



INTERNAL AUDIT DEPARTMENT

INTERNAL AUDIT CHARTER

Issuer: Chief Audit Officer

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1. Introduction

Internal Audit is an independent, objective assurance function that is guided by a philosophy of adding value to improve the control framework of Zand Bank/Group. Internal Audit assists the Bank in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Bank's risk management, control, and governance processes. Internal Audit can also perform consulting role as and when required without impacting on its independence.

2. Purpose

The purpose of Zand Bank's Internal Audit Department (IAD) is to strengthen the bank's ability to create, protect, and sustain value by providing the Board and Management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances Zand Bank's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Zand Bank's internal audit function is most effective when:

- Internal auditing is performed by competent professionals in conformance with the Institute of Internal Auditor's (IIA) Global Internal Audit Standards, which are set in public interest.
- The internal audit function is independently positioned with direct accountability to the Board Audit Committee (BAC).
- Internal auditors are free from undue influence and committed to making objective assessments.

Commitment to Adhering to the Global Internal Audit Standards

IAD will adhere to the mandatory elements of the IIA's International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. The Chief Audit Officer (CAO) will report periodically to the BAC regarding IAD's conformance with the Standards, which will be assessed through a quality assurance and improvement program.

Internal Audit will also adhere to applicable standards of best professional practice, such as those published by the Information Systems Audit and Control Association (ISACA) and Guidelines, Rules & Regulations issued from time to time by the regulators.

3. Mandate

Regulatory Mandate

As per the regulation issued by the Central Bank of the United Arab Emirates (CBUAE) on Internal Controls, Compliance and Internal Audit, the Board is responsible for ensuring that Zand Bank must have an independent, permanent and effective internal audit function commensurate with its size, nature of operations and complexity.

Authority

The BAC grants IAD the mandate to provide the BAC and senior management with objective assurance, advice, insight, and foresight. IAD's authority is created by its direct reporting relationship to the BAC. Such authority allows for unrestricted access to the BAC.

The BAC authorizes IAD to:

- Have full and unrestricted access to all functions (including outsourced activities), data, records, information, physical property and personnel pertinent to carrying out internal audit responsibilities IAD staff are accountable for confidentiality and safeguarding of records and information. IAD staff must respect confidentiality of information acquired in the course of their duties.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required and issue communications to accomplish IAD's objectives.
- Obtain assistance from the necessary personnel of Zand Bank, and other specialized services from within or outside Zand Bank, to complete internal audit services
- Be a member of any management level committee as an independent observer and have free and unrestricted access to all management and Board committee minutes of meetings.

Independence, Organizational Position and Reporting Relationships

The CAO will be positioned at a level in Zand Bank that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of IAD. The CAO reports functionally to the BAC and administratively to the Chief Executive Officer (CEO). This positioning provides the organizational authority and status to bring matters directly to the CEO and escalate matters to the BAC, when necessary, without interference and supports the IAD staff's ability to maintain objectivity.

The CAO will confirm to the BAC, at least annually, the organizational independence of IAD. If the governance structure does not support organizational independence, the CAO will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The CAO will disclose to the BAC any interference IAD staff encounter related to the scope, performance or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on IAD's effectiveness and ability to fulfil its mandate.

Administrative Reporting of the CAO

The CAO's administrative reporting line to the CEO is limited to providing administrative support in the following areas:

- a. Oversight of IAD staff human resources issues including recruitment, development and retention of high quality IAD staff.
- b. Initiation of capital expenditures to support the mission of IAD.
- c. Information about guidelines on corporate budget and expense policies.
- d. Approval of expense report under Zand Group policy and management of premises and other logistical requirements.
- e. The CEO will from time-to-time work as a facilitator between IAD and the various Bank divisions to ensure that Audit priorities as approved by the BAC, internal coordination and communications are effectively managed.

4. Board Oversight

To establish, maintain and assure that IAD has sufficient authority to fulfil its duties, the BAC will:

- Discuss with the CAO and the CEO the appropriate authority, role, responsibilities, scope and services (assurance and/or advisory) of IAD.
- Ensure the CAO has unrestricted access to and communicates and interacts directly with the BAC, including in private meetings without senior management present.
- Discuss with the CAO and the CEO other topics that should be included in the IAD charter.
- Approve the IAD charter which includes the internal audit mandate and the scope and types of internal audit services.
- Review the IAD charter at least every two years with the CAO to consider changes affecting Zand Bank and approve the IAD charter.
- Approve the risk based internal audit plan.
- Approve IAD's budgets and resource plan.
- Approve IAD's expenses.
- Authorize the appointment and removal of the CAO.
- Approve the remuneration of the CAO.
- Review of the CAO's performance.
- Receive communications from the CAO about IAD including its performance relative to its plan. BAC shall assess, at least annually, the performance of IAD. This shall include an independent external quality assurance review of IAD at least once every five years.
- Ensure a quality assurance and improvement program has been initiated and progress is made towards establishment of the same. Following which the results of the same are reviewed annually.

- Make appropriate inquiries of senior management and the CAO to determine whether scope or resource limitations are inappropriate.
- Consider and review the following matters with senior management and the CAO:
 - Significant findings during the year and management responses to such findings.
 - Any difficulties encountered in the course of internal audits, including any restrictions to the scope of their work or access to the required information.

5. Co-sourcing

Given the evolving regulatory and business environment and the increasing complexity of the Bank's activities, the CAO can engage external Subject Matter Experts (SME) on a limited and targeted basis, where certain expertise/knowledge is not available in-house or due to resource constraints. The annual audit plan and operating budget will identify engagements where external SMEs are to be engaged. The CAO is authorized to identify and engage external SMEs and monitor their performance.

The CAO will preserve independence by ensuring that the SME or a firm has not been previously engaged in a consulting engagement in the same areas within the Bank, unless a "cooling off" period of one year has elapsed. In addition, the internal audit activities will not be outsourced to the external audit firm of Zand Bank/Group. In addition, IAD may invite Zand Bank/Group staff members as guest auditors/reviewers to participate in audit/review engagements.

6. Coordination with Assurance Providers

The CAO also coordinates activities and considers relying upon the work of other internal and external providers of assurance and advisory services. This includes external auditors and Zand Bank/Group's second line of defense functions. If the CAO cannot achieve an appropriate level of coordination, the issue must be communicated to the CEO and if necessary escalated to the BAC.

IAD interacts with other control functions and aligns its audit approach and coverage as appropriate. IAD also coordinates with external audit through periodic interactions and shares required information to enable appropriate audit coverage and avoid any duplication where possible.

7. Advisory and Consulting Services

IAD may perform advisory and related client service activities, the nature and scope of which will be agreed with by the party requesting the service, provided that IAD does not assume management responsibility and the activity does not impact its independence. CAO can decide on accepting request for a consulting engagement subject to terms and conditions.

Opportunities for improving the efficiency of governance, risk management and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

8. Chief Audit Officer Roles and Responsibilities

Ethics and Professionalism

The CAO will ensure that internal auditors:

- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and be able to recognize conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organization.
- Report organizational behavior that is inconsistent with the organization's ethical expectations, as described in applicable policies and procedures.

Objectivity

The CAO will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the CAO determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

IAD staff will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

IAD staff will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year. Internally recruited IAD staff must not engage in auditing activities for which they have had previous responsibility before a "cooling off period" of one year.
- Performing operational duties for Zand Bank/Group
- Initiating or approving transactions external to the IAD.
- Directing the activities of any Zand Bank/Group employee that is not employed by IAD, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the CAO or BAC.
- Exhibit professional objectivity in gathering, evaluating and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias and undue influence.

The CAO shall promptly report to the CBUAE, on the violations of the Central Bank Law, regulations, instructions and any matters of significance. Further, notify the CBUAE of significant deviation from the Board approved Compliance policies and IAD Charter.

Managing the Internal Audit Function

The CAO has the responsibility of:

- At least annually, develop a risk-based internal audit plan that considers the input of the BAC and the senior management, if any. Discuss the plan with the BAC for review and approval.
- Communicate the impact of resource limitations on the internal audit plan to the CEO and BAC.
- Review and adjust the internal audit plan, as necessary, in response to changes in Zand Bank/Group's business, risks, operations, programs, systems, and controls.
- Communicate to the CEO and the BAC any significant interim changes to the internal audit plan.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the BAC and senior management periodically and for each engagement as appropriate.
- Ensure the IAD collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards and fulfill the internal audit mandate.
- Identify and consider trends and emerging issues that could impact Zand Bank/Group and communicate to the BAC and the CEO as appropriate.
- Consider emerging trends and successful best practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide the internal audit function.
- Ensure adherence to Zand Bank/Group's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts shall be resolved or documented and communicated to the BAC and CEO.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. The CAO should achieve an appropriate level of coordination and any unresolved issue must be communicated to senior management and if necessary escalated to the BAC.
- Ensure conformance of IAD with the Standards. However, if IAD is prohibited by law or regulation from conformance with certain parts of the Standards, the CAO will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards. If the Standards are used in conjunction with requirements issued by regulatory bodies, the CAO will ensure that IAD conforms with the Standards, even if IAD also conforms with the more restrictive requirements of regulatory bodies.

Communication with the BAC and Senior Management

The CAO will report periodically to the BAC and the CEO (as applicable) regarding:

- IAD's mandate.
- IAD plan and performance relative to its plan.
- IAD budget.
- Significant revisions to the IAD plan and budget.
- Potential impairments to independence, including relevant disclosures as applicable.
- Significant risk exposures and control issues, including fraud risks, governance issues and other areas of focus for the BAC.
- Results of assurance and advisory services.
- Disagreements (if any) with management regarding IAD process, reports etc.
- Resource requirements.
- Management responses to risk that IAD determines may be unacceptable or acceptance of a risk that is beyond Zand Bank/Group's risk appetite.
- Results from the quality assurance and improvement program, which include IAD's conformance with The IIA's Global Internal Audit Standards and action plans to address IAD's deficiencies and opportunities for improvement, as and when applicable.

Quality Assurance and Improvement Program

The CAO will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the IAD. The program will include applicable external and internal assessments of the IAD's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the IAD's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, the assessment will include applicable plans to address the IAD's deficiencies and opportunities for improvement.

Once the quality assurance and improvement program are established over a period, the CAO will periodically communicate with the BAC and CEO about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments if applicable.

External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside Zand Bank/Group; qualifications must include at least one assessor holding an active Certified Internal Auditor credential. The external assessment report will be reported to the BAC accompanied by a written corrective action plan in response to significant comments and recommendations contained in the report.

9. Scope and Types of Internal Audit Services

The scope of internal audit services covers the entire breadth of Zand Bank, including all Zand Bank's activities, assets, and personnel based on the audit universe approved by BAC. The scope of IAD encompasses, but is not limited to, objective examinations of evidence to provide independent assurance and advisory services to the BAC and management on the adequacy and effectiveness of governance, risk management, internal control processes, compliance functions/systems, governance systems and processes of the Zand Bank/Group.

Every activity, including outsourced activities and applicable entities controlled by Zand Bank/Group, shall fall within the scope of IAD.

IAD assessments include evaluating the following as applicable:

- a. Risks relating to the achievement of Zand Banks' strategic objectives are appropriately identified and managed.
- b. The actions of Zand Bank's officers, directors, employees and contractors or other relevant parties comply with Zand Bank's policies, procedures, applicable laws, regulations and governance standards.
- c. The results of operations or programs are consistent with established goals and objectives.
- d. Operations, outsourcing, project and program management are being carried out effectively and efficiently.
- e. Credit and investment portfolios are adequately managed, in line with the approved risk appetite, policy and framework.
- f. Established processes and systems enable compliance with the policies, procedures, laws and regulations that could significantly impact Zand Bank/Group.
- g. Technology, Information security and Cyber security risks are adequately identified and managed.
- h. The integrity of information and the means used to identify, measure, analyse, classify and report such information are reliable.
- i. There is adequate governance, risk management and control over significant mergers, acquisitions, consolidations and divestitures, development of new products and services, operations processes and control and risk management processes coincident with their development, implementation and/or expansion, as applicable. The senior management must inform IAD on a timely basis of any changes to Zand Bank/Group's risk governance framework.

10. Policy Governance

Changes to the Mandate and Charter

Circumstances may justify a follow-up discussion between the CAO and BAC on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards.
- A significant acquisition or reorganization within the organization.
- Significant changes to the bank's strategies, objectives, risk profile, or the environment in which the organization operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

Ownership and Approving Authority

This Charter shall be owned by the CAO and approved by the BAC. Any changes that are not substantive but incidental or administrative in nature do not require a sign-off by the BAC. These can be approved by the CAO under intimation to BAC during the next major revision.

Review

This Charter shall be reviewed every 2 years, or as appropriate and approved by Issuer, to ensure continued relevance.

Related Policies and Standards

1. Board Audit Committee Terms of Reference
2. Internal Audit Manual

Policy Version History

Version	Date of Issue	Description
1.0	30/06/2020	Draft Ready for BAC approval
1.1	26/09/2022	Updated the Draft version for BAC approval
2.0	26/05/2025	Updated in alignment with Global Internal Audit Standards of Institute of Internal Auditors and periodic review.