**Audit Committee Charter for Bank ABC**

**Date Approved by the Board: DD/MM/YYYY**

A. Introduction

Following is a summary of Bank ABC’s key Audit Committee (‘Committee’) provisions, organized by:

* Roles & Responsibilities of the Committee
* Composition of the Committee
* Working Procedures of the Committee
* Other Practices

The provisions of this Audit Committee Charter are binding on Bank ABC and based on the requirements contained in Capital Markets Authority (CMA), and Central Bank guidelines and regulations, and the articles of association of the Bank ABC.

B. Roles & Responsibilities of the Committee

**B1**. **General Roles and Responsibilities of the Committee.** The role of the Committee is to assist the board in overseeing the bank's financial controls with particular emphasis on: (1) the integrity of internal controls and financial reporting; (2) the qualification and independence of the bank's external auditor; and (3) the performance of the bank's internal audit function and of its external auditor.

In order to fulfill its role, the Committee shall have the following authorities and responsibilities:

* Review Internal Control systems of the bank.
* Reviewing the reports of the internal auditor, including financial and non-financial issues, remedial procedures and means of controlling the risks faced by the bank.
* Reviewing accuracy of financial statements provided to the board, shareholders and other users.
* Reviewing bank’s annual and semi-annual financial statements and other financial information provided to the board and shareholders.
* Reviewing external auditing plan and verifying that plan includes all activities of the bank.
* Ensuing the accuracy and integrity of accounting and compliance with laws and regulations applicable to the activities of the bank.
* Developing disclosure and transparency standards and submitting them to the board for approval.
* Coordinating with Risk Management Committee to demonstrate the financial status and performance of the bank.
* Studying the financial system employed at the bank and making recommendations to improve it and guarantee that they fairly represent the situation and that no false data are reported.
* Putting in place a system that allows employees to report secretly on fears of potential violations and in a manner that makes it possible to investigate them independently and follow them up without supervisors penalizing them or colleagues looking down at them. The audit committee shall monitor the implementation of these procedures.
* Acting as a liaison between the board of directors and the external auditor, the board of directors and the internal auditor and between the internal and external auditors.
* Following up on the bank’s adherence to its code of professional behavior.
* Informing the board of directors of issues that require its immediate intervention and offering recommendations on the appropriate remedial steps.
* The audit committee shall submit reports to the board of directors on all matters that fall within its scope of work thereby enabling it to carry out its function of monitoring the management of the bank and submitting to shareholders and investors factual and documented information.

Perform any other activities relevant to this charter, at the request of the board or as required by the Bank ABC’s corporate governance code.

**B2. Specific Responsibilities: External Audit Function.** The audit committee shall oversee the work of the bank's external auditor. The prerequisites and roles and responsibilities of the external auditor are included as Annex A to this charter. The responsibilities of the committee include:

* Reviewing the preparation and execution of the auditor’s annual program of work for the bank;
* Review the terms of reference of the external auditor and report to the board and the annual general assembly the Committee's recommendations with respect to the audit engagement fees and the overall terms of service to be provided by the Independent external auditor;
* Review, on an annual basis, a report of the external auditor describing in detail any relationships the external auditor has with the bank, its management, its shareholders or any of their affiliates that may adversely affect such auditors' independence;
* Review, on an annual basis, a report of the external auditor describing external auditor’s quality control procedures and practices, any material issues raised by its most recent quality control review or peer review, and any inquiry or investigation by governmental authorities or professional standards boards regarding any audits conducted by such auditors in the past five years, together with all steps taken to address such issues;
* Review the terms of all non-audit services proposed by bank management to be performed by the external auditor, assess such services in accordance with the bank’s policy regarding independent external auditor and report to the board the Committee's opinion as to whether or not the bank should engage the external auditor to perform such services;
* Evaluate, on an annual basis, the qualification, independence, and performance of the external auditor and report to the board and the annual general assembly meeting the Committee's opinion with respect to the adequacy of its performance and independence. Such report shall include the Committee's recommendation on the reappointment or termination of the external auditor and, if required, such firm's replacement. The committee report shall be submitted to the general assembly.
* Review, on an annual basis, the bank's policies on the selection of external auditor and its policy on rotation of its external auditor and audit partners, and report to the board the Committee's recommendations for any modification of such policies; and
* Review annually with bank management, the external auditor, and the internal auditing and financial control department:
	+ Significant financial reporting issues and judgments identified and made in connection with the preparation of the bank's financial statements;
	+ Major issues regarding the bank's accounting and auditing principles and practices, including key accounting policies, and major changes in auditing and accounting principles and practices suggested by the external auditor, the bank’s internal auditing and financial control departments or bank management;
	+ Any audit problems or difficulties encountered and raised by the external auditor in the course of its work for the bank, including any restrictions on the scope of such activities or on access to personnel or information, and disagreements with bank management or members of its internal auditing and financial control departments; and
	+ Principles of accounting proposed or adopted by regulators or accounting authorities and brought to the attention of the external auditor, bank management, the bank’s internal auditing or financial control departments or the board.

**B3. Specific Responsibility: Internal Controls and Internal Audit Function**

 The audit committee shall:

* Review with the bank’s chief financial officer (CFO), its internal auditing and financial control departments and any other interested parties, the quality and adequacy of the bank’s internal controls,
* Review with the bank's internal auditor the preparation, execution and results of the bank's annual internal audit work program, as well as any activities undertaken outside such annual program; and
* Review with the bank’s internal auditor and report to the board on the adequacy of structure, responsibilities, staffing, resources and functioning of the bank's internal auditing department, such review will include an annual evaluation of the performance and qualifications of the head of the department.
* Evaluating the performance of the financial manager and his staff.

**B4. Specific Responsibility: Financial Reporting.** The audit committee shall:

* Assess the impact of any complex or unusual transactions, such as restructuring charges and derivative disclosures, on the bank’s financial statements;
* Consider and judgments made in preparing the bank’s financial statements, including any valuation of assets and liabilities; warranty, product or environmental liability; litigation reserves; and other commitments and contingencies;
* Assess the fairness of the preliminary and interim statements and disclosures, obtain explanations from bank management, the external auditor and the internal audit department on whether:
	+ Actual financial results for the interim period varied significantly from budgeted or projected results;
	+ Changes in financial ratios and relationships in the interim financial statements are consistent with changes in the bank’s operations and financing practices;
	+ International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) have been consistently applied; and
	+ The preliminary announcements and interim financial statements contain adequate and appropriate disclosure.

C. Composition of the Committee

**C1. Composition.** The Committee shall consist of at least three board members who shall be appointed by the board. At least one member must be an expert in the financial and accounting fields and be able to assess risks that face the bank. All members of the Committee shall be directors chosen for their competence and experience. The majority shall be independent directors, including the Committee chairman. The Directors of the Board shall elect the Chairman of the Committee.

Each year, the board shall reconfirm the members of the Committee, and make any additions or changes necessary. A Committee member may serve an unlimited amount of time.

D. Working Procedures of the Committee

## D1. Frequency. The Committee shall meet as often as necessary, but not less than four times a year. If possible, meetings shall be scheduled in advance according to an annual calendar and adjusted as needed to reflect issues or topics that arise during the year and require Committee attention.

**D2. Notice and Agenda.** Meetings of the Committee are called by the Chairman of the Committee. Except in urgent cases, as determined by the Chairman, the agenda and related documentation for a meeting shall be sent to all members at least three to five days before the meeting.

**D3. Meeting Material**. All Committee members are provided with a concise, but comprehensive set of information by the company secretary in a timely manner, as much in advance as possible (target three to five days in advance). This includes: an agenda; minutes of the prior committee meeting; issue papers to be discussed, and other reports prepared by management. Issue papers should be clear, succinct, insightful, and include recommendations for action based on proper analysis.

**D4. Venue.** The Committee meetings are generally held at the offices of the bank but may also take place elsewhere. In addition, meetings of the committee may be held by conference call, video conference or by any other means of communication, provided all participants can communicate with each other simultaneously.

## D5. Attendance of and Admittance to Meetings: A Committee member may be represented at meetings by another committee member holding a proxy in writing. Non-Committee members (other board members, executives, or other outside individuals) may attend Committee meetings at the permission of the Committee Chairman.

**D6. Quorum and Voting.** A majority of members (personally or by proxy) shall constitute a quorum. Each member of the committee shall have one vote. A simple majority of Committee members in agreement can result in actions directed by the Committee. All resolutions of the board are adopted by a majority of the votes cast. In the event of a tie, the Chairman of the Committee has the deciding vote.

**D7. Minutes.** Minutes must be drawn up for every Committee meeting and for every resolution adopted outside a meeting. The minutes approved by the Chairman and one other member and then added to the bank’s records and circulated in the next meeting. Each member of the Committee shall receive a copy of the minutes.

**D8. Support to the Committee.** In carrying out the activities of the committee, including providing information, preparing an agenda, reporting of meetings, yearly board evaluations and training programs, it may be supported by the company secretary or another competent person as determined by the committee.

E. Other Practices

**E1. Access to Independent Advisors.** The Committee shall have the right at any time to retain independent advisors, and the Bank shall provide appropriate funding, as determined by the committee, to compensate such independent outside advisors, as well as to cover the ordinary administrative expenses incurred by the committee in carrying out their duties.

**E2. Reporting by the Committee.** The chairman of the committee shall report to the Board at the Board meeting following each Committee meeting on matters discussed in the meetings. The Committee shall present to the board a brief annual report of its own work. In this context, the Committee shall review annually the adequacy of this charter and recommend any changes that it deems appropriate to the board for approval. The Committee shall have oversight to perform a review and assess (at least annually) the adequacy of this Charter and any improvements to this Charter that the Committee considers necessary or valuable. The Committee shall also prepare a Corporate Governance Report for Bank ABC to include in the Annual Report.

**E3. Disclosure.** The annual report of Bank ABC shall include a report of the Audit committee summarizing the role of the committee and description of its duties and activities during the year. It shall also include the names and qualifications of the committee members and meeting frequency.

**E4. Amendment.** This charter will come into force upon its adoption by the board of directors, except where expressly mentioned otherwise. It can be amended at any time by a decision of the board of directors.

Annex A

**1. External Auditor.** The prerequisites of the external auditor are:

* To hold the professional license issued by the competent relevant official and professional bodies;
* To be listed in the roster of external auditors approved by the Central Bank. The Central Bank will be annually informed of the auditor in charge or to obtain a prior consent by the Central Bank in case of being not listed in the roster of auditors approved by the Central Bank;
* The auditor’s office or its employees should not have been granted any direct or indirect credit facilities from the bank by means of personal guarantee, whether for themselves, their spouses, minors or any entity in which they, severally or jointly, are holding 5% or more of its equity or being members in its board. Subject to the approval of Central Bank, any of the aforementioned persons may obtain facilities under guarantees other than the personal one;
* Not to have direct or indirect interest with the bank or its affiliates.
* Not to be hired as a manager, associate or employee by the bank or its affiliates.

**2. Term**. The external auditor shall be selected by the general assembly upon the recommendation of the board. To ensure objectivity, the external auditor is required to rotate its lead audit partner after three years. The external auditor is replaced at least every five years.

**3. Disallowing a change in the external auditor.** Bank is not allowed to change their external auditor during the fiscal year that he is auditing except in case of death, a decision to this effect from the professional audit association or when a punitive sentence is issued against him.

**4. Authorities and responsibilities of the external auditor.**

* The external auditor shall review the bank’s activities and ensure that its budget and accounts are organized in a way that clearly depicts the bank’s true picture. He has the right to have access to the bank’s records, accounts, documents and treasury; he can also request information from the board of directors that will help him carry out his duties and the board shall place under his disposition all which would facilitate his task. He may also meet with the manager of the internal audit directorate and the audit committee.
* The external auditor shall prepare a detailed written report on the bank’s status and its financial situation, in which:
	+ The budget, profit and loss statements that are presented to the general assembly are in conformity with the laws, bank’s records and its financial situation.
	+ He suggests either the approval of the annual budget as is or approval with specific reservations or returning it to the board of directors.
	+ The stand taken by members of the board of directors and the bank’s senior managers with regard to providing him with all the requested information in order to carry out his duties and to enable him to execute material investigations on all the issues that required study.
* The auditor shall adhere to the rules and regulations that govern the auditing profession in Country ABC. He should also abide by the profession’s practices and manners. He should attend the general assembly to inform shareholders of his observations on the efficiency and adequacy of the bank’s internal audit system, the bank’s adherence to the code of governance and to the rules of this code, and to address shareholders’ inquiries regarding his report.
* If the external auditor discovers infractions against the law or infractions against the bank’s bylaws, he must report them in writing to the chairman of the board and to the Companies’ Controller; in serious cases, he should report them to the Authority.

**5. Prohibited actions by the external auditor**

 As the external auditor carries out his duties, he is barred from doing the following acts:

* Divulge confidential information that he received by virtue of his job as an auditor unless he is so required by law in which case the confidential information will be deposited with the appropriate authorities.
* Express an opinion that falsifies the facts shown in the bank’s files, records and financial data; signing on reports that he has not audited or that one of his subordinates did not audit.
* Certifying and signing on the accuracy of the budgets and end-of-year financial statement when in fact they do not represent the true financial situation of the entity which he was commissioned to audit.
* Reporting falsely on any report, accounts or documents that he prepared in the context of practicing his profession.
* Producing fraudulent reports or sanctioning untruthful statements in any document that must be issued by law or in accordance with the standards and practices of the profession.
* Consenting to the distribution of bogus or unreal profits.

**6. Responsibility of the external auditor:** In order to ensure that the external auditor will undertake his duties in the best way possible, the law specifies many penalties under different conditions.