

INTERNAL AUDIT CHARTER

This Charter defines the purpose, authority and responsibility of TSB's Internal Audit function.

Role of TSB Internal Audit

We are the third line of defence within TSB's risk management framework. Our primary role is to help the Board and Executive Committee protect TSB's assets, reputation and sustainability. We will:

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

Mission

Our mission is to provide insightful and independent assurance that helps TSB protect its assets, reputation and sustainability. We will inspire confidence in our customers, regulators, Sabadell Group, and our Partners, to build a different kind of bank and ultimately make banking better for all UK customers.

Independence and authority

We are independent of TSB's operational activities which enables us to provide unbiased judgements and facilitate impartial advice to management. Our auditors are independent, objective, and constructive when carrying out their work. They will avoid conflicts of interest and personal, business or other issues that may impair impartiality. The Chief Audit Officer will confirm our organisational independence to the TSB Board Audit Committee at least annually. If our independence or objectivity is impaired, the Chief Audit Officer will disclose details to the Board and Executive Committee.

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

The Chief Audit Officer's primary reporting line is to the Chair of the TSB Audit Committee with a secondary reporting line to TSB's Chief Executive. The Chief Audit Officer also has a reporting line to the Group Chief Audit Officer of Banco de Sabadell. We have defined roles, responsibilities, audit coverage, and information sharing with Sabadell Group Audit as part of an agreed protocol.

Standards for the Professional Practice of Internal Auditing

Our work is performed in accordance with the Chartered Institute of Internal Auditors' 'Guidance on Effective Internal Audit in the Financial Services Sector', and the mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the 'International Standards for the Professional Practice of Internal Auditing' and the Definition of Internal Auditing.

INTERNAL AUDIT CHARTER

Scope

The scope of our work is unrestricted and includes the assessment of:

- internal governance;
- information presented to the Board for strategic decision making;
- setting of, and adherence to, risk appetite;
- risk and control culture;
- risks of poor customer treatment;
- capital, liquidity and other prudential regulatory risks; and
- key corporate events.

We 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 TSB's objectives, risk appetite and values. This will include assessing the reliability and integrity of information, and whether the risk management, control and governance structures are functioning as intended and 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 Committee;
- 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.

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

Responsibilities

Our responsibilities include:

- developing a risk based Audit Plan for the approval of the TSB Audit Committee;
- delivering the Audit Plan, reporting significant findings to Executives, the TSB Audit Committee and the Board;
- reviewing and adjusting the Audit Plan, as necessary, in response to changes in TSB's business, risks, operations, programmes, systems and controls; and communicating any changes to senior management and the TSB Audit Committee.
- providing opinions periodically on the overall effectiveness of the governance, risk and control framework, and whether TSB's risk appetite is being adhered to;
- challenging management on emerging risks and highlighting themes and trends from Internal Audit work;
- maintaining an independent view of what we should audit and when. We may consider placing some reliance on work completed by other internal and external assurance providers, to maximise coverage across TSB. Before relying on the work of others, we will undertake sufficient independent audit work to evaluate the effectiveness of the provider and to check the reliability and relevance of the assurance work to the audit topic or scope.

INTERNAL AUDIT CHARTER

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

- assessing the resources, skills and budget required to deliver the Audit Plan;
- recruiting and maintaining a team with the right skills, knowledge and experience to provide effective challenge throughout TSB and to the Executive Committee;
- providing a quality assurance function to evaluate the performance of Internal Audit on a regular basis.

Quality Assurance and Improvement Programme

We maintain a quality assurance and improvement programme that covers all aspects of internal audit activity. The Chief Audit Officer will communicate to the TSB Audit Committee the results of the programme, including findings from internal and external assessments, and any areas for development.

Responsibilities of the TSB Audit Committee

These include:

- approving the risk-based internal Audit Plan;
- approving the Internal Audit budget and disclosing in the annual report whether it is satisfied that Internal Audit has the appropriate resources;
- monitoring the performance and effectiveness of the Internal Audit function; 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 TSB Audit Committee, on behalf of the Board, on 23 January 2019.