

Yorkshire Building Society

Audit Committee Terms of Reference

Role	The Audit Committee is a Committee of the Board of Yorkshire Building Society, from which it derives its authority. Its role is to regularly reports to the Board on matters related to financial reporting, internal controls and risk management systems, whistleblowing, Internal Audit and External Audit.
Membership	<p>The Committee will comprise of at least three independent Non Executive Directors. At least one of these shall have recent and relevant financial experience and competence in accounting and/or auditing. The Committee as a whole shall have competence relevant to the financial services sector. Membership will include at least one member of the Group Risk Committee.</p> <p>The Chair of the Board will not be a member of the Committee.</p> <p>Appointments to the Committee are made by the Board and will be for a period of up to three years, which may be extended for a maximum of two additional three year periods, provided the director still meets the criteria for membership of the Committee (and subject to their overall term of office on the Board.</p>
Chair	<p>The Board will appoint the Committee Chair who will be an independent Non Executive Director.</p> <p>In the absence of the Chair, or an appointed deputy, the remaining members present shall elect one of their number to chair the meeting.</p>
Secretary	The Secretary of the Committee will be the Deputy Secretary or his or her nominee.
Attendees	<p>Only members of the Committee have the right to attend Committee meetings. However the Chief Executive Officer, Chief Finance Officer, Chief Internal Audit Officer and external auditor representatives may be invited to attend for all or part of any meetings and when appropriate.</p> <p>Other colleagues and executives may be invited as the Committee feels appropriate and necessary.</p>
Frequency	<p>The Committee will normally meet four times per year at appropriate times in the reporting and audit cycle and otherwise as required. A timetable of meetings and scheduled items for consideration will be agreed each year.</p> <p>Meetings of the Committee will be called by the Secretary of the Committee or the Group Secretary at the request of any of its members or at the request of the external or internal auditor if they consider it necessary.</p> <p>The Secretary will ensure Committee members receive information and papers in a timely manner to enable full and proper consideration to be given to the issues.</p> <p>Draft minutes of Committee meetings will be circulated promptly to all members and attendees of the Committee. Once approved, minutes will also be circulated to other members of the Board unless it would be inappropriate to do so.</p> <p>Outside of the formal meeting programme, the Chairman, and to a lesser extent the other Committee members, will maintain a dialogue with key individuals involved in the Group's governance.</p>
Quorum	<p>The quorum necessary for the transaction of business will be:</p> <ul style="list-style-type: none"> ▪ Two members if the number of members who constitute the Committee is three. ▪ Three members if the number of members who constitute the Committee is four or more. <p>The quorum should include a member who has recent, relevant financial experience and competence in accounting and/or auditing.</p> <p>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 bested in or exercisable by the Committee.</p> <p>In the event of equal votes the Chair of the Committee shall have a casting vote.</p>
Written Resolutions	Written resolution must be undertaken in accordance with the requirements set out in the Society's Rules with written consent required from all Committee members for approval.
Mandate	<p>The Committee is authorised to:</p> <ol style="list-style-type: none"> 1. Seek any information it requires from any employee of the Group in order to perform its duties. 2. Obtain, at the Group's expense, outside legal or other professional advice on any matter within its terms of reference. 3. Call any employee to attend a meeting of the Committee as and when required. 4. Have the right to publish in the Society's Annual Report details of any issues that cannot be resolved between the Committee and the Board.
Responsibilities	<p>The Committee will carry out the duties below for the Society, major subsidiary undertakings and the Group as a whole, as appropriate.</p> <p>1. Duties</p>

Financial reporting

- 1.1 The Committee will monitor the integrity of the financial statements of the Society, including its annual and half yearly reports, interim management statements, and any other formal announcement relating to its financial performance (including any prospectus relating to treasury issuance), reviewing significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the external auditor.
- 1.2 The Committee will report to the Board on whether it considers the information in 1.1 to present a fair, balanced and understandable assessment of the Group's position and prospects.
- 1.3 In particular, the Committee will review and challenge where necessary:
 - The consistency of, and any changes to, accounting policies both on a year on year basis and across the Society/Group;
 - The methods used to account for significant or unusual transactions where different approaches are possible;
 - Whether the Society has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - The clarity of disclosure in the Society's financial reports and the context in which statements are made;
 - All material information presented with the financial statements, such as the Strategic Report, the Audit Committee Report and other the Corporate Governance statements; and
 - The appropriateness of the going concern and viability statement to be made by the Board.

Internal controls and risk management systems

The Committee will:

- 1.4 Keep under review the adequacy and effectiveness of the Society's internal financial controls and internal control and risk management systems;
- 1.5 Review and approve the statements to be included in the Annual Report concerning internal controls and risk management; and
- 1.6 Consider the level of assurance it is getting on risk management and internal control systems, including internal financial controls, and whether it is enough to help the Board in satisfying itself that they are operating effectively.

Internal Audit

The Committee will:

- 1.7 Monitor and review the effectiveness of the internal audit function, including satisfying itself that the quality, experience, expertise and budget of the function is appropriate for the Group.
- 1.8 Appoint and remove the Director of Internal Audit.
- 1.9 Consider and approve the remit of Internal Audit, as documented in its Charter. The Committee will also ensure the function has unrestricted scope, adequate standing and is free from management or other restrictions.
- 1.10 Review and approve the internal audit plan and ensure that Internal Audit has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with relevant professional standards. The Committee will ensure that the plan is aligned to the Group's key strategic objectives and risks. The Committee will approve any material changes to the plan as well as approving the frequency and method of audit cycle coverage and appropriateness of areas excluded from the plan.
- 1.11 Review reports addressed to the Committee from Internal Audit, including an annual report on conclusions on whether the organisation's risk appetite framework is being adhered to.
- 1.12 Review and monitor management's response to the findings and recommendations of Internal Audit.
- 1.13 Review a report containing the results of internal audit quality assurance assessments at least annually.
- 1.14 Meet the Director of Internal Audit at least once a year, without management being present, to discuss their remit and any issues arising from reviews performed. In addition, the Director of Internal Audit shall be given the right of direct access to the Chairman of the Board and to the Committee.
- 1.15 Commission an independent, third party review of internal audit effectiveness and processes at least every five years.

External Audit

The Committee will:

- 1.16 Consider and make recommendations to the Board, to be put to members for approval at the AGM, in relation to the appointment, re-appointment and removal of the Society's External Auditor. The Committee will oversee the selection process for a new auditor and if an auditor resigns the Committee will investigate the issues leading to this and decide whether any action is required.
- 1.17 Oversee the relationship with the external auditor including (but not limited to):
- approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
 - approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - assessing annually their independence and objectivity taking into account relevant UK and EU law, professional and regulatory requirements and the relationship with the auditor as a whole, including any threats to the auditors independence and safeguards applied to mitigate those, including the provision of any non-audit services;
 - satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Group (other than in the ordinary course of business);
 - agreeing with the Board a policy on the employment of former employees of the Group's auditor, then monitoring the implementation of this policy;
 - 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;
 - 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;
 - seeking to ensure co-ordination with the activities of the internal audit function.
- 1.18 Meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee will meet the external auditor at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit.
- 1.19 Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, including planned levels of materiality and resourcing.
- 1.20 Review the findings of the audit with the external auditor. This will include but not be limited to, the following:
- a discussion of any major issues which arose during the audit;
 - any accounting and audit judgements;
 - levels of errors identified during the audit;
 - the effectiveness of the audit.

The Committee will also:

- 1.21 Review any representation letter(s) requested by the external auditor before they are signed by management.
- 1.22 Review the management letter and management's response to the auditor's findings and recommendations.
- 1.23 Develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.
- 1.24 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 of the incumbent auditor with those of other firms. The Committee will oversee the selection process arising out of the tender.

Whistleblowing

- 1.25 Review and maintain ongoing oversight of specific issues relating to the Group's arrangements for its employees and contractors to raise concerns in confidence, including whistleblowing, where delegated by the Board.

2. Reporting responsibilities

The Committee shall:

- 2.1 Report formally to the Board through the Committee Chair on its proceedings after each meeting in respect of all matters within its duties and responsibilities.
- 2.2 Make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 2.3 Report to the Board on how it has discharged its responsibilities which will be included in the Group's Annual Report. This report will specifically cover: significant issues that the Committee considered in relation to the financial statements and how these issues were addressed; the matters discussed in

	<p>relation to the systems of internal controls; an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment of or reappointment of the external auditor; information on the length of tenure of the current audit firm and when a tender was last conducted; and if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.</p> <p>3. Other Matters The Committee will:</p> <p>3.1 Give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable Rules, as appropriate.</p> <p>3.2 Annually arrange for 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 for approval.</p> <p>3.3 The Committee shall make available its terms of reference explaining clearly its role and the authority delegated to it by the Board.</p> <p>3.4 Have access to sufficient resources in order to carry out its duties, including access to the Group secretariat for assistance as required.</p> <p>3.5 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.</p> <p>3.6 Be responsible for co-ordination of the internal and external auditors.</p> <p>3.7 Oversee any investigation of activities which are within its terms of reference.</p> <p>4. Annual General Meeting</p> <p>4.1 The Committee Chairman will attend the annual general meeting to answer member questions on the Committee's activities.</p> <p>5. Senior Managers Regime Prescribed Responsibilities</p> <p>5.1 The Committee shall assist the Senior Management Function (SMF) holder in the escalation of their Prescribed Responsibilities for the Committee in relation to:</p> <ul style="list-style-type: none"> ▪ Prescribed Responsibility j - SMF Holder: Chair of Audit Committee Responsibility for a) safeguarding the independence of, and b) oversight of the performance of the internal audit function, in accordance with SYSC 6.2 (Internal Audit).
Sub Committees	None
Date of Approval	19 December 2018