

TERMS OF REFERENCE – AUDIT COMMITTEE

1. Composition: The Committee shall comprise of a minimum of three non-executive directors, of whom at least one should have recent and relevant financial experience.

The Committee as a whole shall have competence relevant to the financial services sector.

The Chairman of the Board should not be a member of the Committee.
2. Chairman: The Committee Chairman, as elected by the Board, shall have appropriate experience and qualifications and be subject to pre-approval by the PRA or any successor to the PRA.
3. Quorum: The quorum necessary for the transaction of business shall be two members. In the event that there are only two attendees, neither shall have a casting vote.
4. Attendees: Chief Executive
Group Secretary (Committee Secretary)
Finance Director
Internal Auditor (by invitation)
External Auditors
5. Frequency of Meetings: The Committee shall meet four times a year, the dates of which will be agreed in advance to coincide where necessary with key dates in the Society's financial calendar.

Additional meetings, and confidential meetings between the Committee members and the Internal and/or the External Auditor, shall be convened by the Committee Secretary from time to time following receipt of a request from the Committee Chairman.
6. Notices of Meetings: Unless otherwise agreed by the Committee, notices of meetings shall be issued in writing and not less than two clear days in advance of each meeting and state the business to be transacted at each meeting.
7. Minutes of Meetings: Minutes of all Committee meetings held are taken by the Committee Secretary and are presented to the next, or dependent upon timing, next appropriate Board meeting.
8. Principal Objectives: To monitor the activities of the Internal Audit function across all constituent parts of the Group and to make recommendations to the Board upon any issues of concern; to consider and review the findings arising from External Audit control and systems work undertaken; and to review, prior to approval by the Board, the final Group Accounts, Directors Report and Summary Financial Statement.
9. Duties: The Committee shall monitor and review the effectiveness of the audit process.

The Committee shall, in relation to the Internal Audit:

- a) oversee the Society's relationship with the Internal Auditor and be responsible for the appointment and dismissal of any Internal Auditor;
- b) consider and review the progress reports prepared and submitted by the Internal Auditor which cover audits conducted during the period since the last report and significant points arising. Specific consideration shall be given to individual Internal Audit reports as and when submitted to the Committee by the Internal Auditor;
- c) review reports arising from any investigations undertaken by the Internal Auditor;
- d) annually consider and approve the Internal Audit Plan; and
- e) monitor and review the effectiveness of the Internal Audit function, including a review of its responsibilities, reporting arrangements and methods of operation.

The Committee shall, in relation to the External Audit:

- a) conduct the tender process and make recommendations to the Board regarding the appointment, reappointment and removal of the External Auditor;
- b) approve the terms of engagement and remuneration of the External Auditor;
- c) consider letters of comment from the External Auditor, arising from their interim or final audit visits, and the relevant management responses;
- d) monitor and review the independence and objectivity of the External Auditor. Information regarding policies and processes that the External Auditor has in place to maintain independence should be requested annually; and
- e) annually review the effectiveness of the External Audit process, taking into consideration relevant UK professional and regulatory requirements.

The Committee shall also:

- a) annually consider the accounting policies adopted by the Group;
- b) consider the Society, any subsidiary company and Group Annual Accounts, the Society's Directors Report and the Society's Summary Financial Statement and recommend any changes considered necessary prior to formal approval by the Board;
- c) provide advice (where requested by the Board) on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provide the information necessary for members to assess the Society's position and performance, business model and strategy;
- d) monitor the integrity of the Society's financial statements and any formal announcements relating to the Society's financial

performance, reviewing significant financial reporting judgements contained in them;

- e) review the Society's internal financial controls and internal controls systems;
- f) develop and implement policy on the engagement of the Internal or External Auditor to supply non-audit services, ensuring there is prior approval of non-audit services; consider the impact that this may have on independence, taking into account the relevant regulations and ethical guidance in this regard; and report to the Board on any improvement or action required; and
- g) report to the Board on how it has discharged its responsibilities.

10. Advice & Support: The Committee may seek such expert advice and support as it deems necessary to meet its responsibilities effectively.

11. Annual Review: The Committee shall, once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

12. Authority: The Committee is authorised to seek any information it required from any employee of the Society in order to perform its duties.

The Committee is authorised to obtain, at the Society's expense, outside legal or other professional advice on any matters within its terms of reference.