



Bahrain Middle East Bank B.S.C.
Charter of the Audit Committee of the Board

AUDIT COMMITTEE CHARTER

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AUDIT COMMITTEE CHARTER

1. INTRODUCTION

The Board of Directors (the "Board") of Bahrain Middle East Bank B.S.C. (the "Bank") have established an Audit Committee ("AC" or the "Committee") to assist the Board in fulfilling its oversight responsibilities related to financial audit and reporting, internal control and compliance with laws and regulations.

AC is mandated to perform, among others, the following duties:

- a) Review Bank's accounting and financial policies and practices;
- b) Review integrity of Bank's financial and internal controls and financial statements;
- c) Review Bank's compliance with legal and regulatory requirements and Bank's code of conduct;
- d) Recommend appointment, compensation and oversight of Bank's External Auditor; and
- e) Recommend appointment of Bank's Internal Auditor.

2. PURPOSE

Purpose of this Charter is to lay down the structure, duties, authorities and other matters related to Bank's Audit Committee.

3. COMMITTEE MEMBERSHIP, QUALIFICATION AND TERM

The Board shall appoint AC members.

AC shall consist of at least three directors of which the majority must be independent, including the Chairman.

The CEO must not be a member of the AC.

AC members should not have any conflict of interest with any other duties they have for the Bank.

A majority of AC members must have sufficient financial literacy qualifications and technical expertise to enable AC to perform its functions effectively. Technical expertise means that members must have recent and relevant financial ability and experience, which includes:

- a) Ability to read and understand corporate financial statements including Bank's balance sheet, income statement and cash flow statement and changes in shareholders' equity;
- b) Understanding of the accounting principles which are applicable to Bank's financial statements;
- c) Experience in evaluating financial statements that have a level of accounting complexity comparable to that which can be expected in Bank's business;
- d) Understanding of internal controls and procedures for financial reporting; and
- e) Understanding of the committee's controls and procedures for financial reporting.

The Committee members shall serve for a one-year term, renewable annually at the discretion of the Board.

4. STRUCTURE AND OPERATIONS

The Committee shall elect a Chairman and a Vice-Chairman from among its members.

AC shall meet at least four times in a year. Its meetings may be scheduled in conjunction with regularly scheduled meetings of the Board. AC meetings may be conducted in person or via teleconferencing.

AC quorum will consist of attendance by at least two members, one of whom must be regularly elected Chairman or Vice Chairman.

The CEO or his representative shall attend the AC meetings on invitation. The Head of the Internal Audit department should attend regular AC meetings.

4. STRUCTURE AND OPERATIONS (continued)

The Committee may meet without any other director or any officer of the Bank. Only the Committee may decide if a non-member of the Committee should attend a particular meeting or a particular agenda item. Non-members who are not directors of the Bank may attend to provide their expertise, but may not vote.

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AC must meet with the external auditor at least twice per year, and at least once per year in the absence of any member of the Bank's executive management. The external auditor's lead representative shall be invited to attend regular meetings, subject to the Committee's decision.

AC decisions will be made by simple majority of the members present. In the case of a tied vote, the Chairman (or in his absence the Vice Chairman) will have the casting vote.

The AC shall maintain written minutes of its meetings and report regularly to the full Board on its activities.

5. AUTHORITY, RESOURCES AND ACCESS

To effectively perform its assigned duties and responsibilities, the Committee:

- a) Shall have authority to conduct or authorise investigations into any matters within its scope of responsibility;
- b) Shall have necessary authority to select, retain, terminate and approve the fee of outside legal, accounting or other advisors as it deems necessary or appropriate, without seeking the approval of the Board or Management. The Bank shall provide appropriate funding for the compensation of any such outside advisors;
- c) Shall have authority to resolve any disagreements between management and the auditors;
- d) Shall pre-approve all auditing and non-audit services to be performed by external auditors;
- e) Meet and seek any information it requires from any Bank employee (and all employees are directed to co-operate with AC's requests) and external parties; and
- f) Shall have access to Bank's internal or external reports, records and information, including minutes of management meetings etc.

6. DUTIES AND RESPONSIBILITIES

The committee shall have following duties and responsibilities:

Financial Statements

- a) 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.
- b) Review with management and the external auditors the results of the audit, including any difficulties encountered.
- c) Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
- d) Review and discuss possible improprieties in financial reporting or other matters, and ensure that arrangements are in place for independent investigation and follow-up regarding such matters
- e) Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.
- f) Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing Standards.
- g) Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
- h) Review interim financial reports with management and the external auditors before filing with regulators, and consider whether they are complete and consistent with the information known to committee members.

Internal Control

- a) Consider the effectiveness of Bank's internal control system, including information technology security and control.
- b) Review the systems and controls framework of the Bank. In this regard, AC must:
 - i. Make effective use of the work of external and internal auditors.
 - ii. Ensure integrity of Bank's accounting and financial reporting systems through regular independent review (by internal and external audit). Audit findings must be used as an independent check on

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- the information received from management about Bank's operations and performance and the effectiveness of internal controls
- iii. Make use of self-assessments, stress/scenario tests, and/or independent judgements made by external advisors.
 - iv. Ensure that senior management have put in place appropriate systems of control for the business of the Bank and the information needs of the Board; in particular, there must be appropriate systems and functions for identifying as well as for monitoring risk, the financial position of the Bank, and compliance with applicable laws, regulations and best practice standards. The systems must produce information on a timely basis.
- c) Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
 - d) Approve deviations from the Bank's policies impacting the internal control framework. However, if the Committee deems any matter to be of significant risk it will recommend the same for Board approval.

Internal Audit

- a) Approve the internal audit charter.
- b) Approve decisions regarding the selection, appointment, replacement and removal of the Head of Internal Audit
- c) Approve annual audit plan and all major changes to the plan. Review the internal audit activity's performance relative to its plan.
- d) Review with the Head of Internal Audit the internal audit budget, resource plan, activities, and organizational structure of the internal audit function.
- e) Review and discuss the activities, performance and adequacy of the internal audit function, including conformance with mandatory guidance of The Institute of Internal Auditors' (Mission, Core Principles, the Definition of Internal Auditing, Code of Ethics and the International Standards for Professional Practice of Internal Auditing).
- f) At least once per year, review the performance of Head of Internal Audit and concur with the annual compensation and salary adjustment.
- g) On a regular basis, meet separately with the Head of Internal Audit to discuss any matters that the committee or internal audit believes should be discussed privately.

External Audit

- a) Be responsible for selection, appointment, remuneration, oversight and termination where appropriate of the external auditor, subject to ratification by Bank's board and shareholders. The external auditor shall report directly to the committee.
- b) Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- c) Review and discuss with external auditor results of its audit including any restrictions on its access to requested information and any disagreements or difficulties encountered with management.
- d) Review and discuss with management and the external auditor each annual and each quarterly financial statements including judgments made in connection with the financial statements.
- e) Make at least once each year review of external auditor performance and determination of their independence, including:
 - i. Determining whether its performance of any non-audit services compromised its independence
 - ii. Obtaining a written report listing any relationships between the external auditor and the Bank or with any other person or entity that may compromise auditor's independence;
- f) Monitor rotation arrangements for audit engagement partners, where applicable.
- g) On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

Compliance

- a) Oversee Bank's compliance with legal and regulatory requirements, codes and business practices, and ensure that the Bank communicates with shareholders and relevant stakeholders (internal and external) openly and promptly, and with substance of compliance prevailing over form.
- b) Review the process for communicating Bank's code of conduct to employees, and supervision of the implementation, enforcement of and adherence therewith.
- c) Review the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- d) Review the findings of any examinations by regulatory agencies, and any auditor observations.

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- e) Obtain regular updates from management and Bank's legal counsel regarding compliance matters.

Reporting Responsibilities

- a) Provide an open avenue of communication between internal audit, the external auditors, and the Board.
- b) Regularly report to the board of directors about committee activities, issues, and related recommendations.
- c) Report annually to the shareholders, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.
- d) Review any other reports the Bank issues that relate to committee responsibilities.

Other Responsibilities

- a) Perform other activities related to this charter as requested by the Board.
- b) Institute and oversee special investigations as needed.
- c) Review, discuss and make recommendations regarding selection, appointment and termination where appropriate of the head of compliance and the budget allocated to compliance function
- d) Review and discuss the activities, performance and adequacy of Bank's compliance personnel and procedures and its internal controls and compliance procedures, risk management systems, and any changes in those.
- e) Review and monitor the responsiveness of management to the committee's recommendations and findings.
- f) Obtain written confirmation from CEO and CFO that Bank's interim and annual financial statements present a true and fair view, in all material respects, of Bank's financial position and results of operations in accordance with applicable accounting standards.
- g) Deal with any filings or concerns raised by employees under the 'Whistle-blower' program put in place by the Board.
- h) Confirm annually that all responsibilities outlined in this charter have been carried out.
- i) Evaluate the committee's and individual members' performance on a regular basis

7. PERFORMANCE EVALUATION OF THE AUDIT COMMITTEE

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

8. DISCLOSURE

The activities and membership of the Committee shall be disclosed in the annual report. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management or the Audit Committee.

9. REVIEW OF THE CHARTER

AC shall review and assess the adequacy of the committee charter annually and seek Board's approval for proposed changes or improvements deemed necessary or desirable.