

Internal Audit Charter

This Charter formally defines Internal Audit's purpose, authority and responsibility. Final approval of the Charter rests with the Audit Committee on behalf of the Board. This applies to OneSavings Bank plc and its subsidiaries (the Group)

Role of Internal Audit

The primary role of Internal Audit is to help the Board and executive management to protect the Group's assets, reputation and sustainability. Internal Audit will:

- assess whether significant risks have been identified and reported appropriately to the Board and Executive management;
- provide a view of the design and operation of key controls to determine whether they are effective at mitigating risk; and
- challenge management to improve the effectiveness of governance, risk management and internal control.

It assists the Group in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the risk management, control, and governance processes.

The internal audit activity is established by the Board of Directors, who has delegated authority to the Audit Committee to oversee the activities of the internal audit function.

Scope

Internal Audit operates as the third line of defence within the Group's three lines of defence risk management framework.

The scope of its work is unrestricted and includes:

- internal governance;
- the information presented to the board and executive management for strategic and operational decision making;
- the assessment of, and adherence to, risk appetite;
- the risk and control culture of the organisation;
- risks of poor customer treatment giving rise to conduct or reputational risk;
- capital, liquidity and other prudential regulatory risks;
- key corporate events; and
- the outcomes of processes.

To this end Internal Audit will assess the design and operating effectiveness of the Group's policies and processes, and whether the actual outcomes achieved through the implementation of these policies and processes are in line with the bank's objectives, risk appetite and values. This will include assessing whether the risk management, control and governance structures are functioning as intended, with the aim that:

- business strategy, programmes, plans and objectives are achieved;
 - cultural and ethical standards are defined;
 - significant risks are appropriately identified, managed and reported to the board and executive management;
 - employees and contracted third parties comply with policies, standards and procedures;
 - financial, management and operating information is fair, balanced, reasonable and presented to relevant stakeholders on a timely basis;
 - assets are appropriately valued and protected from loss, theft or fraud; and
 - regulatory and legislative requirements are recognised and complied with.
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Standards of Audit Practice

The Group's Internal Audit operates in accordance with the International Standards for the Professional Practice of Internal Auditing developed by the Global Institute of Internal Auditors and the Chartered Institute of Internal

Auditors Code of Professional Conduct and its September 2017 publication: 'Guidance on Effective Internal Audit in the Financial Services Sector'.

Authority

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, personnel and attend any committee forums pertinent to carrying out any engagement. All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Chair of the Audit Committee and the Board. Any disagreement over the authority of internal audit will be referred to the Audit Committee Chairman for adjudication, with final appeal to the Board of Directors.

Reporting Line and Organisation

The Group Head of Internal Audit's primary reporting line is to the Chair of the Audit Committee with a secondary reporting line to the Chief Executive Officer.

The Audit Committee will approve all decisions regarding the performance evaluation, appointment, or removal of the Group Head of Internal Audit as well as their annual compensation and salary adjustment.

The Group Head of Internal Audit will communicate and interact directly with the Audit Committee, including in executive sessions and between meetings as appropriate.

Independence and objectivity

The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgement or independence.

The Group Head of Internal Audit will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity.

Responsibilities

Internal Audit Plan:

At least annually, the Head of Internal Audit will submit to the Audit Committee an internal audit plan for review and approval, including risk assessment criteria. The internal audit plan will include timing as well as resource requirements for the next fiscal/calendar year. The Head of Internal Audit will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.

The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Audit Committee. Prior to submission to the Audit Committee for approval, the plan may be discussed with appropriate senior management. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process to the Audit Committee.

Delivery of the Plan:

Group Head of Internal Audit is responsible for delivering the audit plan, assessing the resources and skills required and recruiting and maintaining an in-house team with the right skills, knowledge and experience to challenge management. The co-source providers will ensure they deploy appropriate subject matter experts to perform co-sourced audits. The Group Head of Internal Audit will provide a quality assurance oversight to evaluate the performance of Internal Audit to ensure a consistent approach and output from both in-house and co-source resources.

Reporting and monitoring

A written report will be prepared and issued by the Group Head of Internal Audit or delegate following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated directly to the Audit Committee and appropriate Executive Management.

The internal audit report will include management's response and corrective action to be taken in regard to the specific findings and recommendations. It will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

Responsibility for ensuring appropriate corrective action is taken, or formal risk acceptance is obtained from the relevant governance body, lies with management. The internal audit activity will follow-up on engagement findings and recommendations until remedial action is completed. All significant findings will remain on the Internal Audit Issue Tracker until cleared.

At least annually, an assessment of the overall effectiveness of the governance, and risk and control framework, together with an analysis of themes and trends emerging from Internal Audit work will be submitted to the Audit Committee.

Any advisory work to help management develop an effective control framework is expected to be a small proportion of Internal Audit's work.

Relationship with Regulators

The Group Head of Internal Audit will have an open, constructive and co-operative relationship with regulators which supports sharing of information relevant to carrying out their respective responsibilities.

Periodic assessment

The Audit Committee will commission an independent external assessment of Internal Audit, in line with the Chartered Institute of Internal Auditors' Standards, at least once every five years.

This Charter was approved by the Board Audit Committee of OneSavings Bank plc on 04 December 2018.