

1. INTRODUCTION

This Internal Audit Charter (“the Charter”) defines the mandate, purpose, and reporting relationships of TSB’s Internal Audit function. The Charter is aligned with Banco Sabadell Group Internal Audit Policy, which defines the mission, scope, responsibilities and governance structure for the Group Internal Audit function and each subsidiary Internal Audit function.

It will be presented to the Board Audit Committee on an annual basis for approval.

2. ROLE OF INTERNAL AUDIT

The primary role of Internal Audit is to support the Board and Executive Management to protect the assets, reputation, and sustainability of the Bank. Internal Audit does this by:

- Assessing whether all significant risks are identified and reported appropriately to the Board and Executive Committee.
- Providing a view of the design and operation of key controls to determine whether they are effective at mitigating risks within our agreed appetite.
- Challenging management to improve the effectiveness of governance, risk management and internal control by providing assurance over the effectiveness of the 1st and 2nd Lines of Defence function.
- Providing advice, insight and foresight regarding the banks risk management framework and the external environment.

Where appropriate, Internal Audit may also provide assurance to external parties including regulators and similar industry bodies or may be required to issue attestations to third parties or regulators to support TSB’s membership of payment or other industry schemes. Any such work would be conducted in accordance with our audit methodology and procedures.

We may also be called upon to provide consultancy or advisory services to support TSB’s management develop an effective control framework, however this is by exception. Any such work would be conducted in accordance with our audit methodology and procedures.

We do not fully outsource any audit work so that we build and retain knowledge and capabilities but do use the support of professional co-source partners to augment audit resources or provide additional industry, market, technical or regulatory expertise or benchmarking.

3. SCOPE AND PURPOSE

Internal Audit is the 3rd Line of Defence within TSB’s Risk Management Framework.

The scope of Internal Audit’s work is unrestricted and is based on its independent assessment of the key risks faced by the Bank, and how effectively these risks are being managed. The scope of our work includes independent assurance over the control framework, as well as an assessment of the risk and the control culture in any area under review.

Internal Audit may review any lessons learned analysis and consider its response (which may include specific assurance activity) following any significant adverse business events. It also validates that management actions arising from audits have sustainably remediated the control weaknesses identified.

4. INDEPENDENCE AND AUTHORITY

The Internal Audit function receives its authority from the TSB Board Audit Committee which is responsible for the appointment of the Chief Audit Officer (CAO).

The CAO's primary reporting line is to the Chair of the TSB Audit Committee with a secondary reporting line to TSB's Chief Executive. The CAO also has a dotted reporting line to the Group CAO of Banco de Sabadell. We have defined roles, responsibilities, audit coverage, and information sharing guidance with Sabadell Group Audit as part of an agreed protocol.

Internal Audit has full, free and unrestricted right of access to all of TSB's business functions, records, personnel, fora, property and management information, necessary to discharge its responsibilities.

Internal Audit operates independently of TSB's activities, which enables the function to provide unbiased judgements and facilitate impartial advice to management.

All TSB Internal Audit colleagues are independent, objective, and constructive when carrying out their work, avoiding conflicts of interest and personal, business or other issues that may impair impartiality. Where impairments are identified (either before or after an audit opinion has been provided) these will be appropriately managed and communicated.

5. CHIEF AUDIT OFFICER RESPONSIBILITIES

The responsibilities of the CAO include:

- Annually reviewing and discussing the revised Charter with the Board Audit Committee and Executive Management to confirm that it accurately reflects their understanding and expectations of the function.
- Developing the functional vision and strategic objectives (including performance measures), supported by methodologies to deliver the objectives and the Audit Plan.
- Assessing the tools, resources, skills and developing a budget required to deliver the IA Strategy and the Audit Plan.
- Recruiting and maintaining a team with the right skills, knowledge, and experience to provide effective challenge throughout TSB and to the Executive Committee.
- Maintaining a Quality Assurance and Improvement programme that evaluates the performance of Internal Audit on a regular basis, and communicating the findings, including areas for development, to the TSB Audit Committee.
- Ensuring that Internal Audit applies and observes the principles of integrity, objectivity, competency, due professional care, and confidentiality. If Internal Audit's independence or objectivity becomes impaired, the CAO will disclose details of the impairment to the Audit Committee.
- Meeting periodically with the 1st and 2nd Lines of Defence, Group IA and the external auditor, to help inform our understanding of the areas of greatest risk and to help co-ordinate activity to deliver assurance effectively and efficiently.
- Delivering the Audit Plan, reporting significant findings to Executives, the TSB Audit Committee, the Board and Group.
- Reviewing and adjusting the Audit Plan, as necessary, in response to changes in TSB's business, risks, operations, programmes, systems and controls, and communicating any changes to senior management, the TSB Audit Committee and Group.
- Providing opinions periodically on the overall effectiveness of TSB's governance, risk management and control framework, and whether TSB's risk appetite is being adhered to.

6. AUDIT COMMITTEE RESPONSIBILITIES

The responsibilities of the Audit Committee include:

- Annually discussing and reviewing the Charter with the CAO and providing approval for publication.
- Approving the annual risk-based Internal Audit Plan.
- Approving the Internal Audit budget and disclosing in the Annual Report whether it is satisfied that Internal Audit has the appropriate resources to effectively execute its role.
- Reviewing the CAO's performance.
- Monitoring the performance and effectiveness of the Internal Audit function.
- Commissioning an independent external assessment of Internal Audit, in line with the Institute of Internal Auditors' Standards, at least once every five years.

7. STANDARDS OF AUDIT PRACTICE

Internal Audit operates in accordance with the IIA International Professional Practices Framework (IPPF), which includes the Global Internal Audit Standards. Additionally, Internal Audit operates in accordance with the Chartered IIA guidance on Internal Audit Financial Services Code of Practice and relevant regulatory requirements and guidelines for internal audit. We perform a periodic self-assessment against these Standards and Codes, with any remediation activity forming the basis of our ongoing Continuous Improvement plans.

Internal Audit staff are required to confirm with the Global Internal Audit Standards of "Ethics and Professionalism" which defines the expectations of colleague behaviour required in the conduct of internal auditing.

In addition, Internal Audit staff must comply with TSB's policies and procedures together with relevant professional bodies' standards of conduct, and possess the knowledge, skills, and disciplines necessary to discharge their responsibilities.

This Charter was approved by the TSB Audit Committee, April 2024.