

**TSB BANKING GROUP PLC (THE 'COMPANY')**  
**BOARD AUDIT COMMITTEE**  
**TERMS OF REFERENCE**

In these Terms of Reference:

'**TSB**' means the Company together with its subsidiaries and subsidiary undertakings from time to time (as defined in the Companies Acts 2006).

'**Sabadell Group**' means Banco de Sabadell S.A. (the '**Parent**') together with its subsidiaries and subsidiary undertakings from time to time (as defined in the Companies Acts 2006).

## **1. PURPOSE**

**1.1** The Audit Committee (the '**Committee**') is responsible for ensuring a straightforward and transparent culture exists within TSB which supports TSB's risk appetite in respect of financial and risk reporting, and internal control. In doing so the Committee will draw the Board's attention to any concerns the Committee has in respect of the financial position or prospects of TSB and to the extent that any of its recommendations require approval by the Parent.

**1.2** The Audit Committee is authorised by the Board of the Company (the '**Board**') to review and report its conclusions to the Board on:

- a) the financial statements and reporting of TSB;
- b) narrative reporting of TSB;
- c) internal controls and risk management systems;
- d) TSB's Internal Audit function; and
- e) TSB's relationship with its External Auditors.

**1.3** The Committee is a committee of the Board and as such is authorised by the Board to:

- a) delegate any of its responsibilities to a sub-Committee including one established solely for that purpose, whilst maintaining accountability;
- b) seek any information that it requires or request attendance at a meeting from any employee or director of the Company or any other member of TSB, and all employees and directors are directed to co-operate with any requests made by the Committee; and
- c) obtain outside legal or other independent professional advice in relation to matters falling within its responsibilities and to approve the fees and other terms of any such retainer.

**1.4** The Committee has the right to publish in the Company's annual report details of any issues that cannot be resolved between the Committee and the Board.

## **2. RESPONSIBILITIES**

**2.1** The Committee should carry out the duties below for TSB (including the Company and TSB Bank plc (the '**Bank**')) as appropriate.

## Financial Reporting

**2.2** The Committee shall review and challenge the actions and judgements of management in relation to the interim and annual financial statements prior to submission to the Board, and any other formal announcement relating to TSB's financial performance (including half-year reports and any interim financial statements), reviewing and reporting to the Board on significant financial reporting judgements which they contain having regard to matters communicated to it by the External Auditor.

**2.3** In particular the Committee shall review and challenge where necessary:

- a) the consistency of, and any changes to, significant accounting policies both on a year on year basis and across TSB;
- b) the Going Concern statements included in interim and annual financial statements;
- c) the Viability Statement included in the annual financial statements;
- d) the methods used to account for significant or unusual transactions where different approaches are possible;
- e) whether TSB has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the External Auditor;
- f) the clarity and completeness of disclosure in TSB's financial reports and the context in which the statements are made; and
- g) all other material information presented with the financial statements, such as the business review and the corporate governance statements.

**2.4** Where the Committee is not satisfied with any aspect of the proposed financial reporting by TSB, it shall report its views to the Board.

## Narrative Reporting

**2.5** When requested by the Board, the Committee shall review the content of the annual reports and accounts of any TSB company and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the relevant company's position and performance, business model and strategy.

## Internal controls and risk management systems

**2.6** The Committee shall:

- a) keep under review the adequacy and effectiveness of TSB's internal financial controls and internal control and risk management systems;
- b) review and approve the statements to be included in the Company's annual report and accounts concerning internal controls and risk management; and
- c) in carrying out the responsibilities in respect of internal controls and risk management systems, the Committee will receive reports on TSB's compliance from TSB's independent Risk Function, Internal Audit and TSB's External Auditor.

**2.7** The Committee will also have oversight accountability in respect of the systems and internal controls used to support the submission to the Prudential Regulation Authority of the Bank's Internal Capital Adequacy Assessment Process ('ICAAP'), Internal Liquidity Adequacy Assessment Process (including the CFP) ('ILAAP'), and Recovery Plan and for the relevant Pillar 3 disclosures, to ensure that the data is accurate and complete, working closely with the Risk Committee as required.

## Internal Audit

### **2.8** The Committee shall:

- (a) approve the appointment or termination of the Chief Audit Officer;
- (b) review and approve the remit of Internal Audit with reference to the audit principles, policies and scope of the Parent;
- (c) approve the internal audit budget and ensure that the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- (d) ensure that the Chief Audit Officer has direct access to the Board chair and to the Committee chair, and is accountable to the Committee, in order to ensure their continued independence;
- (e) review the internal audit plan, ensuring that it is aligned to TSB's principal and emerging risks; and ensure that there is adequate internal audit coverage from suitably skilled auditors;
- (f) receive opinions on a periodic basis on the results of the work of Internal Audit and the overall effectiveness of the governance, risk and control framework, and whether TSB's risk appetite is being adhered to;
- (g) review and monitor management's responsiveness to any internal audit findings and recommendations and management's actions to support the effective working of the internal audit function;
- (h) monitor the performance and effectiveness of the Internal Audit function in the context of TSB's overall risk management system and the work of risk, finance and the external auditor;
- (i) Review and approve the Internal Audit charter to ensure that it is appropriate to the current needs of TSB;
- (j) ensure that Internal Audit has unrestricted scope in its activities and that there is open communication between different functions; and
- (k) commission an independent external assessment of Internal Audit, in line with the Chartered Institute of Internal Auditors' Standards, at least once every five years.

## External Audit

### **2.9** The Committee shall:

- (a) consider and, where appropriate, recommend to the Board to be put to the shareholders of the Company for approval at the Annual General Meeting, the appointment, re-appointment, resignation and dismissal of the External Auditors;
- (b) ensure that at least once every ten years, and having regard to the Parent's audit policy, the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent External Auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- (c) if an External Auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (d) oversee the relationship with the External Auditor including (but not limited to):
  - i. recommendations on their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - ii. approval of the terms of engagement of the External Auditor, including any engagement letter issued at the start of each audit and the scope of the audit;

- iii. annually assess the effectiveness, independence and objectivity of the External Auditors taking into account relevant professional and regulatory requirements and the relationship with the External Auditor as a whole, including matters related to the provision of any non-audit services;
  - iv. satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the External Auditor and TSB (other than in the ordinary course of business) which could adversely affect the External Auditor's independence and objectivity;
  - v. agreeing with the Board a policy on the employment of former employees of the External Auditor, and monitoring the implementation of this policy;
  - vi. monitoring the External Auditor's compliance with relevant ethical and professional guidance on the rotation of the audit partner, the level of fees paid by TSB compared to the overall fee income of the firm, office and partner and other related requirements;
  - vii. assessing annually the qualifications, expertise and resources of the External Auditor and the effectiveness of the audit process, which shall include a report from the External Auditor on their own internal quality procedures;
  - viii. seeking to ensure co-ordination with the activities of the Internal Audit function;
  - ix. evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of the External Auditor from the market in that evaluation; and
  - x. reviewing Financial Reporting Council ('FRC') reporting on External Auditor audits subject to FRC review, together with more general information available on the External Auditor;
- (e) meet regularly with the External Auditor (including once at the planning stage before the audit and once after the audit at the reporting stage), without management being present, to discuss the External Auditor's remit and any issues arising from the audit;
- (f) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team; and
- (g) review the findings of the audit with the External Auditor. This shall include, but not be limited to, the following:
- i. a discussion of any major issues which arose during the audit;
  - ii. key accounting and audit judgements;
  - iii. levels of errors identified during the audit;
  - iv. the auditor's view of interactions with senior management; and
  - v. the effectiveness of the audit process.
- (h) The Committee shall also:
- i. Consider communications from the External Auditor on audit planning and findings on material weaknesses in accounting and internal control systems that come to the auditor's attention;
  - ii. review any representation letter(s) requested by the External Auditor before they are signed by management;
  - iii. review the External Auditor's management letter and management's response to the External Auditor's findings and recommendations;
  - iv. develop, implement and monitor policy on the supply of non-audit services by the External Auditor, ensuring there is prior approval of non-audit services where required, to avoid any threat to audit objectivity and independence,

- taking into account any relevant regulation and ethical guidance on the matter;
- v. review reports prepared by the External Auditors on the Committee's request;
  - vi. seek to resolve any disagreements between management and the External Auditors regarding financial reporting; and
  - vii. be responsible for the co-ordination of the Internal and External Auditors.

### Tax Strategy

**2.10** The Committee review and recommend to the Board for approval TSB's UK Tax Strategy.

## **3. COMMITTEE EFFECTIVENESS**

**3.1** At least annually, the Committee shall review the effectiveness of the Committee including specific review of the Terms of Reference of the Committee, and report to the Board thereon.

## **4. MEMBERSHIP AND OPERATION OF THE COMMITTEE**

**4.1** The Committee shall comprise at least three directors, all of which shall be Non-executive Directors. Membership shall include at least one member of the Risk Committee and one member who has recent and relevant financial experience in retail banking, ideally with a professional qualification from at least one of the professional accounting bodies and the Committee as a whole shall have competence in the retail banking sector. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee, and in consultation with the chair of the Committee. The Chair of the Board should not be a member of the Committee.

**4.2** Appointments to the Committee are made by the Board and shall be for a period of up to three years, which may extend for further periods of up to three years, provided the director still meets the criteria for membership of the Committee.

**4.3** The Board shall appoint the Committee chair who should be an independent Non-executive Director. In the absence of the Committee chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting from those who would qualify under these terms of reference to be appointed to that position by the Board.

**4.4** The Company Secretary or their nominee shall act as the secretary to the Committee.

**4.5** The quorum necessary for the transaction of business shall be any two members of the Committee.

**4.6** Meetings of the Committee shall be called by the secretary of the Committee at the request of the Committee chair or the Chief Audit Officer.

**4.7** Unless otherwise agreed, notice of the meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other Non-executive Directors, no later than three working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

**4.8** Members may attend meetings via teleconference or videoconference if required. Decisions of the Committee may also be taken by way of a unanimous written resolution of Committee members. Such written resolution is adopted when all members of the Committee have signed one or more copies of it or otherwise indicated their agreement to it in writing (which may include by electronic mail).

**4.9** The Committee shall 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.

## **5. INPUTS**

**5.1** The Committee will be supported by the Internal Audit, HR, Risk, Legal and Finance functions of TSB and will have access to whatever additional advice or support it requires in the discharge of its duties. This will include but is not limited to:

- a) access to the advice and services of the Chief Audit Officer and the Internal Audit team;
- b) access to the advice and services of the HR Director and the HR team;
- c) access to the advice and services of the Chief Risk Officer and the Risk team;
- d) access to the advice and services of the General Counsel and the Legal/Company Secretarial team;
- e) access to the advice and services of the Chief Financial Officer and the Finance team; and
- f) outside independent professional, technical and/or legal advice or other resources, at the Company's expense, as and when it considers this necessary.

**5.2** The Committee shall have regard to established and evolving best practice corporate governance standards including, where relevant, standards set by voluntary codes. Where departure from the requirements of these standards or codes is required or believed to be appropriate, the Committee shall recommend to the Board the appropriate explanation or justification or use as required, in the Company's external disclosures.

## **6. OUTPUTS**

**6.1** The Committee chair shall report formally to the Board on the Committee's proceedings.

**6.2** To the extent that it is required by applicable regulation, the Committee shall compile a report on its activities to be included in the Company's annual report.

**6.3** In the compiling of the reports referred to in paragraph 6.1 and 6.2, the Committee shall exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that will have informed the Board's assessment of whether the Company is a going concern.

**6.4** The secretary of the Committee shall minute the proceedings of all meetings of the Committee, including recording the names of those present and in attendance.

**6.5** Draft minutes of Committee meetings shall be distributed promptly to all Committee members. Once approved, minutes should be circulated to all other members of the Board, unless in the opinion of the Committee chair it would be inappropriate to do so.

**6.6** Final signed copies of the minutes of the meetings of the Committee should be maintained for the Company's records, in hard and soft copy where possible.

**6.7** The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

## **7. NON MEMBERS/OTHER ATTENDEES**

**7.1** Only members of the Committee have the right to attend Committee meetings. However, all other Non-executive Directors have an open invitation to attend meetings.

**7.2** The Chief Executive Officer, the Chief Financial Officer, representatives of the External Auditor and the Chief Audit Officer are expected to attend all meetings of the Committee. Additionally, the Chief Risk Officer, General Counsel and external advisors may be invited to attend all or part of the meeting as appropriate, together with other attendees at the discretion of the Committee chair.

## **8. FREQUENCY OF MEETINGS**

**8.1** Meetings shall be held as circumstances require, but at least four times a year to enable responsibilities to be discharged.

**8.2** Outside of the formal meeting programme, the Committee chair will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chair, the Chief Executive Officer, the Chief Financial Officer, the External Audit Partner, the Chief Audit Officer and the Chief Risk Officer.

**8.3** At least once a year, without the presence of executive management, the Committee shall meet with the External Auditors and with the Chief Audit Officer to discuss matters relating to the remit of the Internal Audit function and any issues arising from the audits.

## **9. MISCELLANEOUS**

**9.1** References in these Terms of Reference to executive positions (including, without limitation, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, HR Director, Chief Audit Officer and General Counsel) are to the individual holding that position for TSB, whether formally appointed by TSB or otherwise.