

# THE CO-OPERATIVE BANK PLC AUDIT COMMITTEE

## Terms of Reference

### 1. CONSTITUTION

- 1.1 The Co-operative Bank plc (the "**Bank**") Terms of Reference for the Audit Committee (the "**Committee**") were approved by The Co-operative Bank Holdings Limited (the "**Parent**"), the sole shareholder of the Bank on 26 September 2017.
- 1.2 The purpose of the Committee is to monitor, review and report to the board of directors of the Bank (the "**Board**") and its sole shareholder on the formal arrangements established by the Board in respect of the financial and narrative reporting of the Bank, the internal controls and the Risk Management Framework, the internal audit and the external audit processes.

### 2. MEMBERSHIP AND ATTENDANCE

- 2.1 The chairman of the Committee shall be an Independent Non-Executive Director (the "**Chairman**") and membership of the Committee shall comprise a minimum of three and maximum of five members.
- 2.2 The Board shall appoint the Chairman having considered the recommendation of the Nomination Committee. All other members of the Committee shall be Independent Non-Executive Directors appointed by the Board, taking into account the recommendations of the Nomination Committee and in consultation with the Chairman. The Committee, as a whole, shall have competence relevant to the sector in which the Bank 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.
- 2.3 Only the Chairman 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 Chairman would normally be expected to invite the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the Director of Internal Audit and the General Counsel as well as a representative of the external auditor (the "**External Auditor**") and, where appropriate, external advisers of the Bank and the Parent, to be in attendance for all or part of each meeting, as and when the Chairman 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 (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 Chairman reasonably determines that it is inappropriate.
- 2.5 In the absence of the Chairman 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 Chairman, 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 Chairman will maintain a dialogue with key individuals involved in the Bank's governance, including the chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the External Audit lead partner, the Director of Internal Audit and relevant executives from the Parent.

5.3 The Director of Internal Audit shall have unrestricted access to the Chairman to raise any matter directly and they shall meet at least four times a year without the presence of management.

5.4 The Chairman shall meet with the Director of Compliance and Financial Crime at least twice a year without the presence of management.

5.5 The Chairman should attend annual general meeting of the Bank (the “**AGM**”) to answer shareholder questions on the Committee's activities. The Committee should be prepared to meet the shareholder 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 chairman of the Board, the External Audit lead partner or the 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 Board unless it would be inappropriate to do so in the opinion of the Chairman.

## **8. DUTIES**

The Committee should carry out the duties below for the Bank and its subsidiary undertakings as appropriate.

### **8.1 Financial Reporting**

- 8.1.1 The Committee shall review, monitor and challenge the integrity of the financial statements of the Bank, including, as applicable, its annual and half-yearly reports, interim management statements, and any other formal announcement relating to its financial performance, reviewing and reporting to the Board 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 Bank;
  - 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 Bank 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; and

- 8.1.3.5 the clarity and completeness of disclosure in the Bank's financial reports and the context in which statements are made.

## **8.2 Narrative Reporting**

The Committee should review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for the shareholder to assess the Bank'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 Bank'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 Bank'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 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 Conduct & Regulatory Assurance which enables the Committee to analyse any concerns raised via the Concern at Work reporting mechanisms.

## **8.5 Internal Audit**

The Committee shall:

- 8.5.1 approve the appointment or termination of appointment of the Director of Internal Audit;
- 8.5.2 review and approve the charter of the 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 internal auditor has direct access to the chairman of the Board and to the Chairman, and is accountable to the Committee;
- 8.5.4 ensure that the 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 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 Internal Audit Function's work and submit such reports to the Parent's audit committee for review;
- 8.5.8 respond to any queries or requests for information from the Parent's audit committee or board of directors.
- 8.5.9 review and monitor management's responsiveness to the internal auditor's findings and recommendations;
- 8.5.10 consider whether an independent, third party review of internal audit effectiveness and processes is appropriate;
- 8.5.11 meet with the Director of Internal Audit at least once a year without the presence of management; and
- 8.5.12 support the Chairman in safeguarding the independence of, overseeing the performance of and monitoring and 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).

## 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 Board in accordance with applicable legislation, to be put to the sole shareholder of the Bank for

approval at the AGM, in relation to the appointment, re-appointment and removal of the External Auditor. The audit committee of the Parent will review the appointment;

- 8.6.2 if the Board or the board of the Parent does 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/(s) explaining the recommendation and should set out reasons why the audit committee of the Bank and/or Parent 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 in conjunction with the audit committee of the Parent, 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 Board 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 Bank 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 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 letter 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 Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities.
  - 9.1.1 The Committee shall make whatever recommendations to the Board 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 Bank's annual report.

## **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; 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 Board.

## **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 Bank's annual report, details of any issues that cannot be resolved between the Committee and the Board.