

**THE CO-OPERATIVE BANK PLC, THE CO-OPERATIVE BANK FINANCE PLC  
AND THE CO-OPERATIVE BANK HOLDINGS LIMITED  
(TOGETHER THE “COMPANIES”)  
JOINT AUDIT COMMITTEE**

**Terms of Reference**

**1. CONSTITUTION**

1.1 The Terms of Reference for the Joint Audit Committee (the “**Committee**”) were approved on behalf of:

- The Co-operative Bank plc (the “**Bank**”) by The Co-operative Bank Finance plc (the “**FinanceCo**”), the sole shareholder of the Bank;
- FinanceCo by The Co-operative Bank Holdings Limited, (the “**HoldCo**”), the sole shareholder of FinanceCo; and
- HoldCo by the B Shareholders (as defined in the Articles of the HoldCo)

on 17 November 2020.

1.2 The purpose of the Committee is to monitor, review and report to the boards of directors of the Companies on the formal arrangements established by each of the Boards in respect of financial and narrative reporting, the internal controls and risk management systems of HoldCo and its subsidiary undertakings (the “**Group**”) (including, specifically, the Bank’s Risk Management Framework), the internal audit and the external audit processes.

**2. MEMBERSHIP AND ATTENDANCE**

2.1 The chair of the Committee shall be an Independent Non-Executive Director (the “**Chair**”) and membership of the Committee shall comprise a minimum of three and maximum of six members.

2.2 The Boards shall appoint the Chair having considered the recommendation of the Nomination Committee of the Bank. All other members of the Committee shall be Independent Non-Executive Directors appointed by the Boards, taking into account the recommendations of the Nomination Committee of the Bank and in consultation with the Chair. The Committee, as a whole, shall have competence relevant to the sector in which the Group operates and at least one member shall have recent and relevant financial experience and a professional qualification from one of the professional accounting bodies. Membership shall include at least one member of the Risk Committee of the Bank.

2.3 Only the Chair and members of the Committee have the right to attend and vote at Committee meetings. However, in order to fulfil the Committee’s role, the Chair would normally be expected to invite the Bank’s Chief Executive Officer, the Bank’s Chief Financial Officer, the Bank’s Chief Risk Officer and the Bank’s Director of Internal Audit, as well as other executives of the Bank, a representative of the external auditor (the “**External Auditor**”) and, where appropriate, external advisers of any of the Companies, to be in attendance for all or part of each meeting, as and when the Chair determines appropriate or

necessary. Such attendees are not members of the Committee and do not perform the role of members of the Committee.

- 2.4 Subject to the Inside Information Framework (as defined in the articles of association of the Bank, FinanceCo and HoldCo (the "**Articles**")), the B Director(s) (as defined in the Articles) who are not members of the Committee shall be entitled to attend each meeting of the Committee unless the Chair reasonably determines that it is inappropriate.
- 2.5 In the absence of the Chair and/or an appointed deputy, the remaining members present shall elect one of the members to chair the meeting.
- 2.6 Appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three-year periods, so long as members continue to be independent.

### **3. SECRETARY**

- 3.1 The company secretary of the Bank, or an alternate selected by the Chair, shall act as the secretary of the Committee (the "**Secretary**").
- 3.2 The Secretary should ensure that the Committee receives information and papers in a timely manner to support full consideration of the issues.

### **4. QUORUM**

- 4.1 The quorum necessary for the transaction of business shall be two members both of whom are present throughout the meeting.
- 4.2 A member may be present for the purpose of paragraph 4.1 in person, by telephone or other electronic communications. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

### **5. FREQUENCY OF MEETINGS**

- 5.1 The Committee shall meet at least six times per financial year.
- 5.2 Outside of the formal meeting programme, the Chair will maintain a dialogue with key individuals involved in the Bank's governance, including the chair of the Boards, the Bank's Chief Executive Officer, the Bank's Chief Financial Officer, the External Audit lead partner, the Bank's Director of Internal Audit and relevant executives from the Bank.
- 5.3 The Bank's Director of Internal Audit shall have unrestricted access to the Chair to raise any matter directly and they shall meet at least four times a year without the presence of management.
- 5.4 The Chair shall meet with the Bank's Director of Compliance at least twice a year without the presence of management.
- 5.5 The Chair should attend annual general meetings of the Companies (the "**AGMs**") to answer shareholder questions on the Committee's activities. In addition, the Chair should seek engagement with shareholders on significant

matters related to the Committee's areas of responsibility. The Committee should be prepared to meet the shareholders at the AGM.

## **6. NOTICE OF MEETINGS**

- 6.1 Meetings of the Committee shall be convened by the Secretary at the request of any of the Committee's members, the chair of the Boards, the External Audit lead partner or the Bank's Director of Internal Audit.
- 6.2 Unless otherwise agreed, notice of each 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, each B Director and any other person required to attend, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate in a timely manner to enable full and proper consideration of issues.

## **7. MINUTES OF MEETINGS**

- 7.1 The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 7.2 Draft minutes of the Committee meetings shall be circulated to all members of the Committee. Once approved, minutes should be circulated to all other members of the Boards unless it would be inappropriate to do so in the opinion of the Chair.

## **8. DUTIES**

The Committee should carry out the duties below for the Group as appropriate.

### **8.1 Financial Reporting**

- 8.1.1 The Committee shall review, monitor and challenge the integrity of the Group's and Companies' financial statements, including, as applicable, their annual and half-yearly reports, interim management statements, and any other formal announcement relating to their financial performance, reviewing and reporting to each Board as required on significant financial reporting issues and judgements which they contain, having regard to matters communicated to it by the auditor.
- 8.1.2 The Committee should consider key matters of its own initiative rather than relying solely on the work of the External Auditor. It must satisfy itself that the sources of assurance and information it has used to carry out its role to review, monitor and provide assurance or recommendations to the Board are sufficient and objective.
- 8.1.3 In particular, the Committee shall review and challenge where necessary:
  - 8.1.3.1 the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the Group;

- 8.1.3.2 the methods used to account for significant or unusual transactions where different approaches are possible;
- 8.1.3.3 whether the Group has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- 8.1.3.4 the assumptions or qualifications in support of the going concern statement;
- 8.1.3.5 the clarity and completeness of disclosure in the Group's and Companies' financial reports and the context in which statements are made; and
- 8.1.3.6 all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and risk management.

## **8.2 Narrative Reporting**

The Committee should review the content of the annual report and accounts and advise the Boards on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for the shareholders to assess the Group's performance, business model and strategy.

## **8.3 Internal Controls and Risk Management Systems**

The Committee shall:

- 8.3.1 review and challenge the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems;
- 8.3.2 review and approve the statements to be included in the annual report concerning internal controls and risk management;
- 8.3.3 review the Group's arrangements for the deterrence, detection, prevention and investigation of fraud and receive and consider special investigation reports relating to fraud or major breakdowns in internal controls or major errors and omissions including remedial action by management; and
- 8.3.4 liaise with the Risk Committee of the Bank in respect of the systems and controls used to support the preparation of the ICAAP, ILAAP and other regulatory submissions.

## **8.4 Whistleblowing**

The Committee shall:

- 8.4.1 review and challenge the adequacy, effectiveness and security of the Bank's arrangements, policies and procedures for the protection of its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and

annually review and approve the Bank's Raising a Concern at Work (Whistleblowing) policy. The Committee shall ensure that these arrangements provide protection against the detrimental treatment of individuals who raise concerns and allow proportionate, autonomous and independent investigation of such matters and appropriate follow up action; and

8.4.2 on an annual basis review a report from the Bank's Head of Prudential Oversight which enables the Committee to analyse any concerns raised via the Bank's Concern at Work reporting mechanisms.

## **8.5 Internal Audit**

The Committee shall:

8.5.1 approve the appointment or termination of appointment of the Bank's Director of Internal Audit;

8.5.2 review and approve the charter of the Bank's Internal Audit Function and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate, has unrestricted scope and is equipped to perform in accordance with appropriate professional standards for internal auditors;

8.5.3 ensure the Bank's Internal Auditor has direct access to the chair of the Boards and to the Chair, and is accountable to the Committee;

8.5.4 ensure that the Bank's Internal Auditor has a reporting line that enables it to be independent of the executive and so able to exercise independent judgement;

8.5.5 review, challenge and assess the annual internal audit work plan, including its alignment to the key risks of the business, and the reasons for any significant change or delay to this plan;

8.5.6 ensure that the Bank's Internal Audit function evaluates the effectiveness of the risk, compliance and finance functions as part of its internal audit plan;

8.5.7 receive reports on the results of the Bank's Internal Audit Function's work for review;

8.5.8 review and monitor management's responsiveness to the internal auditor's findings and recommendations;

8.5.9 consider whether an independent, third party review of internal audit effectiveness and processes is appropriate;

8.5.10 meet with the Bank's Director of Internal Audit at least once a year without the presence of management and include discussion of the effectiveness of the Internal Audit Function; and

8.5.11 support the Chair in safeguarding the independence of, overseeing the performance of and monitoring and annually reviewing the

effectiveness of the Bank's Internal Audit Function, in the context of the Bank's overall risk management system and in accordance with SYSC 6.2 (Internal Audit). The annual effectiveness review to include determining whether the quality, experience and expertise of the Internal Audit Function is appropriate.

## 8.6 External Audit

The Committee shall:

- 8.6.1 have primary responsibility for negotiating the fee and scope of the audit, initiating a tender process, taking responsibility for the procedure for selection of the statutory auditor influencing the appointment of an engagement partner and making formal recommendations to the Boards in accordance with applicable legislation, to be put to the sole shareholder of the Bank, the sole shareholder of FinanceCo and the B Shareholders for approval at the AGMs, in relation to the appointment, re-appointment and removal of the External Auditor;
- 8.6.2 if any or all of the Boards do not accept the Committee's recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the Committee explaining the recommendation and should set out reasons why the Committee has taken a different position;
- 8.6.3 ensure that at least once every ten years the audit services contract is put out to tender and oversee the selection process;
- 8.6.4 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 8.6.5 oversee the relationship with the External Auditor including (but not limited to):
  - 8.6.5.1 approving recommendations on their remuneration, including both fees for audit and non-audit services (in accordance with the policy on the supply of non-audit services);
  - 8.6.5.2 approval of their terms of engagement and ensure that the key partner assignment is rotated at appropriate intervals;
  - 8.6.5.3 assessing and reviewing annually their independence and objectivity in accordance with applicable legislation taking into account relevant professional and regulatory requirements;
  - 8.6.5.4 agreeing with the Boards a policy on the employment of former employees of the External Auditor, and monitoring the implementation of this policy;
  - 8.6.5.5 monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Group compared to the overall fee

income of the firm, office and partner and other related requirements;

- 8.6.5.6 assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the External Auditor on their own internal quality procedures;
- 8.6.5.7 seeking to ensure co-ordination of the External Auditor with the activities of the Bank's Internal Audit Function;
- 8.6.6 meet regularly with the External Auditor and at least once a year, without management being present;
- 8.6.7 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;
- 8.6.8 review the findings of the audit with the External Auditor. This shall include but not be limited to, the following:
  - 8.6.8.1 a discussion of any major issues which arose during the audit;
  - 8.6.8.2 key accounting and audit judgements;
  - 8.6.8.3 levels of errors identified during the audit; and
  - 8.6.8.4 the effectiveness of the audit process; and

The Committee shall also:

- 8.6.9 review any representation letter(s) requested by the External Auditor before they are signed by management;
- 8.6.10 review the management letters for the Companies and management's response to the External Auditor's findings, and monitor the implementation of recommendations where appropriate; and
- 8.6.11 develop and implement policy on the supply of non-audit services by the external auditor specifying the types of non-audit service for which use of the external auditor is pre-approved and the requirement to authorise provision of any non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter. Reporting of the use of non-audit services should include those subject to pre-approval.

## **9. REPORTING RESPONSIBILITIES**

- 9.1 The Chair shall report formally to the Boards on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Boards on how it has discharged its responsibilities.

- 9.1.1 The Committee shall make whatever recommendations to the Boards it deems appropriate on any area within its remit where action or improvement is needed.
- 9.1.2 The Committee shall compile a report on its activities to be included in the Group's annual report. The report should describe the work of the Committee, including:
  - 9.1.2.1 the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
  - 9.1.2.2 an explanation of how the Committee has addressed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans;
  - 9.1.2.3 an explanation of how auditor independence and objectivity are safeguarded if the external auditor provided non-audit services, having regard to matters communicated to it by the auditor;
  - 9.1.2.4 in compiling the reports referred to above, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least three of those matters that have informed the Board's assessment of whether the Company is a going concern. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts but could provide cross-references to that information.

## 10. OTHER MATTERS

The Committee shall:

- 10.1 assist the Senior Management Function ("**SMF**") role holders in fulfilling their prescribed responsibilities;
- 10.2 where matters are being discussed in relation to a prescribed responsibility, ensure the relevant SMF role holder attends and participates in the discussion, or if unable to attend, ensure that they are suitably represented;
- 10.3 have access to sufficient resources in order to carry out its duties, including access to Company Secretariat for assistance as required;
- 10.4 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;
- 10.5 give due consideration to laws, regulations, the requirements of the UK Listing Authority's Rules, the Disclosure and Transparency Rules and any other applicable competent authority, regulation or guidance, as appropriate;

- 10.6 work and liaise as necessary with all other Board committees ensuring interaction between committees and with the Board is reviewed regularly, taking particular account of the impact of risk management and internal controls being delegated to the Risk Committee; and
- 10.7 arrange for periodic reviews of its own performance and, at least annually, review its terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Boards.

## **11. AUTHORITY**

The Committee is authorised to:

- 11.1 seek any information it requires from any employee of the Bank in order to perform its duties;
- 11.2 commission and oversee any review or investigation of activities which are within its terms of reference;
- 11.3 engage any firm of accountants, lawyers, or other professionals, as the Committee sees fit, to provide independent advice and to assist in any review or investigation of such matters within its terms of reference as the Committee deems appropriate, at the Bank's expense;
- 11.4 delegate responsibilities to other committees to facilitate the effective carrying out of its responsibilities; and
- 11.5 have the right to publish in the Group's annual report, details of any issues that cannot be resolved between the Committee and the Boards.