

Audit Committee Terms of Reference

1 Main Purpose:

The Audit Committee is a committee of the Society's Board which assists the Board in fulfilling its oversight responsibilities in respect of matters relating to financial reporting; internal audit and external audit; systems of risk management and internal control; and the prevention of fraud.

2 Membership:

The Committee shall comprise at least three members, all of which shall be independent Non-Executive Directors. At least one member of the Committee shall have recent and relevant financial experience and with a competence in accounting and/or auditing. The Committee as a whole shall have competence relevant to the financial services sector.

Members of the Committee are appointed by the Board, upon the recommendation of the Governance & Nominations Committee and in consultation with the Chair of the Audit Committee. The Chair of the Society's Board shall not be a member of the Committee.

The Chair of the Committee shall be appointed by the Board. In the absence of the Committee Chair at a Committee meeting, the remaining members present shall elect one of themselves to chair the meeting.

The Secretary of the Committee shall be the Group Secretary or his nominee.

3 Quorum:

Two members, at least one of which should include a member who has recent, relevant financial experience and competence in accounting and/or auditing.

4 Attendance

Only members of the Committee have the right to attend Committee meetings. However, the Chief Executive Officer, Chief Financial Officer, Chief Internal Auditor, and representatives of the Society's External Auditor will be invited to attend on a regular basis. Other colleagues may be invited to attend all or part of any meeting, as and when appropriate and necessary.

5 Frequency of Meetings:

The Committee shall meet no less than five times per annum. Outside of the formal meeting programme, the Committee Chair, and to a lesser extent the other Committee members, will maintain a dialogue with key individuals involved in the Society's governance, including the Chair of the Board, Chief Executive Officer, Chief Financial Officer, Chief Internal Auditor and the External Audit Lead Partner.

6 Committee Functions:

6.1 External Audit

The Committee shall:

- 6.1.1 Consider and make recommendations to the Board (to be put to Members for approval at the Annual General Meeting) about the appointment, re-appointment and removal of the Society's external auditor.
- 6.1.2 Ensure that, at least once every ten years, the external audit services contract is put out to tender to enable the Committee to assess and compare the quality and effectiveness of the services of the incumbent auditor with those of other firms. The Committee will oversee the selection procedure for the appointment of the external auditors, ensuring that all tendering firms have access to all necessary information and individuals during the tender process.
- 6.1.3 In circumstances where the external auditor resigns, investigate the issues leading to that resignation and decide whether any action is required.

- 6.1.4 Oversee the relationship with the external auditor including:
- 6.1.4.1 Approval of remuneration for the provision of audit and non-audit services, ensuring that the level of fees is appropriate to enable an effective and high quality audit to be conducted.
 - 6.1.4.2 Approval of the terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit.
- 6.1.5 Review and monitor (including an annual assessment of) the external auditor's independence and objectivity taking into account relevant UK legislation, regulation, the FRC's Ethical Standard, other appropriate professional requirements and:
- 6.1.5.1 the qualifications, experience and resources of the external auditor.
 - 6.1.5.2 the Society's relationship with the external auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services.
 - 6.1.5.3 Satisfy itself that there are no relationships between the external auditor and the Society (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity.
- 6.1.6 Agree with the Board the policy on the employment of former employees of the external auditors, taking account of relevant UK legislation, regulation and the FRC's Ethical Standard and monitor the application of this policy.
- 6.1.7 Monitor the external auditor's processes for maintaining independence, its compliance with relevant UK legislation, regulation, other professional requirements and the FRC's Ethical Standard, including the guidance on the rotation of the audit partner.
- 6.1.8 Monitor the level of fees paid to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant UK legislation, regulation, other professional requirements and the FRC's Ethical Standard.
- 6.1.9 Annually assess the qualifications, expertise and resources of the external auditor and the effectiveness of the external audit process.
- 6.1.10 Seek to ensure the co-ordination of the external audit with the activities of the Internal Audit function, where appropriate.
- 6.1.11 Monitor the engagement of the external auditor to supply non-audit services, ensuring that there is prior approval from the Chair of non-audit services, considering the impact that this may have on independence, taking into account relevant ethical guidance in this regard and reporting to the Board on any improvement or action required.
- 6.1.12 Meet regularly with the external auditor:
- Including at least once a year without management being present, to discuss the auditor's remit and any issues arising from the audit.
 - To discuss the factors that could affect audit quality and review and approve the audit plan, ensuring it is consistent with the scope of the audit engagement.
 - Review the findings of the audit (including a discussion of any major issues which arose during the audit, the auditor's explanation of how risks to audit quality were addressed, key accounting and audit judgements, the auditor's view of their interactions with management and the levels of errors identified during the audit).
- 6.1.13 Review any letters of representation requested by the external auditor prior to being signed by management.
- 6.1.14 Review the management letter and management's response to the auditor's findings and recommendations.

6.2 Financial Reporting

- 6.2.1 The Committee shall monitor the integrity of the financial statements of the Society and any formal announcements relating to the Society's financial performance, and reviewing significant financial reporting judgements contained in them.
- 6.2.2 In particular, the Committee shall review and challenge where necessary:
- The application of significant accounting policies and any changes to them.
 - The methods used to account for significant or unusual transactions where different approaches are possible.
 - Whether the Society has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements.
 - All material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management.
- 6.2.3 The Committee shall carry out a prior review of any other statements requiring Board approval which contain financial information (including Pillar 3 Disclosures).
- 6.2.4 The Committee shall recommend the financial statements to the Board for approval.

6.3 Narrative Reporting

- 6.3.1 The Committee shall review the content of the annual report and accounts and advise the Board (where requested) on whether, taken as a whole it is fair, balanced and understandable and provides the information necessary for Members to assess the Society's position and performance, business model and strategy.

6.4 Internal Control and Risk Management

- 6.4.1 The Committee shall keep under review the Society's internal systems of control and risk management.
- 6.4.2 The Committee shall review and approve the statements to be included in the annual report concerning internal control and the viability.
- 6.4.3 Review the Society's procedures for detecting fraud.

6.5 Internal Audit

The Committee shall:

- 6.5.1 Approve the appointment or removal of the Chief Internal Auditor.
- 6.5.2 Receive an update from the Remuneration Committee on the remuneration approved for the Chief Internal Auditor.
- 6.5.3 Review and approve the role and mandate of the internal audit function, monitor and review the effectiveness of the function and its work, annually approve the Internal Audit Charter and support the Chief Internal Auditor in discharging his prescribed responsibilities under the FCA's Senior Manager's Regime.
- 6.5.4 Review and approve the annual Internal Audit Plan to ensure it is aligned to the key risks of the business and receive regular reports on the work being carried out. The Committee shall review and monitor management's responsiveness to the findings and recommendations made by Internal Audit. As part of the approval process of the Internal Audit Plan, the Committee shall receive the Conduct and Compliance Monitoring Plan (as approved by the Board Risk Committee) to satisfy itself that any potential duplication between the second and third line plans is minimised as far as possible.
- 6.5.5 Ensure that Internal Audit has an unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate. Ensure there is open communication between different functions and that the Internal Audit function evaluates the effectiveness of those functions as part of the internal audit plan,

and ensure that the Internal Audit function is equipped to perform its role in accordance with appropriate professional standards.

- 6.5.6 Ensure that Chief Internal Auditor has direct access to the Society's Chairman and to the Committee's Chairman. The Committee shall meet not less than annually with the Chief Internal Auditor without the presence of management.
- 6.5.7 Carry out an annual assessment of the effectiveness of the Internal Audit function and from time to time oversee the process leading to an independent third party review of the effectiveness of the Internal Audit function.

6.6 Other Matters:

The Committee shall:

- 6.6.1 Review the Society's procedures for detecting fraud.
- 6.6.2 Maintain awareness of evolving best practice on corporate governance in relation to Audit Committees and make recommendations to the Board as appropriate.
- 6.6.3 Review the findings in all reports from reporting accountants appointed at the behest of the regulatory authorities to examine any aspect of the Society's business.
- 6.6.4 At least once per year, the Committee shall review its own performance and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.
- 6.6.5 Determine appropriate training and development for Committee Members both on appointment and on an ongoing basis to ensure that Members of the Committee are appropriately skilled.
- 6.6.6 Perform such other oversight functions as the Board may request.
- 6.6.7 Review and approve the statements to be included in the Annual Report concerning the role and responsibilities of the Committee and the action it has taken to discharge those responsibilities.
- 6.6.8 Receive such reports as considered necessary on the production and integrity of regulatory returns.

7 Reporting to the Committee:

- 7.1 The Committee may investigate any activity within its terms of reference and may obtain such information as it considers necessary from any employee or officer and may obtain legal or other professional advice as it considers necessary.
- 7.2 The Secretary of the Committee shall circulate the Agenda and papers for each meeting of the Committee no less than three working days in advance of the relevant meeting.
- 7.3 Each employee or officer shall ensure that, where practicable, reports for consideration at the Committee are with the Secretary of the Committee no less than five working days in advance of the relevant meeting.

8 Reporting from the Committee:

This Committee reports to the Society's Board and to the Board of any Subsidiary in respect of which it is discharging the responsibilities of Audit Committee.

- 8.1 Formal Minutes, approved by the Chair of the Committee shall be submitted to the Board following each meeting of the Committee.

- 8.2 The Chair of the Committee will provide a verbal report on the activities of the Committee to the Board following each meeting of the Committee.
- 8.3 The Committee shall publish a report in the Annual Report and Accounts detailing any issues which have not been resolved between the Committee and the Board.

9 Annual General Meeting

- 9.1 The Chair of the Committee shall attend the annual general meeting to answer member questions on the Committee's activities.