



PURPOSE

The purpose of “ACBA BANK” OJSC of internal audit charter (hereinafter referred to as “the Charter”) is to define the mission, authority, scope, responsibilities and accountability of Internal Audit of “ACBA BANK” OJSC (hereinafter referred to as “the Bank”).

APPLICATION SCOPE

This Charter applies to the Internal Audit, Bank's management bodies, Audit Committee of the Board, as well as the employees of other interested subdivisions.

DEFINITIONS AND CONCEPTS

Bank's management - Bank's Chief Executive Officer, Chief Executive Officer Deputies.

Audit Committee - Board audit committee of the Bank.

CHAPTER 1. MISSION

1.1. The mission of the Bank's Internal Audit is to help ensure that the Bank's operations are conducted according to best practices and to high standards by providing an independent, objective assurance and advisory function.

1.2. As the Bank's third line of defense, Internal Audit primarily provides assurance on the adequacy and effectiveness of the activities performed by the first and second lines of defense.

1.3. Internal Audit helps the Bank accomplish its objectives by evaluating and improving the effectiveness of risk management, control, and governance systems and processes, and by acting as a strategic adviser to promote continuous improvement. Internal Audit aims to promote effective, efficient and agile risk management practices.

CHAPTER 2. INDEPENDENCE AND OBJECTIVITY

2.1. To ensure independence, the Head of Internal Audit reports functionally to the Chairman of the Audit Committee of the Board and administratively to the Bank's Chief Executive Officer.

2.2. The Head of Internal Audit sets the objectives of internal auditors and appraises their performance annually in line with the Bank's policies.

2.3. The decisions regarding the appointment, removal and remuneration of the Head of Internal Audit and Internal Audit staff are pre-approved by the Audit Committee and approved by the Board.

2.4. To maintain objectivity, Internal Audit does not have operational responsibility for or authority over any of the activities audited. Each business unit is responsible for its own operations, including internal controls. Above all, it is assured that the Internal Audit function is not required to follow instructions given by the Bank's management or any other employee when preparing reports and assessing audit results or while performing any audit related activity.

CHAPTER 3. AUTHORITY

3.1. In performing their duties Internal Audit is authorized to have access to all of the Bank's information, physical properties, IT systems and personnel; and to attend any meeting as an observer.

CHAPTER 4. INTEGRITY AND ETHICS

4.1. Internal auditors must demonstrate the highest level of integrity, which is necessary to establish trust and thus provides the basis for reliance on their professional judgment. The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

4.2. Internal auditors are also expected to act as role models as regards to compliance with the Bank's values and Code of Conduct. The internal auditors must comply with the standards set forth by Institute of Internal Auditors Code of Ethics.

CHAPTER 5. CONFIDENTIALITY

5.1. The internal auditors must respect the confidentiality of information acquired in the course of an audit and shall not disclose any such information to a third party without specific authority, or unless there is a legal or professional duty to disclose.

5.2. Internal auditors:

- 1) shall be prudent in the use and protection of information acquired in the course of their duties;
- 2) shall not use information for any personal gain or in any manner that would be or could be perceived as detrimental to the legitimate and ethical objectives of the Bank.

5.3. Internal Audit reports and formal Internal Audit opinions are restricted or confidential according to confidentiality scale of the Bank. Internal Audit reports, neither in full or in part, shall not be further distributed by any recipient without the prior written approval of the Head of Internal Audit.

CHAPTER 6. SCOPE AND RESPONSIBILITIES

6.1. Every activity of the Bank, including outsourced activities, falls within the overall scope of Internal Audit.

6.2. To fulfil its responsibilities, Internal Audit:

- 1) identifies and assesses potential risks to the Bank’s operations;
- 2) reviews the adequacy of controls established to ensure compliance with policies and procedures, and consistency with the Bank’s risk strategy;
- 3) assesses the reliability and integrity of financial and operational information;
- 4) assesses the means of safeguarding assets;
- 5) appraises the effectiveness and efficiency of operations;
- 6) informs the Bank’s management, Audit Committee and Board timely and objectively on audit findings according to rules stipulated in internal documents of the Bank regulating Internal Audit activities;
- 7) follows up on recommendations to make sure that effective remedial action is being taken, while the responsibility for the timely implementation of corrective actions ultimately lies with the Bank’s management;
- 8) carries out planned audits and possibly also ad-hoc audit engagements. Ad-hoc audit engagements may comprise project audits, special requests or special investigations. Ad hoc project audits are intended to provide recommendations at specified stages of a project. Special requests and special investigations are urgent unplanned audit engagements or internal administrative inquiries performed at the request of Bank’s management or the Audit Committee. All Ad-hoc audit engagements require ex ante approval by the Audit Committee and ex post information to the Board;
- 9) carries out formal consulting engagements. These are part of the Annual Audit Plan, agreed with Bank’s management and intended to improve the Bank’s governance, risk management and internal controls;
- 10) coordinates with external audit and other control functions at the Bank to ensure proper coverage and avoid duplication of effort.

6.3. When necessary, Internal Audit may outsource or co-source some of its audit engagements to external experts. In such cases, the responsibility for those engagements remains with Internal Audit.

6.4. In exceptional circumstances, Internal Audit may, at the request of the Bank’s Chief Executive Officer, provide assurance to parties outside the Bank.

CHAPTER 7. ACCOUNTABILITY

7.1. Internal Audit contributes its perspective in the periodic process of formulation of the Bank’s risk strategy.

7.2. Internal Audit prepares an Annual Audit Plan. The Annual Audit Plan is business- and operations-processes oriented, risk-based, informed by the bank-wide strategy and its key objectives, and developed upon consultation of Bank’s management, the Audit Committee, the Board and other stakeholders relevant for internal audit opinions. In addition, all activities of the Bank are subject to an audit with a frequency determined by the risk rating of the activity (audit cycle).

7.3. The Annual Audit Plan provides information about the planned audit work. The draft plan, including



its tentative outlook for the coming year, is presented to the Bank’s management for comment, submitted to the Audit Committee for review and pre-approval and thereafter to the Board for approval. If needed, adjustments can be made to the plan during the year. Significant changes are communicated to Bank’s management for comment and following the pre-approval by the Audit Committee, to the Board for approval.

7.4. Internal Audit is responsible for planning, conducting, reporting and following up on audit engagements included in the Annual Audit Plan, and decides on the objectives, scope and timing of audits.

7.5. Audit fieldwork is conducted in a professional and timely manner. Communication of results includes an open process to agree on the facts and the validity of audit observations. In all cases, follow-up work is undertaken to ensure an adequate response to audit observations. Internal Audit communicates the results of the follow-up exercises to Bank’s management, Audit Committee and Board.

7.6. Audit engagements must be performed with proficiency, due professional care.

7.7. Internal Audit submits an annual report to the Bank’s management for comment and following the pre-approval by the Audit Committee, to the Board for approval.

CHAPTER 8. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

8.1. The Internal Audit must develop, implement and maintain, a quality assurance and improvement program that covers all aspects of the Internal Audit activity. The program must include ongoing, periodic internal and external evaluations of the Internal Audit activity’s conformance with the International Standards for the Professional Practice of Internal Auditing and an evaluation of whether internal auditors apply the Institute of Internal Auditors Code of Ethics. The program must also assess the efficiency and effectiveness of the Internal Audit and identify opportunities for improvement.

8.2. The Head of Internal Audit reports the results of program to Bank’s management, the Audit Committee and the Board.

CHAPTER 9. STANDARDS

9.1. Internal Audit aims to adhere to the standards of leading professional practice, such as those published by the Institute of Internal Auditors. The definition of internal auditing, the Code of Ethics and the International Standards as set forth by the Institute of Internal Auditors are recognized to be of a mandatory nature.

CHAPTER 10. FINAL PROVISIONS

10.1. The Charter must be reviewed at least once a year.

10.2. The Charter and any changes/updates to it, are approved by Board following the pre-approval by Audit Committee.

10.3. The Head of Internal Audit, in consultation with the Audit Committee Chairman, is authorized to issue more detailed policies, procedures and guidance consistent with the provisions of this Charter, after legal review to ensure consistency with Bank’s internal rules.