

DF Capital Group

DF Capital Group (includes Distribution Finance Capital Holdings PLC and its operating subsidiary DF Capital Bank Limited)

Board Audit Committee Terms of Reference

Version Control

Version	Change History	Revised by	Date
1.0	Annual review: minor clarifying and formatting amends, addition of control sheet and fraud prevention in the objectives. Further clarification on the 'how' sections as discussed at BAC	M Khan	29/11/2022
		TODs/DH/GM	31/01/2023
1.0	BAC approval		29/11/2022 31/01/2023
1.0	Board approval		30/11/2022 01/02/2023

Policy Owner:	Company Secretary
Accountable SMF Manager:	Chair of BAC
Review Frequency:	Annual
Internal Stakeholders / Policy Reviewers:	CFO, BAC
External Review (if applicable):	n/a
Approval Committee:	Board (via BAC)

BOARD AUDIT COMMITTEE/BAC (the “Committee”)**TERMS OF REFERENCE**

as adopted on 1 February 2023

PURPOSE

1. The Board Audit Committee (**BAC**) is a sub-committee of the DF Capital Group Boards (collectively the “**Board**”). The Committee should have competence in the relevant sector in which the Company operates.

AUTHORITY

2. The Committee shall have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required and is authorised by the Board to:
 - 2.1 investigate any activity within its terms of reference;
 - 2.2 review policies, regulatory reporting, marketing reporting and financial reporting and will report its findings for approval to the Board;
 - 2.3 have access to any employee and all employees are directed to cooperate with any request made by the Committee;
 - 2.4 obtain outside legal or independent professional advice, noting this to the Board; and
 - 2.5 review the appointment, resignation or dismissal of the External and any Internal Auditors and make recommendations to the Board and give advice to the PRA of the intended appointment.

MEMBERS

3. The members of the Committee for the time being shall be:

Independent Non-Executive Director(s)	Committee Chair
Senior Independent Director	Deputy Chair (to be chosen from iNED committee members)
Company Chair	

4. The following are requirements for membership of the Committee:
 - 4.1 a minimum of 3 members (of which the majority shall be Senior Managers under the FCA/PRA regime);



- 4.2 membership is confined to independent non-executive directors with at least one member having recent and relevant financial expertise and at least one member of the risk committee (with the Chair able to co-opt other non-executive directors as they may require from time to time); The committee as a whole shall have competence relevant to the sector in which the Company operates;
- 4.3 appointed by the Board of the Company (the “**Board**”), on the recommendation of the Nominations Committee and in consultation with the Chair of the Committee; and
- 4.4 appointed for a period of up to three years, which may be extended by no more than two further three year periods, provided the members (other than the Chair of the Board, if they are a member of the Committee) continue to meet the criteria for membership of the committee.
5. The following persons are invited to the Committee by standing invite:

Chief Executive Officer	
Chief Financial Officer	
Chief Risk Officer	
Company Secretary	
Internal/External Audit	External Auditors to attend meetings at least 2x annually (or invited at the request of the Chair) In exceptional circumstances, Internal Audit or External Auditors may request a meeting of the Committee

6. At least twice a year, normally June and November, representatives of the Company's External Auditors shall meet the Committee without any executive directors being present, to discuss the External Auditors' remit and any issues arising from the audit.
7. Any other persons are invited to the Committee by prior arrangement with the Chair of the Committee with input from the CEO or CFO (based on the subject of discussion and where performance is discussed).

Chair

8. The Chair of the Committee (who shall be an independent non-executive director approved by the FCA and PRA as SMF11) shall be appointed by the Board, which shall determine the period for which they shall hold office.
9. The Chair of the Board shall not be eligible to be appointed as Chair of the Committee but may serve on the Committee as an additional member if they were considered independent on appointment as Chair.

- 10.** In the absence of the Chair or the Deputy Chair, the remaining members present shall elect one of themselves to chair the meeting.
- 11.** The Chair shall be responsible for:
 - 11.1** overseeing the whistleblowing policies and procedures (as the Company's designated 'Whistle-blower's' Champion') with responsibility for ensuring and overseeing the integrity, independence and effectiveness of the whistleblowing policies and procedures;
 - 11.2** reporting all decisions of the committee and any significant issues in relation to the financial statements formally to the Board;
 - 11.3** setting the agenda for meetings, chairing those meetings and ensuring adequate time is available for discussion, and ensuring the overall effectiveness of the operation of the Committee;
 - 11.4** ensuring that the Committee addresses all of the tasks delegated to it;
 - 11.5** making an annual assessment as to the performance of members, collective skills and effectiveness of the Committee to fulfil its role and confirm that sufficient resources are available to fulfil its role;
 - 11.6** maintaining contact with the Chair of the Board Risk Committee (reporting and sharing relevant matters between formal sub-committee meetings and attending the Board Risk Committee meetings, with the minute secretary copying meeting minutes to the Board Risk Committee);
 - 11.7** maintaining a dialogue with key individuals involved in the Company's governance, including: the Chair of the Company, the Chief Executive Officer, the Chief Financial Officer, the external audit lead partner and the head of internal audit;
 - 11.8** attending the Company's Annual General Meeting ("**AGM**") as necessary to respond to any shareholder questions on the Committee and its activities and responsibilities; and
 - 11.9** reviewing the appointment, resignation or dismissal of the Internal and External Auditors and making recommendations to the Board.
- 12.** The Committee will allow sufficient time and resources for the Chair of the Committee to deal with matters relating to the discharge of any individual responsibilities allocated to them under the Senior Managers Regime.

Secretary

- 13.** The Company Secretary or their nominee shall act as Secretary of the Committee.
- 14.** The Secretary of the Committee will be responsible for:
 - 14.1** working with the Chair of the Committee in setting the agenda for meetings and assisting in planning the Committees work
 - 14.2** unless otherwise agreed, notice of each meeting confirming the venue, time and date of

the meeting, together with an agenda of items to be discussed, shall be forwarded to each member of the committee and any other person required to attend;

- 14.3** no later than 5 working days before the date of the meeting;
- 14.4** supporting papers shall be sent to committee members and to other attendees, as appropriate, at the same time.
- 14.5** taking minutes of Committee meetings and all resolutions made, including the names of those present and in attendance; and
- 14.6** circulating draft minutes to all members of the Committee and, once approved, to all members of the Board unless, in the opinion of the Chair of the Committee, it would be inappropriate to do so.

Quorum

- 15.** The quorum for decisions of the Committee shall be any 2 members, formed by the Chair plus one other independent non-executive director.

OBJECTIVES

- 16.** The objectives of the Committee are to:

Objective 1	<p>Challenge, report its conclusions and make recommendations to the Board on matters relating to:</p> <ol style="list-style-type: none"> 1. Internal controls; 2. Internal Audit plans, activity and reports; 3. External Auditors' plans, activity and reports; 4. Financial Statements and Reporting; 5. Disclosure requirements; and 6. Whistleblowing policy and arrangements. 7. Monitoring of fraud prevention and detection 8. Compliance with legislation, regulation and internal policy.
--------------------	---

ROLES/RESPONSIBILITIES

- 17.** The Committee shall, on behalf of the Board and the shareholders of the Company:

Role/Responsibility	How this will be achieved
External Auditors	
Oversee arrangements implemented by the Board for External Auditors	
Make recommendations to the Board for approval on the appointment, reappointment and removal of the External Auditors	1. Assessing the External Auditors' effectiveness, qualifications, independence and objectivity, ensuring that key partners are rotated at appropriate intervals;
Oversee the relationship and contract with the External Auditors	1. approving the terms of engagement of the External Auditors, including the



	<p>remuneration to be paid;</p> <p>3. approving the provision of consultancy services by the External Auditors and related remuneration; and</p> <p>4. agreeing with the Board a policy on the employment of former employees of the Company's auditor and monitoring the implementation of this policy.</p>
Review and approve the annual external audit plan	Ensuring that it is consistent with the scope of the audit engagement, and co-ordinated with the activities of the Internal Audit function
Discuss with the External Auditors, before the audit commences, the nature and scope of the audit and review the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements	
Provide independence over and challenge the findings of audits with the External Auditors	Considering the External Auditors' management letter and management's response to the auditor's findings and recommendations
Review such reports prepared by the External Auditors as the Committee shall require, including obtaining assurance that external recommendations are implemented as timetabled.	Considering management's response to any major external audit recommendations and track progress on remediation
Financial Statements	
Monitor the integrity of the financial statements of the Company	<p>Including:</p> <ol style="list-style-type: none"> 1. annual and half-yearly accounts, 2. market announcements; and 3. other formal announcements relating to the Company's financial performance, reviewing summary financial reporting issues and the judgements which they contain
Review, and challenge where necessary, the actions and judgements of management, in relation to annual financial statements before submission to the Board	<p>Paying particular attention to:</p> <ol style="list-style-type: none"> 1. critical accounting policies, including for provisions; 2. disclosures and estimates requiring a major element of judgement; 3. the extent to which financial statements are affected by any unusual transactions in the year, the methods used to account for any significant or unusual transactions; 4. clarity of disclosures and the context within which financial statements are made; 5. compliance with accounting standards; 6. compliance with legal and regulatory



	<p>requirements;</p> <p>7. the going concern assumptions;</p> <p>8. the representation letter to the auditors; and</p> <p>9. all material information presented with the financial statements (such as the operating and financial review and the corporate governance statement).</p>
Review any significant adjustments to financial reporting resulting from the audit, and resolve any disagreements between management and the External Auditors regarding financial reporting	Assessed as part of the statutory/ interim accounts approval process
Review any critical control issues raised by auditors or management that have an impact on financial reporting	Any critical control issues raised to be discussed at Committee meetings with action plans agreed and monitored
Review the Company's procedures for detecting financial reporting fraud	
Work and liaise as necessary with all other Board committees.	<p>Reviewing any matter referred to it by the Chair/ Board.</p> <p>Ensure interaction between committees and with the Board is reviewed regularly.</p>
Disclosure	
Review and recommend to the Board for approval the Company's Pillar 3 disclosure policies	Including frequency, publication and verification arrangements
Review and recommend to the Board for publication the Company's periodic Pillar 3 reporting	
Receive periodic independent review reports conducted on the Pillar 3 disclosures	
Internal Audit	
Monitor, review and challenge the effectiveness of the Company's internal audit function which is outsourced and any internal audit functions	Review this annually
Oversight, review and challenge the internal audit programme and ensure that the internal audit function is adequately resourced, has appropriate access to information and has appropriate authority and standing within the Company	
Review and challenge Internal Audit's reports on the effectiveness of systems for internal control	
Consider the major findings of any significant internal audit review and challenge senior management's response	

to the audit recommendations	
Consider the major findings of any relevant internal investigations into control weaknesses, fraud or misconduct and management's response	
Whistleblowing and fraud	
Review the Company's Whistleblowing Policy and associated arrangements	Review of policy, at least every two years
Review and approve procedures for handling the confidential submission by employees of the Company (which may be anonymous) of concerns on any matter which they wish to raise, and for protecting staff who raise concerns, from any detrimental treatment or victimisation	Review of whistleblowing report, which includes statement of effectiveness and policy compliance, at least every two years
Review the Company's procedures for handling the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or audit matters	
Review the Company's procedures for detecting fraud	
General	
Facilitate the effective contribution and involvement of non-executives	Aiding their understanding of risk issues and the Company's audit framework
Ensure that all legal and regulatory requirements regarding disclosure of information (and those set out in the QCA Code the QCA's Audit Committee Guide for Smaller Quoted Companies and the AIM Rules for Companies) are fulfilled	1. producing any reports necessary for inclusion in the Company's annual report; 2. overseeing adherence to the Company's risk principles, policies and standards and any action taken resulting from material policy breaches (based on reports from Internal or External Audit).
Make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed	Any matters outside the powers of the Committee, or agreed to be reviewed by the Board, must be escalated for approval by the Board. In the event of the notified independent non-executive directors outvoting the Chair (who is a Senior Manager SMF11), the Chair can escalate the issue to the Board
Work and liaise as necessary with all other Board committees	Reviewing any other matters referred to it by the Chair of the Board
Review the standard data & management information received by the Committee, annually, to ensure it is adequate	Developing and utilising a standard Management Information dashboard to present such information

PROCEDURE AND FREQUENCY OF MEETINGS



- 18.** Notwithstanding the quorum requirements for the Committee, all members of the Committee should endeavour to attend all meetings of the Committee at which matters of the contents of the Committee's annual report to shareholders are discussed.
- 19.** Meetings of the Committee:
 - 19.1** shall be held at least quarterly and at such other times as the Chair of the Committee requires (normally immediately before or after regular meetings of the Board);
 - 19.2** may be held by telephone or video conference ;
 - 19.3** may be requested by the Company's internal or External Auditors (if they consider it necessary); and
 - 19.4** may be called by the Secretary of the Committee at the request of any member of the Committee.
- 20.** The Committee shall:
 - 20.1** have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
 - 20.2** be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
 - 20.3** give due consideration to all relevant laws and regulations, as appropriate.
 - 20.4** investigate any activity within its terms of reference and seek directly any information it requires from any employee or contractor of the Company (all such persons being directed to co-operate with any such request by the committee);
 - 20.5** obtain outside legal or other independent professional advice at the cost of the Company in accordance with the Company's agreed procedure under which Directors may obtain independent advice, and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary (but such persons shall not be members of the committee)
- 21.** at least annually or as required by the Board, review its own performance, constitution and terms of reference to ensure that it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.