but in the presence of Group Chief Compliance Officer, Group Chief Auditor and Group Chief Risk Officer.

2.10 Report to Board

2.10.1 The Committee Chairperson, or delegate, will report to the Board following each meeting. The Committee will report to the Board regularly on the matters set out in Section 3 of this Mandate.

2.10.2 The Committee will review for approval by the Board any report on the matters set out in Section 3 that may be:

(a) required by any legislation, regulatory body or other regulatory requirement; or

(b) proposed for inclusion in the annual report.

2.10.3 The Committee may delegate the role of preparing any such report to the management provided that any such report would be considered, reviewed and approved by the Committee before being sent to the Board.

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3 Responsibilities and Duties

The Committee will carry out the following responsibilities:

3.1 Financial Statements

- 3.1.1 Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- 3.1.2 Review with management and the external auditors the results of periodic audits.
- 3.1.3 Review the annual financial statements, and consider whether they are complete, consistent with information known to members of the Committee, and reflect appropriate accounting principles.
- 3.1.4 Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.
- 3.1.5 Review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards.
- 3.1.6 Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
- 3.1.7 Review interim financial reports with management and the external auditors before filing with regulators, including the Bank's disclosure and consider whether they are complete and consistent with the information known to the Committee members.
- 3.1.8 Review major issues regarding accounting principles and financial statements presentations, including:
 - (a) any significant changes in the Bank's selection and application of the accounting principles;
 - (b) any major issues as to adequacy of the Bank's internal controls and any special audit steps adopted in light of material control deficiencies;
 - (c) analysis prepared by the management and/or external auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements;
 - (d) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Bank; and
 - (e) the type and presentation of information to be included in earnings press releases (paying particular attention to any use of "pro forma" or adjusted" information), as well as review any financial information provided to analyst and rating agencies.
- 3.1.9 Review all off-balance sheet activities for compliance with applicable accounting standards and legal disclosure rules.
- 3.1.10 Review for the approval of the Board reports to the shareholders in relation to the financial statements of the Bank, if required.
- 3.1.11 As delegated by the Board of Directors, approve the quarterly financial statements of the Bank.

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3.2 Internal Controls

- 3.2.1 Consider the effectiveness of the Bank's internal controls system, including internal controls over financial reporting, for the prevention and detection of fraud and error, and for information technology security and control.
- 3.2.2 Review, evaluate and approve systems of internal controls and meet with the Group Chief Auditor and with management to assess the adequacy and effectiveness of these systems of internal controls and to obtain on a regular basis reasonable assurance that the Bank is in control.
- 3.2.3 Receive reports from the Chief Executive Officer and the Chief Financial Officer as to the existence of any significant deficiency or material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarise and report financial information and as to the existence of any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.
- 3.2.4 Review and recommend to the Board the approval of the Bank's disclosure policy and review reports on the effectiveness of the Bank's disclosure controls and procedures.
- 3.2.5 Review the process relating to and the certifications of the Chief Executive Officer and the Chief Financial Officer, including certifications on the design and effectiveness of the Bank's disclosure controls and procedures and internal control over financial reporting, and the integrity of the Bank's quarterly and annual financial statements.
- 3.2.6 Ensure that the Bank has effective and adequate policies covering all its business activities, internal audit, financial reporting, compliance, risk management, prevention of frauds and cyber security breaches, etc.

3.3 Internal Audit

- 3.3.1 Review, discuss and make recommendations regarding the selection, appointment, remuneration, performance appraisal and termination where appropriate of the Group Chief Auditor.
- 3.3.2 Approve the reporting lines of the Group Chief Auditor. The Group Chief Auditor will report functionally to the Committee and administratively to the Group Chief Executive Officer.
- 3.3.3 Review at least once per year, the performance of the Group Chief Auditor and make appropriate recommendations to the Board or to the Board sub-committee, delegated with the responsibility to oversee the performance of the Group Chief Auditor, in this regard.
- 3.3.4 Review the independence of internal auditors from management.
- 3.3.5 Review with management and the Group Chief Auditor the charter, activities, staffing, and organizational structure of the internal audit function.
- 3.3.6 Approve the Internal Audit charter on an annual basis.
- 3.3.7 Approve the Annual Audit Plan and major changes thereto.
- 3.3.8 Review and discuss the budget allocated to internal audit and agree to its inclusion in the overall annual budget of the Bank.

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- 3.3.9 Ensure there are no unjustified restrictions or limitations on the Group Chief Auditor function, and approve the appointment, replacement, reassignment or dismissal of the incumbent.
- 3.3.10 Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.
- 3.3.11 Review representations from the Group Chief Auditor on the adequacy of the Bank's systems of internal controls and the degree of compliance therewith.
- 3.3.12 On a regular basis, but at least once a year, the Committee shall have a private meeting with the Group Chief Auditor to discuss any matters that the Committee or internal audit believes should be discussed privately.
- 3.3.13 Review quarterly reports submitted by the Group Chief Auditor in respect of internal audit issues.
- 3.3.14 Commission every five years a quality review of the effectiveness and efficiency of the internal audit function by a third-party consultant, other than the external auditor.

3.4 External Audit

- 3.4.1 Oversee the selection and recommend to the Board, based on Board approved criteria, the appointment, remuneration, dismissal and rotation of the independent external auditors for endorsement and approval at the shareholders' meeting.
- 3.4.2 Monitor rotation arrangements for the audit engagement partners.
- 3.4.3 Review the external auditors' proposed audit scope and approach, including coordination of the audit effort with internal audit.
- 3.4.4 Review all material written communications between the external auditors and management, such as an engagement letter, any management letter, schedule of unadjusted differences or external auditors' representation letter.
- 3.4.5 Review the performance of the external auditors, and recommend for the approval of the Board any proposed change in the firm of the external auditors when circumstances dictate.
- 3.4.6 Review and confirm the independence of the external auditors at least once each year by obtaining from the external auditors a written statement including a listing of any relationship between the external auditors and the Bank or with any other persons or entity that may compromise the auditors independence. The Committee shall review and discuss with the external auditors all relationships they have with the Bank to determine their independence.
- 3.4.7 Meet, on quarterly basis, with the external auditors to discuss annual or quarterly financial statements of the Bank.
- 3.4.8 Meet separately, on a regular basis but at least once a year, with the external auditors without the presence of any members of management to discuss internal controls, significant audit issues or any other matters that the Committee or external auditors believe should be discussed privately. Such discussion to include the scope and results of its audit, any difficulties the external auditors encountered including any restriction on its access to requested information and any disagreement or difficulties encountered with management.
- 3.4.9 Approve all non-audit services by the external auditors.

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3.5 Regulatory Compliance

- 3.5.1 Approve the reporting lines of the Group Chief Compliance Officer. The Group Chief Compliance Officer will report functionally to the Audit Committee and administratively to the Chief Executive Officer.
- 3.5.2 Approve the appointment, replacement, reassignment or dismissal of the Group Chief Compliance Officer.
- 3.5.3 Review at least once per year, the performance of the Group Chief Compliance Officer and make appropriate recommendations to the Board or to the Board sub-committee, delegated with the responsibility to oversee the performance of the Group Chief Compliance Officer, in this regard.
- 3.5.4 Review the independence of Group Chief Compliance Officer from management.
- 3.5.5 Review with management and the Group Chief Compliance Officer the activities, staffing, and organizational structure of the Compliance function.
- 3.5.6 Review and discuss the budget allocated to compliance functions and agree to its inclusion in the overall Annual Budget of the Bank.
- 3.5.7 Approve the Annual Compliance Programme and major changes thereto.
- 3.5.8 At least once a year, review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- 3.5.9 Review the findings of any examinations by regulatory agencies, and any external audit observations.
- 3.5.10 Review whether the Bank complies with all relevant laws, regulations, codes and business practices.
- 3.5.11 Review and supervise the implementation, enforcement, and adherence to the Bank's Code of Conduct.
- 3.5.12 Review the Group Money Laundering Reporting Officer reports in respect of compliance by the Bank with all applicable anti money laundering regulations.
- 3.5.13 Review quarterly reports submitted by the Group Chief Compliance Officer in respect of compliance by the Bank with all applicable compliance issues including results of compliance testing and developments on all relevant laws, rules and standards in all jurisdictions in which the Bank conducts its business.
- 3.5.14 On a regular basis, but at least once a year, the Committee shall have a private meeting with the Group Chief Compliance Officer to discuss any matters that the Committee or Group Chief Compliance Officer believes should be discussed privately.

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3.5.15 Obtain regular updates from management and the Bank's Legal Counsel regarding compliance with legal and regulatory issues.

3.5.16 Commission every five years a quality review of the effectiveness and efficiency of the compliance function by a third-party consultant, other than the external auditor.

3.6 Reporting Responsibilities

3.6.1 Report regularly to the Board about the Committee's activities, issues, and related recommendations.

3.6.2 Provide an open avenue of communication between internal audit, the external auditors, and the Board.

3.6.3 Establish regular and separate systems of reporting to the Committee by each of management, the external and the internal auditors, regarding any significant judgments made in management's preparation of the financial statements and the view of each as to the appropriateness of such judgments.

3.6.4 Report annually to the Board, describing the committee's composition, responsibilities and how they were discharged, and any other information required by law, including approval of non-audit services by the external auditors.

3.6.5 Review any other reports the Bank issues that relate to the Committee's responsibilities.

3.6.6 Confirm annually to the Board that all responsibilities outlined in this mandate have been carried out.

3.7 Complaints / Whistleblowing

3.7.1 Ensure that the Bank has an adequate whistleblowing programme and review the procedures for the receipt, retention, and treatment of complaints received by the Bank regarding accounting, internal accounting controls, or auditing matters that may be submitted by any party internal or external to the Bank.

3.8 Other Responsibilities

3.8.1 Institute and oversee special investigations as needed.

3.8.2 Regularly monitor the information needs of the Board to perform its responsibilities.

3.8.3 Ensure that the Bank communicates with shareholders and relevant stakeholders (internal and external) openly and promptly, and with substance of compliance prevailing over form.

3.8.4 Receive and review minutes of meetings held by the Audit Committees of the subsidiaries.

3.8.5 Meet at least once a year the Chairmen of the Audit Committees of the subsidiaries.

3.8.6 Perform other activities related to this Mandate as requested by the Board.

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4 Evaluation Process

4.1 Performance

4.1.1 The Committee shall prepare and review with the Board an annual performance evaluation of the Committee, which will compare the Committee's performance with the above requirements. The report must be in the form of a written report made at the regularly scheduled Board meetings.

4.2 Review

4.2.1 The Chairperson of the Board will, in consultation with the Committee, conduct an annual review of the Mandate to ensure that the Mandate continues to reflect the current processes and guidance utilised. The Board will need to approve any amendments to the Mandate that stem from the review.
