Group Internal Audit Charter

May 2026

Contents

Document level	Policy	**Review frequency**	Annual
Document owner	Group Chief Internal Audit	**Classification**	Public
Recommending authority	Audit and Compliance Committee	**Revision history**	Feb 2025 May 2026 Next review May 2027
Approving authority	Board of Directors		

1. Introduction

This Internal Audit Charter establishes the purpose, authority, responsibilities, and operating framework of Group Internal Audit (GIA). It defines how GIA supports the Board and senior management in protecting the organization's integrity and achieving its objectives. The Charter affirms GIA's mandate to provide independent and objective assurance and advisory services across the full scope of the Group's activities. The Charter is reviewed at least annually, or as material changes occur.

This Charter applies to Bank of Bahrain and Kuwait B.S.C. and its overseas branches and subsidiaries (the Group). Local addenda ensure compliance with applicable local regulatory requirements.

2. Purpose

GIA strengthens the Group's ability to create, protect, and sustain value by providing the Audit and Compliance Committee (ACC) and senior management with independent, risk-based, and objective assurance, advice, insight, and foresight. GIA contributes to improvements through advisory services, insights, and recommendations, without assuming management responsibilities.

3. Authority

GIA derives its authority from the Board through the ACC. It has unrestricted access to all functions, systems, personnel, data, and premises required for its work. GIA independently determines its annual plan, scope, priorities, and methodologies, and communicates directly with the ACC, the Board, senior management, regulators, and external auditors.

4. Independence and Objectivity

GIA operates as the third line of defense and maintains full independence and objectivity. The Group Chief Internal Auditor (GCIA) reports functionally to the ACC Chair and administratively to the Group CEO.

GIA staff must avoid conflicts of interest and must not be unduly influenced by their own interests or the interests of others, including senior management or others in a position of authority, or by the political environment or other aspects of their surroundings. GIA staff refrain from providing assurance services in relation to a business activity for which they have had internal oversight or external audit or consulting responsibility within the previous 12 months. If GIA is required to provide assurance services where it had previously performed advisory services, the GCIA must confirm that the nature of the advisory services does not impair objectivity and must assign resources such that individual objectivity is managed.

GIA is independent of internal control functions, such as Risk, Compliance, and Finance, and is neither responsible for, nor part of, them. GIA has no responsibility for the management of business activities, or for developing or implementing operational systems or procedures. GIA's participation in management committees is restricted to an observer capacity.

GIA does not own the investigations function. When required, GIA may conduct investigations focusing on fact-finding and assessing control implications. Disciplinary decisions remain with management. Safeguards to manage any perceived or actual conflicts of interest or objectivity impairments when GIA is requested to support investigations are maintained and reviewed annually.

GIA operates as a Group-wide function. Heads of Internal Audit in subsidiaries and overseas branches report functionally to the GCIA and administratively to local leadership, ensuring independence, objectivity, consistent standards, audit quality, methodology application, and escalation expectations across the Group.

At least annually, the GCIA confirms GIA's organizational independence and objectivity to the ACC. The GCIA must possess the leadership qualities, competence, and professional capabilities required to uphold GIA's effectiveness and independence.

5. Responsibilities

a. Overview

The GCIA is responsible for leading an effective, high-quality internal audit function and ensuring it delivers independent, risk-based assurance aligned with the Group's strategic objectives.

b. Internal Audit Strategy and Leadership

- Establishes and maintains a high-performing, value-adding Internal Audit function aligned with the expectations of the Board and senior management,
- Develops and implements the Internal Audit strategy in alignment with the Group's strategy, risk appetite, and assurance needs,
- Ensures Internal Audit staff possess the required competencies and reports any competency gaps and co-sourcing needs to the ACC,
- Promotes continuous professional development, including training, certifications, and appropriate professional behaviors, and
- Develops, maintains, and applies Internal Audit methodologies, tools, and processes.

c. Audit Planning

- Develops and maintains a dynamic, risk-based Internal Audit plan reflecting the Group's objectives, risks, and regulatory requirements,
- Adjusts the plan in response to changes in the business environment, strategy, regulatory landscape, or emerging risks,
- Discusses the plan and any material changes with senior management and presents them to the ACC for review and approval,
- Reports scope restrictions or resource limitations to the ACC and obtains approval where these impact plan delivery, and
- Contributes to the Group's coordinated assurance strategy, including maintaining an assurance map where appropriate.

d. Internal Audit Engagements

- Ensures that Internal Audit engagements are planned, executed, supervised, documented, and reported in accordance with the approved plan, Internal Audit methodology, and professional standards,
- Ensures engagement objectives, scope, and key risks are properly defined and aligned with the risk-based plan,
- Oversees the quality and sufficiency of work performed and ensures evidence appropriately supports conclusions,
- Reviews and approves final audit reports to ensure clarity, balance, and alignment with evidence,
- Ensures management action plans include accountable owners and realistic implementation timelines,
- Ensures timely communication of audit results, insights, and thematic observations to senior management, the Group CEO, and the ACC, and
- Ensures Internal Audit maintains appropriate documentation demonstrating conformance with standards.

e. Follow-Up and Improvement Actions

- Maintains a risk-based mechanism to track corrective actions arising from internal and external audit work, regulators, and other assurance bodies,
- Verifies that actions are effectively implemented before recommending closure, and
- Escalates overdue actions or risk appetite breaches to senior management and the ACC.

f. Governance, Risk, and Control Advisory

- Challenges and advises senior management to enhance governance, risk management, and control practices,
- Assesses whether the Group conducts its business in line with its objectives, risk appetite, and expected behaviors, and
- Maintains open relationships with the first and second lines to promote effective coordination and avoid duplication of assurance efforts.

g. Regulatory, Standards, and Quality Assurance

- Maintains constructive relationships with regulators and provides reports and information as required,
- Discusses annually with the ACC and senior management the Internal Audit mission and GIA's conformance with the IIA Global Internal Audit Standards and applicable codes of practice, and
- Operates a Quality Assurance and Improvement Program, including internal and external assessments, to ensure adherence to professional standards and continuous improvement.

6. Scope and Approach

a. Scope

GIA's scope includes all operations of the Group, including subsidiaries, branches, representative offices, outsourced arrangements, and joint ventures where oversight responsibilities exist. Internal audit services include:

- Assurance services, through which internal auditors perform objective assessments to provide assurance,
- Advisory services, through which internal auditors provide advice to stakeholders without providing assurance or taking on management responsibilities.

When requested, GIA may conduct investigations to establish facts and assess control implications; disciplinary decisions remain with management.

Internal audit services may be delivered by GIA to subsidiaries and branches under formal service level agreements to ensure consistent standards and methodologies. Local Internal Audit units operate under the Group framework and maintain direct functional reporting to the GCIA.

Management may request internal audit services in response to emerging business issues or risks. Internal Audit will seek to accommodate such requests subject to the assessed level of risk, availability of resources, and endorsement of the ACC.

b. Audit Methodology and Approach

GIA maintains a defined audit methodology in accordance with industry best practices, the IIA Global Internal Audit Standards, and applicable laws and regulations. The methodology is maintained in a Group Internal Audit Manual, is subject to periodic review, and is approved by the ACC for application across all Group entities.

The GCIA develops a rolling audit plan based on risk assessments, regulatory expectations, thematic trends, and emerging risks. The plan is reviewed and approved by the ACC and updated regularly.

GIA maintains an independent mechanism for tracking and validating remediation of issues. Management is responsible for taking timely corrective action, while GIA independently validates completion before closure. Internal Audit keeps the ACC informed of extensions to agreed remediation dates and highlights any cases where delays create undesirable risk exposure or appear unjustified or excessive. Detailed procedures, including prioritization, timelines, follow-up mechanisms, and management escalation, are maintained in the Group Internal Audit Manual.

7. Relationship with Other Assurance Providers

The Group uses the Three Lines integrated assurance model to allocate responsibilities for risk management and control, recognizing that

- First Line – Management has ownership, responsibility and accountability for assessing, controlling and mitigating risks.
- Second Line – Risk and control functions facilitate and monitor effective risk management practices and support risk owners in reporting adequate risk information.

- Third Line – GIA through a risk-based approach, provides assurance to the ACC and management on how effectively the Group assesses and manages its risks, including the manner in which the first and second lines operate. Internal auditing does not absolve management and staff from any of their risk management and control responsibilities.

GIA operates within a coordinated assurance framework, engaging with other assurance providers to minimize duplication and strengthen overall assurance. While GIA may consider the work of other providers, it remains solely responsible for its own conclusions. GIA validates remediation of material issues raised by other assurance providers. GIA also maintains open and direct communication with the Central Bank of Bahrain (CBB) and the external auditors, providing access to reports and information as required.

8. Management Obligations

Management must support the effectiveness and independence of Group Internal Audit (GIA). To do so, Management is required to:

- Provide full and unrestricted access to all information, systems, records, premises, and personnel needed for audit work, including access to third-party service providers where relevant.
- Promptly notify GIA of significant incidents, control failures, actual or suspected fraud or misconduct, regulatory breaches, emerging risks, or any matter that may materially affect the Group’s risk profile or control environment.
- Respond to audit requests and observations in a timely and accurate manner, and work constructively with GIA to agree on root causes, risk implications, and appropriate remediation actions.
- Implement agreed actions by the committed dates and provide evidence of effective completion. Delays must be proactively justified, with revised timelines proposed for GIA’s review.
- Promote transparency and cooperation with GIA, ensuring that staff engage openly and refrain from any behavior that could impair GIA’s independence, objectivity, or access.
- Avoid impeding GIA’s work, including any actions that limit GIA’s scope, influence audit outcomes, or restrict GIA’s communication with the ACC, regulators, or external auditors.

9. Resourcing

GIA operates primarily through internal staff. Co-sourcing may be used to access specialist expertise while maintaining GIA's accountability for scope, quality, and reporting. Guest auditors and rotational staff may participate in audits subject to confidentiality and independence safeguards. Outsourcing internal audit activities may occur only with ACC approval, and with regulatory approval if required. The procedures for co-sourcing, guest auditors, and outsourcing are defined in the Group Internal Audit Manual.

GIA maintains a structured training and competency development program to ensure auditors possess and maintain the skills and professional capabilities required under the CBB Rulebook.

10. Quality Assurance and Improvement Program (QAIP)

GIA maintains a Quality Assurance and Improvement Program aligned with the IIA Global Internal Audit Standards. Internal assessments are conducted annually and include ongoing supervision and periodic reviews. External assessments are conducted at least once every five years by an independent qualified assessor other than the external auditor. Results and improvement plans are shared with the ACC.

11. Reporting

GIA reports the results of its work clearly and promptly to senior management and the ACC. Reporting includes opinions on control effectiveness, root causes, risk implications, and required remediation.

a. Reporting to the ACC

GIA provides periodic reporting, at least quarterly, covering:

- the status of the approved Internal Audit plan and any proposed changes,
- key audit results, significant issues, and thematic findings,
- trends and insights affecting the Group's risk profile and adherence to risk appetite,
- material overdue audit actions, emerging risks, and significant control deficiencies,
- progress of management remediation plans,
- the annual assessment of the overall control environment and GIA's opinion on governance, risk management, and internal control effectiveness,
- the results of the QAIP, including internal assessments and external quality reviews, and
- any scope restrictions, resourcing limitations, or independence concerns.

The GCIA has unrestricted access to the ACC and may meet privately with the ACC Chair when required.

b. Reporting to Senior Management

GIA reports engagement results, thematic issues, and insights to senior management on a timely basis. Management must promptly notify GIA of significant incidents, control failures, regulatory breaches, emerging risks, or matters that may materially impact the Group.

c. Subsidiary and Branch Reporting

Heads of Internal Audit in subsidiaries and branches submit their periodic local audit committee reports to the GCIA. The GCIA may attend any subsidiary or branch audit committee meeting as necessary to provide Group-level oversight.

d. Regulator Reporting

GIA maintains direct, open, and independent communication with the Central Bank of Bahrain (CBB) where required, including reporting material control weaknesses, significant incidents, and any deficiencies in governance, risk management, or internal control practices in line with regulatory expectations.

12. Professional Standards

GIA is committed to adhere to the IIA Global Internal Audit Standards and the applicable policies of the Group. It also meets CBB regulatory requirements and applies the higher standard where regulatory requirements and IIA Standards differ. Staff are required to demonstrate integrity, objectivity, professional skepticism, due professional care, and ongoing competence in fulfilling their responsibilities.