

Board Audit Committee Mandate Gulf International Bank – Saudi Arabia

Policy Ref. No.	KSAGOVR3.0
Policy owner	Board of Directors

Audit Committee Mandate

Contents

1	INTRODUCTION	3
1.1	Purpose	3
1.2	Review and update of policy	3
1.3	Evaluation Process.....	3
2	DELEGATION OF POWER	3
3	COMPOSITION	3
4	QUALIFICATION	4
5	REMOVAL OR RESIGNATION	4
6	INVITEES	4
7	SECRETARY	4
8	MEETINGS.....	5
8.1	Frequency	5
8.2	Calling Meetings and Notice	5
8.3	Quorum and Voting	5
8.4	Resolution by circulation	5
8.5	Minutes.....	5
8.6	Remuneration and Allowances	5
8.7	Resources	6
9	AUTHORITY & RESPONSIBILITIES	6
9.1	Authority	6
9.2	Principle Responsibilities	7
9.3	Financial Statements Responsibilities.....	7
9.4	Internal Controls Responsibilities.....	8
9.5	Internal Audit Responsibilities	8
9.6	External Audit Responsibilities.....	9
9.7	Regulatory Compliance Responsibilities.....	10
9.8	Reporting Responsibilities.....	10
9.9	Complaints / Whistle-Blowing Responsibilities	11
9.10	Other Responsibilities.....	11
10	REPORT TO THE BOARD	11

Audit Committee Mandate

1 Introduction

1.1 Purpose

1.1.1 This is the mandate ("Mandate") for the Audit Committee ("Committee") of the Board of Directors ("Board") of the Gulf International Bank Saudi Arabia ("GIB KSA" or "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.

1.1.2 The role of the 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 external auditors' qualifications and independence;
- d) performance of the Bank's internal audit function;
- e) independent audits and regulatory inspections;
- f) the review of Bank's systems of internal controls regarding finance, accounting, legal, compliance and ethics that management and the Board have established; and
- g) the review of Bank's auditing, accounting and financial reporting policies & processes.

1.1.3 Review the disclosures that regulators require to be included in the Bank's financial statements in relation to the above functions and duties.

1.2 Review and update of policy

1.2.1 The Chairman 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.

1.2.2 The Board members to take into account new regulatory requirements on Board Committees.

1.3 Evaluation Process

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 requirements stated in this document. The report must be in the form of a written report provided at the regularly scheduled Board meetings.

2 Delegation of Power

The Committee has been established pursuant to Saudi Central Bank ("SAMA") rules, Ministry of Commerce (MC) regulatory requirements, the Articles of Association of the Bank ("Articles") and by a resolution of the shareholders' General Assembly.

3 Composition

3.1 The Committee will consist of at least three and no more than five members other than executive members of the Board of Directors. The Chairman of the Board and the Chief Executive Officer (CEO) of the Bank cannot be members of the Committee and the members should be approved by SAMA.

Audit Committee Mandate

- 3.2 The Chairman and Members of the Audit Committee shall be appointed by the Board for a period of three years, renewable for a maximum of two additional terms. The Chairman and Members of the Audit Committee will be appointed after obtaining no objection from SAMA -on the recommendation of the Governance, Nominations and Remuneration Committee. Provided that such appointment is approved on the Shareholders' General Assembly
- 3.3 The Chairman of the Audit Committee should not be related to other members of the Board or have any financial or business relationship with any members of the Board. Also, the Chairman should not have a relationship with executive directors or key executives of the Bank that could affect his independence. Further, Chairman of the Committee should be independent from the major shareholders of the Bank.
- 3.4 Chairman of the Audit Committee must always be a member of the Board and a non-executive.
- 3.5 The majority of the members of the Committee including the Chairman of the Committee have to be independent.
- 3.6 The Committee members from outside the Board must be more than those from inside the Board. The member shall not be from the bank's staff, customers, agents, or advisors.
- 3.7 The Committee members shall not have avail any financing facilities (credit card, credit facility, guarantees etc.) from the bank in his own name or in concert with his family members (first-degree) of more than SAR 300,000. In addition, the members should not have a business relationship with any other members of the Board or senior management.

4 Qualification

- 4.1 The Audit Committee members must have recent and relevant financial ability and experience as defined by applicable legislation, regulation and directive.
- 4.2 The Chairman 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.
- 4.3 The attendance of the members of the Committee's meetings is important for their membership to continue.

5 Removal or Resignation

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 successor will be appointed after obtaining no objection from SAMA -on the recommendation of the Governance, Nominations and Remuneration Committee, a successor member who will complete the remaining period of his predecessor in the membership of the committee. Provided that such appointment is approved on the following Shareholders' General Assembly.

6 Invitees

- 6.1 The Committee may invite any person to attend a meeting of the Committee, as it considers appropriate.
- 6.2 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.

7 Secretary

Audit Committee Mandate

7.1 The Committee will appoint its Secretary, who will take the minutes of the meeting. The Secretary will only be present in an administrative capacity and will only participate in discussions of the Committee if he is invited to participate in such discussions.

7.2 The secretary will not participate in any decision or vote of the Committee.

8 Meetings

8.1 Frequency

The Committee will meet as frequently as required but not less than four times a year including an annual meeting with the Board of Directors. The Committee Chairman or no fewer than any other two members of the Committee may call a Committee meeting.

8.2 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 five working days before the date of the meeting, where it can be conducted in person or via teleconference/video-conference, as agreed in advance of the meeting. The notice for the Committee members will include relevant supporting papers for the agenda items to be discussed. The Chairman will approve the agenda for the meetings and any member may suggest items for consideration.

8.3 Quorum and Voting

8.3.1 Committee meetings shall have a quorum if attended by the majority of its members. In the absence of the Committee Chairman, the members will elect one of their member as Chairman for that meeting. Its resolutions shall be adopted by a majority vote of attending members, ties shall be decided by the vote of the Committee Chairman (or any member of the Committee replacing him in his absence). The opinion of the dissenting members must be recorded in the minutes of the meeting. Each member will have one vote. No voting by proxy shall be permitted.

8.3.2 The invitees to the meeting will not have the right to vote on any matters being discussed by the Committee.

8.4 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.

8.5 Minutes

Minutes of proceedings and resolutions of Committee meetings will be kept by the Secretary. Minutes will be distributed to all Committee members, within a period not exceeding 15 days, after the Committee Chairman 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.

8.6 Remuneration and Allowances

8.6.1 Annual Remuneration:

Audit Committee Mandate

- a) Non-Executive members of the Board of Directors receive an annual amount of SAR 400,000 for their representation at the Board and its Committees;
- b) Independent Audit Committee members from outside of the board receive an annual amount of SAR 120,000 for their representation at the Audit committee; and
- c) Additionally, the Committee Chairman shall receive an additional annual amount of SAR 20,000.

8.6.2 Meetings Allowances:

In addition to the annual remuneration, all Audit Committee members shall be entitled to a payment for attendance of each Committee meeting at SAR 3,000.

8.6.3 Travel Expenses:

Travel expenses will be paid to all Committee members to cover expenses during the travel period, i.e. hotel accommodation and transportation.

8.7 Resources

- 8.7.1 The Committee shall have the resources and authority necessary to discharge its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside independent professionals (including lawyers) and advisors as it deems necessary and appropriate, without seeking approval of the Board or management. The Bank shall provide appropriate funding for the compensation of any such persons.
- 8.7.2 The Committee may meet with these external advisers without the management being present.
- 8.7.3 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.
- 8.7.4 As a Committee reporting to the Board, the Committee shall have full access to all employees, committees, records, systems, legal consultants, internal and external auditors, foreign branches, etc.

9 Authority & Responsibilities

9.1 Authority

- 9.1.1 The Committee has the specific responsibilities and authority relating to:
 - (a) recommending appointment, remuneration and termination of external auditors employed by the Bank, to the Board for endorsement and, approval by shareholders' General Assembly;
 - (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) Request the Board to summon for Shareholders' General Assembly to convene in the event when the Board has hindered the work of the Committee or when the Bank suffers damages or substantial losses;

Audit Committee Mandate

- (g) Discharge any responsibility delegated by the Board;
- (h) authority to engage advisors; and
- (i) funding as determined by the Committee, as described in more detail in this Mandate.

9.1.2 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.

9.1.3 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.

9.2 Principle Responsibilities

The main responsibilities of Audit Committee that are necessary to comply with the requirements of the Saudi Central Bank include:

- 9.2.1 Reviewing the Bank's financial statements, as well as the reports and notes submitted by the Auditor, and provide an opinion in their regard, if any
- 9.2.2 Monitoring and reviewing the effectiveness of the Internal audit activities.
- 9.2.3 Recommending to the Board on the appointment, remuneration, reappointment, termination and changing of the external auditors and their approval by shareholders' General Assembly.
- 9.2.4 Reviewing the external auditors' plan related to financial statements.
- 9.2.5 Reviewing related parties' transactions by obtaining a listing of all such transactions and reviewing their approvals and reasons thereto and ensuring that such transactions are recorded and disclosed appropriately.
- 9.2.6 Encouraging the continuous improvement of, and adherence to, the Bank's policies, procedures and practices at all levels.
- 9.2.7 Ensure that the joint audits are coordinated properly and that no major gaps in audit scope and procedures exist.
- 9.2.8 Define the objectives of Sharia Internal Audit function after consulting with the Sharia Committee, taking in consideration the International Standards for the Professional Practice of Internal Auditing (IIA standards).

9.3 Financial Statements Responsibilities

- 9.3.1 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.
- 9.3.2 Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.
- 9.3.3 Review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards.
- 9.3.4 Understand how management develops interim and annual financial information, and the nature and extent of automation and internal and external auditor involvement.

Audit Committee Mandate

- 9.3.5 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.
- 9.3.6 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.
- 9.3.7 Review all off-balance sheet activities for compliance with applicable accounting standards and legal disclosure rules.
- 9.3.8 Review for the approval of the Board reports to the shareholders' General Assembly in relation to the financial statements of the Bank, if required.
- 9.3.9 Review the status of tax and zakat liability and payments, etc.

9.4 Internal Controls Responsibilities

- 9.4.1 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. The Committee must be familiar with the requirements of SAMA's 'Internal Control Guidelines for Commercial Banks operating in Saudi Arabia' issued on 9 December 1989, Revision Committee Organizational Consultation Guide issued on 21 February 2009, and ensure that the Bank has taken these into consideration in developing and implementing its internal control systems.
- 9.4.2 Review, evaluate and approve systems of internal controls and meet with the 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.
- 9.4.3 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.
- 9.4.4 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.
- 9.4.5 Review the process relating to 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.

9.5 Internal Audit Responsibilities

- 9.5.1 Review, discuss and approve the selection, appointment, remuneration and termination where appropriate of the Chief Auditor.

Audit Committee Mandate

- 9.5.2 Approve the reporting lines of the Chief Auditor. The Chief Auditor will report functionally to the Committee and administratively to the Chief Executive Officer.
- 9.5.3 Review at least once per year, the performance of the Chief Auditor.
- 9.5.4 Review the independence of internal auditors from management.
- 9.5.5 Approve the Internal Audit Charter and Framework.
- 9.5.6 Review with management and the Chief Auditor the activities, staffing, and organizational structure of the internal audit function.
- 9.5.7 Approve the Annual Audit Plan and major changes thereto.
- 9.5.8 Review Internal Audit Reports and assess management's responsiveness to observations and recommendations.
- 9.5.9 Ask the Chief Auditor to perform Spot Check/Ad hoc as the Committee deems necessary.
- 9.5.10 Review and discuss the budget allocated to internal audit and agree to its inclusion in the overall annual budget of the Bank.
- 9.5.11 Ensure there are no unjustified restrictions or limitations on the Internal Audit function and obtain a written representation from the Chief Auditor in this regard.
- 9.5.12 Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing.
- 9.5.13 Review representations from the Chief Auditor on the adequacy of the Bank's systems of internal controls and the degree of compliance therewith.
- 9.5.14 On a regular basis, but at least once a year, the Committee shall have a private meeting with the Chief Auditor to discuss any matters that the Committee or internal audit believes should be discussed privately.
- 9.6 **External Audit Responsibilities**
 - 9.6.1 Review the external auditors' proposed audit scope and approach and coordination of the audit effort with internal audit.
 - 9.6.2 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.
 - 9.6.3 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.
 - 9.6.4 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.
 - 9.6.5 Meet, on quarterly basis, with the external auditors to discuss annual or quarterly financial statements of the Bank.
 - 9.6.6 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, comprising the information systems, business continuity management any difficulties the external auditors encountered including any restriction on its access to requested information and any disagreement or difficulties encountered with management.

Audit Committee Mandate

- 9.6.7 Ensure that the engagement partners of the external audit firms are rotated every three years.
- 9.6.8 Ensure that the aggregate external audit firms term does not exceed five consecutive years and their re-appointment is subject to lapse of two years from the date of expiration thereof.
- 9.6.9 Approve all non-audit services by the external auditors.
- 9.7 **Regulatory Compliance Responsibilities**
 - 9.7.1 Approve the reporting lines of the Head of Compliance. The Head of Compliance & AML will report functionally to the Committee and administratively to the Chief Executive Officer.
 - 9.7.2 Approve the appointment, replacement, reassignment or dismissal of the Head of Compliance & AML.
 - 9.7.3 Review at least once per year, the performance of the Head of Compliance & AML.
 - 9.7.4 Review the independence of Head of Compliance & AML from management.
 - 9.7.5 Review with management and the Head of Compliance & AML the activities, staffing, and organizational structure of the Compliance function.
 - 9.7.6 Review and discuss the budget allocated to compliance functions and agree to its inclusion in the overall Annual Budget of the Bank.
 - 9.7.7 Approve the Annual Compliance Programme and major changes thereto.
 - 9.7.8 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.
 - 9.7.9 Review the findings of any examinations by regulatory agencies, and any external audit observations.
 - 9.7.10 Review whether the Bank complies with all relevant laws, regulations, codes and business practices.
 - 9.7.11 Review and supervise the implementation, enforcement, and adherence to the Bank's Code of Conduct. Further, the Committee should be aware of any significant violations.
 - 9.7.12 Review the Money Laundering Reporting Officer reports in respect of compliance by the Bank with all applicable anti money laundering regulations.
 - 9.7.13 Review quarterly reports submitted by the Head of Compliance & AML 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.
 - 9.7.14 Review and assess results of Compliance Committee meetings, members' commitment to attend meetings and their effectiveness.
 - 9.7.15 On a regular basis, but at least once a year, the Committee shall have a private meeting with the Head of Compliance & AML to discuss any matters that the Committee or Head of Compliance & AML believes should be discussed privately.
 - 9.7.16 Obtain regular updates from management and the Bank's Legal Counsel regarding compliance with legal and regulatory issues.
 - 9.7.17 Review the status of all significant legal matters provided by the Legal Counsel of the Bank.
- 9.8 **Reporting Responsibilities**
 - 9.8.1 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

Audit Committee Mandate

management's preparation of the financial statements and the view of each as to the appropriateness of such judgments.

- 9.8.2 Review any other reports the Bank issues that relate to the Committee's responsibilities.
- 9.8.3 Prepare an annual report containing the Audit Committee's opinion on the adequacy of internal control system and any other matter falls within its responsibilities to present to the Shareholders' General Assembly according to the regulations derived by the Saudi Companies Law or any other regulations issued by legislators and best practices in this regard. This report shall be:
 - o Read during the Shareholders' meeting; and
 - o Filed with the Ministry of Commerce within 30 days following approval of the report by the Shareholders' General Assembly.

9.9 Complaints / Whistle-Blowing Responsibilities

Ensure that the Bank has an adequate whistle-blowing programme and review the procedures for the receipt, retention, and treatment of complaints and/or cases 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.

9.10 Other Responsibilities

- 9.10.1 Regularly monitor the information needs of the Board to perform its responsibilities.
- 9.10.2 Perform other activities related to this Mandate as requested by the Board.
- 9.10.3 Acting as mediator between the management and external auditors.

10 Report to the Board

- 10.1 The Committee Chairman, 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 9 of this Mandate.
- 10.2 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.
- 10.3 The Committee will review for approval by the Board any report on the matters set out in Section 9 that may be:
 - (a) Review/approve policies as delegated by the Board;
 - (b) Required by any legislation, regulatory body or other regulatory requirement, or
 - (c) Proposed for inclusion in the annual report.
- 10.4 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.
- 10.5 Each member of the Committee should confirm his independence on annual basis by signing off a declaration.