

## SECURE TRUST BANK PLC (“STB” or “Company”)

## AUDIT COMMITTEE

## TERMS OF REFERENCE

adopted by the Board on 6 October 2016<sup>1</sup>

References to the “**Committee**” means the Audit Committee of the Board of STB.

References to the “**Board**” means the Board of Directors of STB.

References to the “**Group**” means STB and its subsidiaries.

Current Members <sup>2</sup> :	Mrs Ann Berresford (Chairman)
	Baroness Neville-Rolfe
	Mr Paul Marrow

**1. Membership**

- 1.1 The Board shall appoint the Chairman of the Committee (the “**Chairman**”), who shall be an independent Non-Executive Director. In the absence of the Chairman, the remaining members present shall elect one member to chair the meeting.
- 1.2 Members of the Committee shall be appointed by the Board on the recommendation of the Nomination Committee and after consultation with the Chairman.
- 1.3 The Committee shall comprise at least three members. All members of the Committee shall be independent Non-Executive Directors. At least one of the members shall be a member of the Risk Committee. At least one member of the Committee should have recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies, and with competence in accounting and/or auditing.
- 1.4 Appointments to the Committee shall be for a period of up to three years, which may be extended for no more than two additional periods of up to three years.

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<sup>1</sup> As amended on 15 May 2019

<sup>2</sup> As at 30 January 2019

## 2. **Secretary**

The Company Secretary (or his or her nominee) shall ordinarily act as the secretary of the Committee (the “**Secretary**”) and shall ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration of the issues.

## 3. **Quorum**

3.1 The quorum necessary for the transaction of business shall be two members of the Committee.

3.2 A duly convened and quorate meeting of the Committee shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

## 4. **Frequency of meetings**

4.1 The Committee shall meet at least four times in each financial year at appropriate intervals in the financial reporting and audit cycle and at such other times as required for the Committee to effectively discharge its responsibilities.

4.2 Outside the formal meeting programme, the Chairman will maintain a dialogue with key individuals involved in matters relating to the terms of reference of the Committee, including the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the external audit lead partner, the Chief Internal Auditor and the Chief Risk Officer.

## 5. **Notice of meetings**

5.1 Meetings of the Committee shall be called by the Chairman or by the Secretary at the request of the Chairman at times set in respect of each financial year and at the request of any of its members or at the request of any of the following people if they consider a meeting to be necessary:

- (A) the Chairman of the Board;
- (B) the Chairman of the Risk Committee;
- (C) the Chief Executive Officer;
- (D) the Chief Financial Officer;
- (E) the external audit lead partner;
- (F) the Chief Internal Auditor; or
- (G) the Chief Risk Officer.

5.2 Unless otherwise agreed by the Chairman, notice of each meeting confirming the venue, date and time, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, and to other attendees as appropriate, no later than seven days before the date of the meeting. The Chairman shall have the sole discretion to reduce the above notice

period to whatever the Chairman considers appropriate in the circumstances. So far as practicable supporting papers will be provided with the notice of meeting.

## **6. Proceedings of the Committee**

- 6.1 Only Committee members have the right to attend Committee meetings. However, the Committee may invite the external auditor lead partner (or his or her substitute), Chief Internal Auditor, the Chief Financial Officer and the Chairman of the Risk Committee to attend meetings on a regular basis and other non-members (such as the Chairman of the Board, the Chief Executive Officer, the Chief Risk Officer, other Directors, other management and external advisers) to attend all or part of any meeting as and when appropriate or necessary.
- 6.2 Meetings may be held by telephone provided that those participating can hear and speak to each other.
- 6.3 At least once a year the Committee will meet the external auditor without Executive Directors or other management present.
- 6.4 At least once a year the Committee will meet the Chief Internal Auditor without Executive Directors or other management present.
- 6.5 The Committee may meet separately with any of the Executive Directors without any other Executive Directors being present.
- 6.6 The Chairman will be available to the Secretary, the Chief Financial Officer, the Chief Internal Auditor and the external audit lead partner to discuss any matters of concern in relation to financial reporting matters or compliance with the Group's legal and regulatory obligations, in the widest sense, or any other matters within the remit of the Committee should this be considered necessary by those individuals.
- 6.7 Although normally decisions are reached on a consensus, in the event of a disagreement, decisions on any matter are made by the majority, with the Chairman having a second, casting vote in the event of a tie. A Committee member who remains opposed to a proposal after a vote can ask for his or her dissent to be noted in the minutes.
- 6.8 A decision in writing and signed by all the members of the Committee will be as effective as a resolution passed at a Committee meeting. Any written decision will be tabled and noted at a meeting of the Committee.

## **7. Minutes of meetings**

- 7.1 The Secretary (or his or her nominee) shall minute the proceedings and decisions of all Committee meetings and record the name of those present and in attendance.
- 7.2 The members of the Committee shall, at the beginning of each meeting, declare the existence of any conflicts of interest arising and the Secretary shall minute them accordingly.
- 7.3 Draft minutes of Committee meetings shall, following review by the Chairman, be circulated to all members of the Committee as soon as practicable after each meeting. Once approved,

minutes shall be circulated to all other members of the Board unless it would be inappropriate to do so in the opinion of the Chairman.

- 7.4 Final signed copies of the minutes of the meetings of the Committee shall be maintained as part of the records of the Company.

## 8. **Annual General Meeting**

- 8.1 The Chairman shall attend the Annual General Meeting of the Company to respond to any shareholder questions on the Committee's activities and responsibilities and the report of those activities included in the Annual Report and Accounts.

## 9. **Authority**

- 9.1 The Committee is authorised by the Board to undertake any activity within its terms of reference. The Committee is entitled to sufficient resources from the Group to undertake its duties. The authority of the Committee extends across the Group.

- 9.2 In particular, the Committee is authorised to:

- (A) obtain any information it requires from any employee of the Group in order to perform its duties;
- (B) seek any information it requires from persons outside the Group to perform its duties;
- (C) conduct or authorise any investigation into matters within its scope of responsibility;
- (D) obtain, at the Company's expense and at reasonable cost, independent legal, accounting or other professional advice on any matter on which it believes it necessary or desirable to do so;
- (E) call any employee or contractor of the Group to be questioned at a meeting of the Committee as and when required;
- (F) publish in the Company's Annual Report and Accounts details of any issues that cannot be resolved between the Committee and the Board;
- (G) request Internal Audit to carry out such independent reviews as it deems necessary and report back to the Committee; and
- (H) liaise regularly with other committees and in particular the Risk Committee and the Remuneration Committee taking account of the impact of risk management and internal controls being delegated to different committees and where there is perceived to be an overlap of responsibilities between the Committee and any other committee, the respective committee Chairmen shall have discretion to agree the most appropriate committee to discharge any responsibility. A responsibility under the terms of reference of the Committee will be deemed to have been fulfilled provided that it is dealt with by either the Committee or the other committee.

## 10. Responsibilities

- 10.1 The Committee shall oversee, across the Group, on behalf of the Board, the financial reporting process and external audit thereof, the appropriateness and effectiveness of systems and controls and the work of Internal Audit in reviewing the Group's risk management, governance and systems of internal control processes.

### Internal Controls

- 10.2 The Committee shall keep under review the Group's internal financial controls systems that identify, assess, manage and monitor financial risks.

### Financial reporting

- 10.3 The Committee shall monitor the Company's financial reporting process, and the integrity of the financial statements of the Company, including its annual (including any preliminary announcement of year end results) and half-yearly reports, trading updates and any other formal announcement relating to its financial performance. It shall review and report to the Board on significant financial reporting issues and judgements which the financial statements contain having regard to matters communicated to it by the external auditor. The Committee shall also review summary financial statements, significant financial returns to regulators and, if requested to do so by the Board, any financial information contained in certain other documents, such as announcements of a price sensitive nature. The Committee shall assist the Board by reviewing and, where appropriate, recommending to the Board the approval of any financial statements and regulatory reports requiring formal Board approval.
- 10.4 The Committee shall review the Annual Report and Accounts of the Group before submission to the Board for approval, and, through reports from the executive management and the external auditor to the Committee, consider (and challenge where necessary):
- (A) the consistency of, and any changes to, significant accounting and treasury policies on a year on year basis, across the Company and the Group;
  - (B) compliance with legal, regulatory and statutory requirements;
  - (C) compliance with the requirements of any body by which the activities of the Group or its subsidiaries are regulated;
  - (D) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (E) the appropriateness of accounting policies selected, the consistency with which they are applied and any changes in significant accounting policies and practice both on a year-on-year basis and across the Group;
  - (F) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

- (G) the appropriateness of the material judgements and estimates and subjective decisions made in the course of preparation of the accounts taking into account the views of the external auditor;
- (H) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made to determine whether they provide information necessary for shareholders and others to assess the Group's position and performance, business model and strategy and whether they are fair, balanced and understandable (when taken as a whole) and provide the information necessary for shareholders to assess the Group's performance, business model and strategy;
- (I) all material information presented with the financial statements, such as the strategic review and the corporate governance statements;
- (J) whether the narrative is consistent with the financial information provided;
- (K) significant adjustments resulting from the audit and the Committee shall provide assistance in the resolution of any disagreements between management and the external auditor regarding formal reporting; and
- (L) the going concern assumption, the long term viability of the business and any material uncertainties to the Group's ability to continue to adopt the going concern basis over a period of at least 12 months from the date of approval of the financial statements.

10.5 The Committee shall assess the effectiveness of the Group's financial reporting procedures.

10.6 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

10.7 The Committee shall consider any issues raised by executive management and the external auditor relating to the interim review and year end audits, and any matters the external auditor may wish to discuss (in the absence of management where necessary).

#### Regulatory reporting

10.8 The Committee will ensure that, where applicable, the Group complies with all necessary regulatory reporting including but not limited to reviewing arrangements established by management for compliance with regulatory financial reporting requirements, such as the requirements and recommendations of the relevant regulatory bodies (including the Prudential Regulation Authority and the Financial Conduct Authority).

#### External audit

10.9 The Committee shall:

- (A) consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment or removal of the external auditor;

- (B) maintain regular, timely and open and honest communication with the external auditor, ensuring that the external auditor reports to the Committee on all relevant matters to enable the Committee to carry out its oversight responsibilities;
  - (C) monitor the statutory audit of the Company's annual and consolidated accounts and review and agree with the external auditor the results of their audit. This shall include, but not be limited to, the following:
    - (i) a discussion of any major issues which arose during the audit;
    - (ii) key accounting and audit judgements;
    - (iii) levels of errors identified during the audit;
    - (iv) effectiveness of the audit; and
    - (v) compliance with relevant financial reporting standards and relevant financial and governance reporting requirements.
- 10.10** The Committee shall ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms. In respect of such tender the Committee shall oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process.
- 10.11** If the external auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required.
- 10.12** The Committee shall oversee the relationship with the external auditor, which shall include (but is not limited to):
- (A) preparing recommendations on their remuneration, including fees for both audit and non-audit services, and ensuring that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - (B) approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (C) authorising to the extent permitted by law and regulations the external auditor to provide non-audit services to the Company or Group;
  - (D) establishing any requirements in relation to the pre-approval of permitted non-audit services including setting materiality thresholds based on the value of the proposed non-audit service engagements;
  - (E) assessing annually their independence and objectivity, taking into account relevant UK professional and regulatory requirements including the Ethical Standard and the

relationship with the external auditor as a whole, including the provision of any non-audit services;

- (F) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity;
- (G) agreeing arrangements with the Board on the employment of former employees of the Company's external auditor, and monitoring the implementation of the arrangements;
- (H) monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared with the overall fee income of the firm, office and partner and other related requirements for maintaining independence and objectivity;
- (I) assessing annually the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process;
- (J) seeking to ensure co-ordination with the activities of the Internal Audit function and that any conflicts of interest between the external auditor and Internal Audit are managed appropriately;
- (K) evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of the external auditor from the market in that evaluation; and
- (L) at least annually, formally reviewing the relationship with the external auditor.

**10.13** The Committee shall meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without Executive Directors or management being present, to discuss the auditor's remit and any issues arising from the audit.

**10.14** The Committee shall 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.

**10.15** The Audit Committee shall also:

- (A) review any representation letter(s) requested by the external auditor before they are signed by management;
- (B) review the management letter and management's response to the external auditor's findings and recommendations; and
- (C) develop and implement policy on the supply of non-audit services by the external auditor to avoid any threat to external auditor objectivity and independence, taking into account any relevant guidance on the matter.



## Internal audit

- 10.16 The Committee shall monitor and review the effectiveness of the activities of Internal Audit.
- 10.17 The Chairman shall be the line manager of the Chief Internal Auditor.
- 10.18 The Committee shall:
- (A) approve the appointment or termination of appointment of the Chief Internal Auditor;
  - (B) approve the Internal Audit budget;
  - (C) 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, and is equipped to perform in accordance with appropriate professional standards for internal auditors and, at least annually, review the scope and nature of the work of Internal Audit as set out in the Charter;
  - (D) ensure the Chief Internal Auditor has direct access to the Board, the Committee and to the Chairman;
  - (E) provide feedback to the Chairman in connection with the review by the Chairman of the performance of the Chief Internal Auditor and in particular provide feedback on the independence, objectivity and tenure of the Chief Internal Auditor;
  - (F) review and assess the annual Internal Audit work plan;
  - (G) review and approve any Internal Audit outsourcing arrangements and the cost effectiveness thereof;
  - (H) receive a report on the results of the Chief Internal Auditor's work on a periodic basis including progress of work against plan, the nature and extent of any unscheduled work undertaken, significant findings from audit work undertaken and the status of Internal Audit recommendations and their implementation within agreed timescales;
  - (I) meet the Chief Internal Auditor at least once a year, without management present, to discuss the remit of the Chief Internal Auditor and any issues arising from the Internal Audit reviews;
  - (J) review and monitor management's responsiveness to the Chief Internal Auditor's findings and recommendations;
  - (K) review all reports addressed to the Group from the Internal Audit function;
  - (L) consider and approve requests for extensions of time for the performance of management actions resulting from Internal Audit reports where the extension falls outside protocols agreed from time to time with Internal Audit;
  - (M) monitor and review the effectiveness of the Company's Internal Audit function, in the context of the Company's overall risk management system; and

- (N) at least every five years, arrange an independent review of the Internal Audit function in accordance with the International Professional Practice Framework (IPPF) of the Institute of Internal Auditors.

Fraud and Bribery

10.19 The Committee shall review the Group's procedures for detecting management fraud affecting financial reporting.

10.20 The Committee shall review the Group's systems and controls for the prevention of bribery and receive reports on non-compliance.

**11. Reporting responsibilities**

11.1 The Chairman shall report to the Board on the proceedings of the Committee 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.

11.2 The Committee shall report to the Board on:

- (A) the significant issues that it considered in relation to the financial statements and how these were addressed;

- (B) its assessment of the effectiveness of the external audit process, the appointment or reappointment of the external auditor including the approach taken to such appointment or reappointment, information on the length of tenure of the audit firm, when a tender was last conducted and any plans to put the external audit to tender; and

- (C) any other issues on which the Board has requested the Committee's opinion.

11.3 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed. Any such recommendation of the Committee shall take effect only if approved by the Board.

11.4 The Committee shall produce an annual report on its activities to be included in the Company's Annual Report and Accounts. The report should include:

- (A) details of the membership of the Committee, number of meetings held and attendance over the course of the year;

- (B) the significant issues that the Committee considered in relation to the financial statements, and how these issues were addressed, having regard to matters communicated to it by the external auditor;

- (C) an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or re-appointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted;

- (D) if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded;
  - (E) all other information requirements set out in the UK Corporate Governance Code; and
  - (F) make any statement of compliance required by law or regulations.
- 11.5 In compiling the reports referred to in 11.1 and 11.4, 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 those matters that have informed the Board's assessment of whether the Company is a going concern and the impacts to the Board's viability statement. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but may provide cross-references to that information.

## 12. **Other matters**

### 12.1 The Committee shall:

- (A) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- (B) give due consideration to laws and regulations, the provisions of the Prudential Regulation Authority Rulebook and the Financial Conduct Authority's Handbook, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing Rules and the Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules and guidance, as appropriate;
- (C) have regard to the relevant regulations of the European Parliament imposing a mandatory firm rotation for the statutory auditor of public interest entities;
- (D) oversee any investigation of activities which are within its terms of reference; and
- (E) arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval.

These terms of reference shall be made available on the Company's website in accordance with the UK Corporate Governance Code.