



## INTRODUCTION

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.

## ROLE OF INTERNAL AUDIT

The primary role of Internal Audit is to help the board and executive management to protect TSB'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.

## SCOPE

Internal Audit operates as the third line of defence within TSB'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 for strategic decision making;
- the setting of, and adherence to, risk appetite;
- the risk and control culture;
- risks of poor customer treatment;
- capital, liquidity and other prudential regulatory risks; and
- key corporate events.

To this end Internal Audit will assess the design and operating effectiveness of TSB's policies and processes, and whether the 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 valued appropriately and protected from loss, theft or fraud; and
- all regulatory and legislative requirements are recognised and complied with.

## REPORTING LINE

The Chief Audit Officer's primary reporting line is to the Chair of the Audit Committee with a secondary reporting line to the Chief Executive. The Chief Audit Officer also has a reporting line to the Group Chief Audit Officer of Banco de Sabadell.



## RESPONSIBILITIES

The responsibilities of Internal Audit include:

- developing a risk based audit plan for the approval of the Audit Committee;
- delivering the audit plan, reporting significant findings to executive management, the Audit Committee and the board;
- providing opinions periodically on the overall effectiveness of the governance, risk and control framework; and
- challenging management on emerging risks and highlighting themes and trends from Internal Audit work.

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

To deliver this, the Chief Audit Officer's responsibilities include:

- assessing the resources and skills required;
- recruiting and maintaining a team with the right skills, knowledge and experience to challenge management; and
- providing a quality assurance function to evaluate the performance of Internal Audit on a regular basis.

## INDEPENDENCE

Internal Audit is independent of TSB's operational activities which enables it to provide unbiased judgements and to facilitate impartial advice to management.

## AUTHORITY

Internal Audit receives its authority from the Audit Committee which is responsible for the appointment of the Chief Audit Officer. Internal Audit has unrestricted access to all of TSB's businesses and functions, property and records, including the right to attend key management decision making fora to help gain an understanding of the business and provide perspectives on risk and control.

## STANDARDS OF AUDIT PRACTICE

TSB's Internal Audit operates in accordance with the Chartered Institute of Internal Auditors' Standards, its Code of Ethics and its July 2013 publication: 'Effective Internal Audit in the Financial Services Sector'.

## RESPONSIBILITIES OF THE AUDIT COMMITTEE

These include:

- approving the Internal Audit budget and disclosing in the annual report whether it is satisfied that Internal Audit has the appropriate resources, and
- commissioning 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 TSB Banking Group plc on 18 January 2016.