



AL RAYAN BANK

Al Rayan Bank PLC
("Company" or "Bank")

Board Audit Committee

Terms of Reference

Effective 12 July 2021

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Audit Committee

Terms of Reference

1. Purpose

Without prejudice to its detailed responsibilities set out at section 11 of these terms of reference, the Audit Committee (the “**Committee**”) has purely advisory and specifically non-executive responsibility to:

- review the integrity of the financial reporting for the Bank (including Pillar 3 disclosures);
- oversee the effectiveness of the internal financial control systems;
- oversee the work of the Internal Auditor (as defined below) and the External Auditor;
- ensure the independence of the Internal Auditor and the External Auditor;
- make recommendations to the Board on the appointment of the External Auditor; and
- help the Chair of the Committee fulfil his or her Senior Management Function and Prescribed Responsibilities.

2. Membership and attendance

2.1 The Committee shall have at least three (3) members.

2.2 The Board, in conjunction with the Chair of the Committee, where necessary, shall provide guidance to the Committee as to its membership.

2.3 Members of the Committee shall be appointed by the Board, on the recommendation of the Remuneration & Nomination Committee in consultation with the Chair of the Committee. The Board shall review the membership of the Committee on at least an annual basis.

2.4 All members of the Committee shall be Non-Executive Directors. A majority of the members shall be independent Non-Executive Directors. Across its members as a whole, the Committee shall have a balance of relevant skills and experience in accounting and/or auditing matters.

2.5 The Chair of the Committee must be an Independent Non-Executive Director.

2.6 The Chair of the Board will not chair or be a member of the Committee except in exceptional circumstances e.g. where no other Non-Executive Director is available to take on the role as a result of absence due to illness or a vacancy on the Board and provided further that the Chair of the Board shall only be the chair or a member of the Committee on a temporary basis until a suitable other chair or member (as the case may be) is appointed.

2.7 Save as set out in the provisos to this paragraph, appointments to the Committee shall be for a period of up to three years, which may be extended for two further periods of up to three years (i.e. a maximum of nine years from the date of first appointment).

The provisos are that: (a) the member still meets the other criteria for membership of the Committee and (b) there will be no specific limit on the term of appointment of Shareholder Non-executive Directors, but their appointments will be reviewed regularly by Masraf Al Rayan (MAR).

2.8 Only members of the Committee have the automatic right to attend Committee meetings.

The External Auditor and the Head of Internal Audit (whether in-house, outsourced or a combination of the two, the “**Internal Auditor**”) will be invited to attend meetings of the Committee on a regular basis with the agreement of the Chair of the Committee.

Other individuals may be invited to attend all or part of any meeting as and when deemed appropriate or necessary by the Chair of the Committee.

- 2.9 The Board shall appoint the Chair of the Committee (who shall be an independent Non-Executive Director, as above).

In the absence of the Chair of the Committee or an appointed deputy (who must also be an independent Non-Executive Director) at any meeting of the Committee: (a) the Senior Independent Director (if a member of the Committee) shall act as the Chair for that meeting, (b) in the absence of the Senior Independent Director, the remaining members present shall elect a Chair from among themselves for that meeting and (c) if there is only one remaining member, the meeting shall be postponed until a quorum for the meeting is possible.

3. Secretary

The Company Secretary or, in his or her absence or unavailability, an alternate appointed by the Chair of the Committee, shall act as the secretary of the Committee.

4. Quorum and voting

- 4.1 The quorum necessary for the transaction of business shall be two (2) members.

- 4.2 All members have one vote. Questions for or decisions by the Committee will be decided by a majority of votes (save that written resolutions shall require unanimity, as set out below). In the event of a tied vote, the Chair of the Committee will have a second or casting vote.

5. Frequency of meetings

- 5.1 The Committee shall meet at least four (4) times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 5.2 The Committee should at least annually meet the External Auditor and the Internal Auditor without the Executive management team to discuss matters relating to the Committee's remit and any issues arising from an audit by the External Auditor or the Internal Auditor.
- 5.3 Outside of the formal meeting programme and subject to the provisos below, the Chair of the Committee (and to a lesser extent the other Committee members) shall maintain a dialogue with key individuals involved in the Bank's governance. Such key individuals may include the Chair of the Board, the Chief Executive, the Chief Financial Officer, the Chief Risk Officer, the External Auditor and the Internal Auditor. Direct dialogue with key individuals outside of the Executive team or audit functions is not encouraged.

The provisos are that (a) such dialogue or interactions do not in any way compromise the independence of the Chair of the Committee or other members of the Committee, (b) the individual Committee member provides to the Committee at the next occurring meeting of the Committee (or sooner if the individual Committee member deems it necessary and appropriate) a summary or outline of the matters in the engagement that are relevant to the Committee, including in respect of the topic and outcome of such interactions (provided that such Committee member shall be obliged to provide the other Committee members with such further details as they may reasonably request), and (c) all decisions of the Committee are made at formal meetings of the Committee duly convened and held in accordance with these terms of reference.

6. Notice of meetings and meeting packs

- 6.1 Meetings of the Committee shall be convened by the secretary of the Committee at the request of (a) the Chair of the Committee, (b) any other members if they consider it necessary, provided they do so after consultation with the Chair of the Committee wherever possible or (c) the External Auditor or Internal Auditor if they consider it necessary, provided they do so after consultation with the Chair of the Committee wherever possible.

6.2 Unless otherwise agreed by the Committee, at least five working days before the date of the meeting (so that there will be a minimum of seven calendar days between the date of receipt of the notice and the date of the Committee meeting):

- notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other person required or requested to attend;
- supporting papers shall be sent to Committee members; and
- other attendees will receive such papers as are appropriate to them or for them, depending on the identity of those attendees and the contents of those papers.

6.3 The Chair of the Committee will be responsible for coordinating with the appropriate members of the Executive Team and the secretary of the Committee to ensure that the Committee's packs are distributed to Committee members and to other attendees of the Committee meeting, as appropriate, as far in advance of the meeting as is reasonably practicable, and in any event within the timeframes set out in paragraph 6.2 above.

All information contained in the packs distributed to Committee members shall be appropriate, focused and accurate, which shall be the responsibility of the person producing the information for the Committee.

The contents of the reports, information and supporting papers must:

- be provided in a format which ensures that members of the Committee and attendees at any meeting of the Committee are able easily to locate, digest and act on relevant information;
- enable the Committee to make informed decisions;
- include standing agenda items, being Previous Minutes, Review of Action Items and other management information relevant to the duties of the Committee;
- clearly distinguish between items for review and items for the Committee's decision; and
- where appropriate, contain an Executive Summary and Recommendation.

The Chair of the Committee will periodically reconfirm the standing requirements with the Committee members and ensure that there is regular feedback with respect to the quality and adequacy of information provided.

The Committee must ensure that: (a) the Board is kept fully informed of all matters within the remit of the Committee and (b) each of the Directors has all relevant information regarding any such matter for consideration by the Board.

Without prejudice to that key obligation and given: (a) the multiple governance processes that can apply to a matter before it reaches the Board and (b) the membership of the Board and its committees, the Committee shall also seek to avoid any unnecessary or excessive duplication of information prepared for the Board.

7. Minutes of meetings

7.1 The secretary of the Committee shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.

7.2 Draft minutes of Committee meetings shall first be agreed with the Chair of the Committee. The minutes shall then be circulated promptly to all other members of the Board unless it would be inappropriate to do so in the opinion of the Chair of the Committee.

7.3 Final signed copies of the minutes of the meetings of the Committee should be maintained for the Bank's records, in hard and soft copy where possible.

8. Remote/virtual attendance

The members of the Committee shall be deemed to meet together if they are in separate locations but are linked by conference telephone or other communication equipment which allows those participating to hear and speak to each other.

9. Written resolutions and resolutions consented to by Electronic Means

Decisions can be made by a written resolution signed by all Committee members.

Written resolutions avoid the need to convene a meeting and may involve no collective discussion of the item involved (other than informally).

Once signed by all Committee members, a written resolution has the same force as a resolution passed at a meeting of the Committee.

The requirement for any resolution or other approval (or counterpart of such resolution or approval) to be in writing and signed by a member of the Committee will be satisfied by the member communicating consent to such resolution or other approval by electronic means, which consent must be sent to the address specified from time to time by the secretary of the Committee. For the avoidance of doubt, silence does not qualify as consent. If a member fails to reply within the time period specified by the secretary of the Committee, their response shall be counted as an objection to the resolution.

The Chair of the Committee should be mindful of the complexity or sensitivity of any matter to be decided by written resolution. In the event that the matter becomes complicated or protracted, the Chair should consider whether there is a need to call an ad-hoc meeting to discuss and approve the matter.

10. Annual general meeting

The Chair of the Committee will attend the annual general meeting of the Company to answer shareholder questions on the Committee's activities or nominate an appropriate alternative to appear on his or her behalf.

11. Duties

11.1 Financial reporting

- (a) The Committee shall review the integrity of the financial statements of the Bank, Pillar 3 disclosures and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the External Auditor. Periodically or when deemed necessary by the Chair of the Committee, the Committee shall also review significant financial returns to regulators.
- (b) The Committee shall assist the Board by reviewing and, when appropriate, recommending to the Board the approval of any financial statements, regulatory reports, Pillar 3 disclosure and any other relevant documents requiring Board approval.
- (c) In particular, the Committee shall review and challenge, where necessary:
 - (i) the application of significant accounting policies, including Pillar 3 disclosure policies and practices, and any changes to them;
 - (ii) the method used to account for significant or unusual transactions where different approaches are possible;
 - (iii) whether the Bank has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the External Auditor on the financial statements; and
 - (iv) all material information presented with the financial statements, including the strategic report.
- (d) Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Bank, it shall report its views to the Board.

11.2 Narrative reporting

Where requested by the Board, the Committee shall review the content of the annual report and accounts and subsequently advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides

the information necessary for shareholders of the Bank to assess the Bank's performance, business model and strategy.

11.3 Internal controls and Risk Management Systems

The Committee shall:

- (a) monitor and keep under review the effectiveness of the Bank's internal financial controls and internal control systems; and
- (b) review the statements to be included in the Bank's annual report and accounts concerning internal controls, risk management and the viability statement.

11.4 Tax Management

The Committee shall:

- (a) review the Bank's Tax Strategy and Policy and recommend them to the Board for approval; and
- (b) review tax compliance and tax planning initiatives of the Bank.

11.5 Whistleblowing

The Chair of the Committee has oversight of the Whistleblowing Policy and procedures and is the Whistleblowers' Champion for the Bank.

The Chair of the Committee shall review the adequacy and security of the Bank's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

The Chair of the Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

The Chair of the Committee shall ensure that instances of whistleblowing are kept to himself/herself as the Whistleblowers' Champion only in the first instance, to ensure confidentiality, and reduce the risk of the individual(s) involved in the whistleblowing event being involved in the investigation. Only when and where strictly necessary for the purposes of investigation and follow-up, the Chair of the Committee as the Whistleblowers' Champion may involve other relevant employees of the Bank.

11.6 Internal Audit

The Committee shall:

- (a) as far as the Bank uses an outsourced Internal Auditor, approve the appointment or termination of appointment of the Internal Auditor (which, for the avoidance of doubt, can be in-house, outsourced or co-sourced);
- (b) review and approve the role and mandate of the Internal Auditor, monitor and review the effectiveness of its work, and, unless the function is fully outsourced, annually approve the Internal Audit Charter ensuring it is appropriate for the current needs of the Bank;
- (c) review and approve the annual Internal Audit work plan (usually prepared by an in-house or outsourced internal audit function as a work programme for the year) to ensure it provides coverage of the key risks of the business, and receive regular reports on work carried out;
- (d) ensure Internal Audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan, and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;

- (e) ensure the Internal Auditor has direct access to the Board Chair and to the Chair of the Committee, providing independence from the executive and accountability to the Committee;
- (f) carry out an annual assessment of the effectiveness of the Internal Audit function; and as part of this assessment:
 - (i) meet with the Internal Auditor without the presence of management to discuss the effectiveness of the function;
 - (ii) review and assess the annual Internal Audit work plan;
 - (iii) receive a report on the results of the Internal Auditor's work;
 - (iv) determine whether it is satisfied that the quality, experience and expertise of Internal Audit is appropriate for the business; and
 - (v) review the actions taken by management to implement the recommendations of Internal Audit and to support the effective working of the Internal Audit function;
- (g) monitor and assess the role and effectiveness of the Internal Audit function in the overall context of the Bank's risk management system and the work of compliance, finance and the External Auditor;
- (h) consider whether an independent, third party review of processes is appropriate; and
- (i) have the authority to agree extensions to Audit Issue dates requested by Executive Management.

11.7 External Audit

The Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders of the Bank for approval at the annual general meeting of the Bank, in relation to the appointment, re-appointment and removal of the Bank's External Auditor;
- (b) ensure that at least once every 5 years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent External Auditor with those of other audit firms, and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- (c) if an External Auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (d) oversee the relationship with the External Auditor. In this context, the Committee shall:
 - (i) approve their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted; and
 - (ii) approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- (e) assess annually the External Auditor's independence and objectivity taking into account relevant UK law, regulation, the Ethical Standard as published by the Financial Reporting Council (the "**Ethical Standard**"), other professional requirements and the Bank's relationship with the External Auditor as a whole, including any threats to the External Auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;
- (f) satisfy itself that there are no relationships (such as family, employment, investment, financial or business) between the External Auditor and the Bank (other than in the ordinary course of business) which could adversely affect the External Auditor's independence and objectivity;

- (g) agree with the Board a policy on the employment of former employees of the Bank's External Auditor, taking into account the Ethical Standard and legal requirements, and monitor the application of this policy;
- (h) monitor the External Auditor's processes for maintaining independence, its compliance with relevant UK law, regulation and other professional requirements and the Ethical Standard, including the guidance on the rotation of audit partner and staff;
- (i) monitor the level of fees paid by the Bank to the External Auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard;
- (j) assess annually the qualifications, expertise and resources, and independence of the External Auditor and the effectiveness of the audit process, which shall include a report from the External Auditor on their own internal quality procedures;
- (k) seek to ensure co-ordination with the activities of the internal audit function;
- (l) evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the External Auditor's communications with the Committee;
- (m) develop and recommend to the Board the Bank's formal policy on the provision of non-audit services by the External Auditor, including approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
 - (i) threats to the independence and objectivity of the External Auditor and any safeguards in place;
 - (ii) the nature of the non-audit services;
 - (iii) whether the external audit firm is the most suitable supplier of non-audit services;
 - (iv) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - (v) the criteria governing compensation;
- (n) meet regularly with the External Auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and, at least once a year, meet without management being present to discuss the External Auditor's remit and any issues arising from the audit;
- (o) discuss with the External Auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring that it is consistent with the scope of the audit engagement, having regard to seniority, expertise and experience of the audit team;
- (p) review the findings of the audit with the External Auditor. This shall include but not be limited to, the following:
 - (i) a discussion of any major issues which arose during the audit;
 - (ii) the External Auditor's explanation of how risks to audit quality were addressed;
 - (iii) key accounting and audit judgments;
 - (iv) the External Auditor's view of their interaction with senior management; and
 - (v) levels of errors identified during the audit;
- (q) review any representation letter(s) requested by the External Auditor before they are signed by management;

- (r) review the management letter and management's response to the External Auditor's findings and recommendations; and
- (s) review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the External Auditor, and the External Auditor's response to questions from the Committee.

12. Reporting responsibilities

12.1 The Chair of the Committee shall report formally to the next occurring full Board meeting after each Committee meeting on all matters within the duties and responsibilities of the Committee and shall also formally report to the Board on how the Committee has discharged its responsibilities. The report shall include:

- (a) the significant issues that it considered in relation to the financial statements (required under paragraph 11.1(a)) and how these were addressed;
- (b) its assessment of the effectiveness of the external audit process (required under paragraph 11.7.(j)), the approach taken to the appointment or reappointment of the External Auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plan; and
- (c) any other issues on which the Board has requested the Committee's opinion.

12.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

12.3 In its report referred to in paragraph 12.1, the Committee should exercise judgment in deciding which of the issues it considers in relation to the financial statements are significant but should include at least those matters that have informed the Board's assessment of whether the Bank is a going concern and the inputs to the Board's viability statement.

13. Other matters

The Committee shall:

- have access to sufficient resources in order to carry out its duties, including access to the secretary of the Committee for assistance as required;
- be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- give due consideration to laws and regulations;
- be responsible for co-ordination of the Internal and External Auditors;
- oversee any investigation of activities which are within its terms of reference;
- establish regular communication channels between the Chair of the Committee and the Chair of MAR's Audit Committee, to enable the Chairs of such committees to share ideas and information and to enable MAR and the Bank to fulfil their respective statutory and regulatory obligations effectively; and
- work and liaise as necessary with other Board committees.

14. Authority

The Committee may:

- seek any information it requires from any employee or director of the Bank in order to perform its duties;
- obtain, at the Bank's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so; and
- request the attendance of any employee at a meeting of the Committee as and when required.

15. Review

The Committee shall:

- arrange for annual reviews of its own performance and the performance of its members.
- at least annually review its constitution and terms of reference to ensure it is operating at maximum

effectiveness.

- recommend to the Board any changes it considers necessary to these terms of reference.

16. Version history

Version	Date Updated	Author / Reviewing Party	Date Reviewed	Comment
1.	1 Feb 2019	Company Secretary	4 Dec 2018	Approved by the Board 1 February 2019
2.	30 June 2021	General Counsel	19 May 2021	Approved by the Board on 12 July 2021