




**BAHRAIN
MIDDLE EAST
BANK**

بنك البحرين والشرق الاوسط

BAHRAIN MIDDLE EAST BANK B.S.C.

AUDIT & RISK COMMITTEE CHARTER

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|  BAHRAIN MIDDLE EAST BANK بنك البحرين والشرق الأوسط | Audit & Risk Committee Charter | | |
| | Approval Authority | Date Approved | Date of previous approval |
| | <i>Board of Directors</i> | <i>02/06/2024</i> | <i>23 October 2017</i> |

1. INTRODUCTION

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

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

- a) Review the Bank's accounting and financial policies and practices;
- b) Review the integrity of the Bank's financial statements and financial reporting process and the Bank's systems of internal accounting and financial controls;
- c) Review the annual independent audit of the Bank's financial statements, the appointment and engagement of the External Auditors and their evaluation, qualifications, remuneration, independence and performance;
- d) Review the Bank's compliance with legal and regulatory requirements and the Bank's Code of Conduct policy;
- e) Recommend the appointment and remuneration, and oversee the independence and performance of the Internal Auditor and the regular review of the Internal Audit Department activities;
- f) Effective management of risks faced by the Bank through the establishment of a robust risk management framework.

Whilst the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits.

In performing its duties, the Committee will maintain effective working relationships with the Board, Senior Management and the External and Internal Auditors. To perform his/her role effectively, each Committee member will continue to develop and maintain his/her skills and knowledge, including an understanding of the Bank's business, operations and risks.

2. PURPOSE

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

3. COMMITTEE MEMBERSHIP, QUALIFICATION AND TERM


The Board shall appoint ARC members.

ARC shall consist of at least three Directors of which the majority must be independent, including the Chairman. Further, the Chairman of the ARC must:

- (a) Not be the Chairman of the Board, unless he is considered independent; and
- (b) Not be the Chairman of any other Board Committee.

The CEO and other Senior Management must not be members of the ARC.

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

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ARC members must have sufficient financial literacy qualifications and technical expertise to enable the Committee 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.

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

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


The CEO or his representative shall attend the ARC meetings on invitation. The Head of the Internal Audit Department and Risk Management Department and the Compliance Officer should regularly attend ARC meetings.

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.

ARC 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 Senior Management but in presence of the Compliance Officer, Internal Auditor and Risk Manager. The External Auditor's lead representative shall be invited to attend regular meetings, subject to the Committee's decision.

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

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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, which may include:
 - Seeking any information that it requires from any employee of the Bank. All employees are directed to cooperate with any request made by the Committee;
 - Obtaining outside legal or independent professional advice and such advisors may attend meetings as necessary; and
 - Calling any employee to be questioned at a meeting of the Committee as and when required and have unrestricted access to Senior Management, employees and relevant information.
- 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 Senior Management. The Bank shall provide appropriate funding for the compensation of any such outside advisors;
- c) Shall have the authority to resolve any disagreements between Senior 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 ARC's requests) and external parties;
- f) Shall have access to Bank's internal or external reports, records and information, including minutes of management meetings etc.;
- g) Engage independent counsel and other advisors, as it deems necessary to carry out its duties, provided such engagements are justifiable;
- h) In accordance with the Bank's Code of Conduct Policy, address any concerns of employees regarding accounting, internal controls, auditing or legal matters;
- i) In accordance with the Bank's Code of Conduct Policy and Whistleblowing Policy, address any complaints or notice of any reporting violations received by the Bank regarding accounting, internal controls, auditing, risk management, regulatory compliance or legal matters;
- j) Be directly responsible for the oversight of the External Auditors;
- k) Be responsible for the selection and compensation of the External Auditors on an annual basis for appointment and approval at the shareholder's meeting including the performance of External Auditors. The External Auditors shall report directly to the Committee;
- l) Be directly responsible for the appointment, retention and oversight of the Internal Auditors;
- m) Be directly responsible for reviewing the Bank's financial statements and recommending the financial statements to the Bank's Board for approval;
- n) Discuss all risk strategies on both an aggregated basis and by type of risk and make recommendations to the Board;
- o) Recommend the appointment or removal of the Head of Internal Audit. The Bank must first discuss the reasons for removal with the CBB;
- p) Recommend the appointment or removal of the Chief Risk Officer (CRO) or equivalent. The Bank must first discuss the reasons for removal with the CBB; and
- q) Recommend the appointment and removal of the Compliance Officer. The Bank must first discuss the reasons for their removal with the CBB.

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4. DUTIES AND RESPONSIBILITIES

The Committee shall have the 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 announcements, and understand their impact on the financial statements.
- b) Review with Senior 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 / irregularities 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 Senior Management and the External Auditors all matters required to be communicated to the Committee under generally accepted auditing Standards.
- g) Understand how Senior Management develops interim financial information, and the nature and extent of Internal and External Auditor involvement.
- h) Review interim financial reports with Senior Management and the External Auditors before filing with regulators, and consider whether they are complete and consistent with the information known to Committee members.

The Committee shall review and challenge where necessary:

- Whether the Bank has followed appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the External Auditors;
- Significant adjustments resulting from the audit;
- Regulatory and accounting initiatives, and their effect on the Bank's financial statements; and
- Whether the Financial Control Department is adequately resourced, independent of business lines and is run by individuals not involved in day-to-day running of the various business areas.

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, ARC 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 the information received from Senior 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.

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- 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 Senior 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) Recommend the appointment or removal of the Head of Internal Audit. The Bank must first discuss the reasons for removal with the CBB.
- 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 and discuss the Internal Audit findings that have been reported to Senior Management, Senior Management's responses and the progress of the related corrective action.
- e) Review with the Head of Internal Audit the internal audit budget, resource plan, activities, and organizational structure of the Internal Audit function.
- f) Review and discuss the activities, performance and adequacy of the Internal Audit function, including adhering 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) as well Global Internal Auditing Code of Ethics.
- g) At least once per year, review the performance of Head of Internal Audit and concur with the annual compensation and salary adjustment.
- h) 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

The ARC shall consider and make recommendations to the Board, to be put to shareholders for approval at the Ordinary General Meeting, relating to the appointment, re-appointment and removal of the Bank's External Auditor. The Committee shall oversee the selection process for new auditors and, if an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required.

The ARC shall oversee the relationship with the External auditor which includes (but not limited to):


- 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) Recommendation to the Board of their remuneration, whether fees for audit or non-audit services, and that the level of fees is appropriate to enable an adequate audit to be conducted.
- c) Review and approve the External Auditors' proposed audit scope and approach, including coordination of audit effort with Internal Audit.
- d) 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 Senior management.

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- e) Review and discuss with Senior Management and the External Auditor each annual and each quarterly financial statements including judgments made in connection with the financial statements.
- f) Review the Management letter and Senior Management's response to the auditor's findings and recommendations.
- g) At least once each year perform a review of External Auditor's 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;
- h) Assessing annually the External Auditor's qualifications, expertise, resources and the effectiveness of the audit process.
- i) Monitor rotation arrangements for audit engagement partners, where applicable.
- j) On a regular basis, meet separately with the External Auditors to discuss any matters that the Committee or auditors believe should be discussed privately.

Risk Management

- a) Ensure that the Bank's operations, individually and collectively are measured, monitored and controlled by appropriate effective and prudent Risk Management systems that commensurate with the scope of the Bank's activities and are supported by an appropriate control environment.
- b) Ensure that the Risk Management Department is adequately resourced, independent of business lines and is run by individuals not involved in day-to-day running of the various business areas.
- c) Make recommendations to the Board in relation to the Bank's overall risk appetite and tolerances and to set policies and procedures within which to manage these.
- d) Ensure adequate oversight and monitoring of the Bank's risk profile (compliance, financial, market, credit, liquidity, legal, fraud and operational risk exposures) faced by the Bank and the mitigation and reporting of risks within the business.
- e) Ensure that risks are identified, measured, aggregated, controlled, mitigated, monitored and reported on an ongoing basis across all business lines and that risk identification and measurement include both quantitative and qualitative elements.
- f) Ensure that each key risk has a policy, process and controls.
- g) Review and challenge information on all risk areas, ensuring an appropriate balance of risk and reward; and escalate critical risks to the Board with recommendations.
- h) Review and approve any statements to be included in the Annual Report concerning internal controls and Risk Management.
- i) Recommend the appointment or removal of the Chief Risk Officer (CRO) or equivalent. The Bank must first discuss the reasons for removal with the CBB.
- j) Provide input to Senior Management regarding the Bank's risk appetite and tolerance and, ultimately, approve risk appetite and the statement of risk appetite and tolerance messaged throughout the Bank and by line of business.


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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 Policy to employees, and supervision of the implementation, enforcement of and adherence therewith.
- c) Receive and discuss reports from Senior Management on quarterly basis relating to:
 - i. Compliance at the Bank (including anti-money laundering, regulatory and fiduciary compliance);
 - ii. Significant reported ethics violations;
 - iii. Fraud and operating losses;
- d) Review the results of Senior Management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- e) Review the findings of any examinations by regulatory agencies, and any auditor observations.
- f) Obtain regular updates from Senior Management and Bank's legal counsel regarding compliance matters, which may have a material impact on the Bank's financial statements or compliance policies.
- g) The Committee will ensure that the Compliance Department is adequately resourced, independent of business lines and is run by individuals not involved in day-to-day running of the various business areas.
- h) Ensure controls are instituted to manage the Bank's compliance risk.
- i) Review results of the Compliance Testing which is carried out by the Compliance Officer and ensure there is a plan to remedy any compliance risks and gaps identified.
- j) Review the effectiveness of the system for monitoring compliance with legal and regulatory requirements and the results of Senior Management's investigations and follow-up (including disciplinary action) of any fraudulent actions or non-compliance.
- k) The Committee will ensure that Senior Management develops, implements and oversees the effectiveness of comprehensive know your customer standards, as well as ongoing monitoring of accounts and transactions, in keeping with the requirements of relevant law, regulations and best practice.
- l) Review, discuss and make recommendations regarding selection, appointment and termination where appropriate of the Compliance Officer. The Bank must first discuss the reasons for their dismissal with the CBB.
- m) Ensure there is sufficient budget allocated to the Compliance function.

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.

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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 and discuss the activities, performance and adequacy of Bank's Compliance personnel and procedures and its internal controls, risk management systems, and any changes in those.
- d) Review and monitor the responsiveness of Senior Management to the Committee's recommendations and findings.
- e) Obtain written confirmation from CEO and CFO/Financial Control Department 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.
- f) Deal with any filings or concerns raised by employees under the 'Whistle-blower' program put in place by the Board.
- g) Confirm annually that all responsibilities outlined in this Charter have been carried out.
- h) Evaluate the Committee's and individual members' performance on an annual basis.

5. 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 meeting.

6. 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 & Risk Committee.

7. REVIEW OF THE CHARTER

ARC 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.