

# CYBG PLC

## Board Audit Committee

### Charter

Committee Role	<p>The CYBG Board (Board) Audit Committee (BAC / Committee) is the board level Audit Committee for CYBG PLC (CYBG) and its subsidiaries including for the avoidance of doubt, Virgin Money Holdings (UK) plc and of its respective subsidiaries (together, the Group) and will be responsible for:</p> <ul style="list-style-type: none"><li>• Assisting the Group in carrying out its responsibilities in relation to monitoring the integrity of the Group's accounting policies, public announcements, financial statements and financial reporting processes;</li><li>• Monitoring the effectiveness of the Group's internal financial controls systems;</li><li>• Monitoring the effectiveness of the Group's External Auditor and Internal Audit function;</li><li>• Monitoring the effectiveness of the Group's whistleblowing procedures; and</li><li>• Monitoring the application of those Group policies and procedures relating to the responsibilities of the Committee adopted across the Group in accordance with this Charter.</li></ul>
Ring-fencing obligations	<p>Where waivers or modifications from the Ring-fenced Bodies Rulebook have been granted by the Prudential Regulation Authority (PRA) to operate common Boards across CYBG, Clydesdale Bank PLC (CB) and Virgin Money plc (VM), all ring-fencing obligations relating to Board Committee composition, roles and independence criteria as defined in the CB BAC and VM BAC Charters must be followed.</p>
Chair	<ul style="list-style-type: none"><li>• The BAC Chair shall be an independent Non-Executive Director. Neither the Board Chair nor Board Risk Committee (BRC) Chair may be Chair of the Committee.</li><li>• The Board Chair may not be a member of BAC and the BRC Chair may be a member of the Committee but not Chair.</li><li>• The BAC Chair shall not have a casting vote.</li></ul>
Members	<ul style="list-style-type: none"><li>• Committee members shall be appointed by the Board on recommendation from the CYBG Board Governance &amp; Nomination Committee and, in respect of Committee members, in consultation with BAC Chair.</li><li>• BAC shall comprise at least three members (which shall include BAC Chair) all of whom are to be independent Non-Executive Directors of the Group. 'Independence' for these</li></ul>

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	<p>purposes will be assessed by reference to provision B.1.1 of the April 2016<sup>1</sup> UK Corporate Governance Code (the Code).</p> <ul style="list-style-type: none"><li>• At least one member of BAC must have recent and relevant financial experience, holding a professional qualification from one of the professional accountancy bodies and at least one member of BAC shall also be a member of the BRC.</li></ul>
Standing Attendees	<ul style="list-style-type: none"><li>• Board Chair</li><li>• Chief Executive Officer</li><li>• Group Director Internal Audit</li><li>• Representatives of the external auditor of the Companies (External Auditor)</li><li>• Group Chief Financial Officer</li><li>• Group General Counsel</li><li>• Group Chief Risk Officer (Group CRO)</li><li>• Group Head of Finance</li><li>• Secretary</li></ul> <p>Appropriate waivers must be in place for the Group Director Internal Audit and Group CRO to perform these functions for CYBG and for entities within the CB ring fenced group including for the avoidance of doubt, CB and any of its respective subsidiaries including Virgin Money Holdings (UK) plc and any of its respective subsidiaries.</p>
Additional Invitees	<ul style="list-style-type: none"><li>• Additional invitees or subject matter experts may be invited to attend or present papers for approval and / or discussion to BAC at the request of the Chair.</li></ul>
Quorum	<ul style="list-style-type: none"><li>• The quorum for meetings shall be two members. In the absence of BAC Chair, the remaining members present shall elect one of themselves to chair the meeting.</li></ul>
Meeting Frequency	<ul style="list-style-type: none"><li>• BAC shall meet no less than four times per annum and at appropriate intervals in the financial reporting and audit cycle.</li><li>• Ad hoc meetings may be called at the request of any BAC member, the External Auditor, Group Director Internal Audit or Board Chair.</li><li>• BAC will hold a joint meeting, at least once per annum, with BRC.</li></ul>
Secretary	<ul style="list-style-type: none"><li>• The Company Secretary or delegate shall be secretary to BAC.</li></ul>

<sup>1</sup> July 2018 UK Corporate Governance Code will not apply to CYBG until financial year beginning 1 October 2019

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Source of Authority	<ul style="list-style-type: none"><li>• BAC operates under authority delegated from the Board, and may establish sub-committees as it considers necessary and appropriate to assist in carrying out its responsibilities.</li><li>• BAC shall have adequate access to resources and information in order to conduct its duties and responsibilities.</li></ul>
Responsibilities	<p><b>Financial Affairs</b></p> <ul style="list-style-type: none"><li>• To review and monitor (in conjunction with the CB BAC) the integrity of the financial statements of the Group including its annual and half-yearly reports, preliminary results announcements, and any other appropriate public or formal announcements relating to the financial performance of the Group, reviewing the significant financial reporting issues and judgements which they contain. Where appropriate, BAC may delegate its responsibilities in relation to the review and approval of regulatory financial announcements, and reporting judgements contained therein, to the CYBG Disclosure Committee.</li><li>• To review any unusual items or matters brought to its attention requiring the exercise of managerial judgement affecting the preparation of the financial statements or announcements.</li><li>• Where requested to provide advice to the Board on whether the Annual Report &amp; Accounts (ARA), taken as a whole, are fair balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.</li><li>• To review the clarity, completeness and appropriateness of disclosures in the Group's ARA and consider whether the disclosures made are set properly in context, including, without limitation, the going concern and viability statements to be made by the Board and related information within the ARA.</li><li>• To provide a forum seeking to resolve any disagreements between management and the External Auditor regarding financial reporting and announcements.</li></ul> <p><b>Accounting, Financial Reporting &amp; Regulatory Compliance</b></p> <ul style="list-style-type: none"><li>• To review accounting policies and practices within the Group and to consider compliance and regulatory requirements.</li><li>• To review the controls and procedures established by management for compliance with regulatory and financial reporting requirements and with the requirements of the external regulators.</li><li>• To ensure that the Group complies with all necessary regulatory reporting, such as the requirements and recommendations of the relevant regulatory bodies (including the Financial Conduct Authority (FCA) and PRA).</li></ul>

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### **Internal Financial Controls and Risk Management**

- To review the adequacy and effectiveness of the Group's internal financial controls, compliance with laws and/or regulations relating to financial reporting or accounting issues, including those controls which mitigate the risk of inappropriate acquisition, use or disposal of the Group's assets.
- To review management's reports on the effectiveness of systems for internal financial control and risk management, and management's responsiveness to addressing financial control weaknesses and non-compliance and any other weaknesses identified by Internal Audit and/or External Audit.
- To review Internal Audit's reports on effectiveness of systems for internal financial controls.
- To review and approve the statement on internal financial controls and risk management in conjunction with BRC to be included in the Group's ARA.
- To review the Group's procedures for detecting financial reporting fraud.
- To provide advice on whether there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due as required under the Listing Rules, drawing attention to any qualifications or assumptions as necessary.

### **Whistleblowing**

- To review and monitor the Group's whistleblowing procedures by which employees may, in confidence and with anonymity, raise concerns includes those of questionable financial reporting, accounting or auditing matters. BAC shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.
- To consider the operational effectiveness of the whistleblowing framework and its compliance with laws and regulations.
- The BAC Chair will act as the Group's whistleblowing champion.

### **Internal Audit**

- To approve the appointment, dismissal and to review performance of the Group Director Internal Audit. BAC will make recommendations in respect of remuneration and objectives of the Group Director Internal Audit and monitor performance.
  - The independent functional reporting line of the Group Director Internal Audit will be to the Chair of BAC and a secondary Executive reporting line to the Chief Executive Officer.
  - To review and approve the Internal Audit Charter.
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- To approve the annual Internal Audit Plan, the Internal Audit budget and any material changes to the annual Internal Audit Plan with reference to the appropriateness or proposed risk coverage.
- To receive and review the independent external assessment of the Internal Audit function, which will be carried out at least once every five years. The BAC Chair will oversee and approve the appointment of the external assessor.
- To review the adequacy and independence of the Internal Audit function and assess whether this is the appropriate level of access to management and rights to seek information.
- To receive and review Internal Audit findings which report on the overall effectiveness of the governance, risk management and internal control framework; iterative issues and the adequacy of remediation activity.

### **External Audit**

- To make recommendations to the Board in relation to the appointment, re-appointment and removal of the Group's External Auditor (to be put to shareholders for approval at the Annual General Meeting (AGM)).
- To fix the remuneration of the External Auditor as authorised by shareholders, including fees for audit and non-audit services.
- To approve the terms of engagement of the External Auditor.
- To resolve any disagreements between management and the External Auditor regarding financial reporting.
- To review and approve the annual Audit Plan, scope of audit of the External Auditor (including planned levels of materiality) and results of the audit.
- To confirm that the External Auditor has coordinated with Internal Audit and that appropriate reliance has been placed on the work undertaken by Internal Audit and unnecessary overlap is avoided.
- To review reports prepared by the External Auditor, including any representation letter prior to signature by management and the management letter and management's response to External Auditor findings and recommendations.
- To review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration all relevant professional and regulatory requirements.
- To review the overall financial relationship between the Group and External Auditor.
- To develop and approve a policy on the engagement of the External Auditor to provide non-audit services, considering any relevant legislation and ethical guidance regarding the provision of audit and non-audit services.
- To consider and approve audit and non-audit services to be provided by the External Auditor in accordance with the policy.

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Reporting	<ul style="list-style-type: none"><li>• To describe in the CYBG ARA the work of BAC including:<ul style="list-style-type: none"><li>- a summary of the role of BAC;</li><li>- the names and qualifications of all BAC members during the period</li><li>- the number of meetings held during the period</li><li>- a report on the way BAC has discharged its duties</li><li>- a description of the Group's policy and procedures for approval of audit and non-audit services and an explanation of how External Auditor objectivity and independence is safeguarded when providing non-audit services; and</li><li>- a description of the External Auditor fees.</li></ul></li></ul>
Escalation	<ul style="list-style-type: none"><li>• BAC will receive reports from CB BAC and VM BAC after each meeting.</li><li>• BAC will report to the CYBG Board and, where relevant, BRC, identifying any matters within its remit in respect of which it considers that action or improvement is needed, and making recommendations as to steps to be taken.</li><li>• The minutes of BAC will be made available to the CYBG Board.</li><li>• BAC will be informed of risk matters through appropriate representation at the BRC.</li></ul>
Committee Governance	<ul style="list-style-type: none"><li>• To review its own performance, that of the BAC Chair and of each Committee member on an annual basis.</li><li>• BAC Chair shall attend the AGM to answer any shareholder questions on BAC's activities.</li><li>• The Charter shall be reviewed at least annually by the Committee and the Board, however, amendments of a non-material nature (as determined by the Committee Chair) in the period between shall be approved by the Committee without reference to the Board.</li><li>• To make its Charter available to shareholders via the Group's website.</li><li>• BAC may engage, at the Group's expense, any appropriate independent external advice on any matter it considers necessary to fulfil its role and responsibilities.</li><li>• BAC will liaise regularly with the BRC and where there is perceived overlap of responsibilities between BAC and BRC, the respective committee Chairs shall have discretion to agree the most appropriate committee to fulfil any obligation.</li></ul>