

## UNITY TRUST BANK PLC (“the Bank”)

### AUDIT AND RISK COMMITTEE

#### Terms of Reference

#### 1. Constitution

The Audit and Risk Committee (the Committee) was established by a resolution of the Board on 24 September 2015. The Terms of Reference were last revised and approved by the Board on 23 March 2016.

#### 2. Membership

- 2.1 The Committee shall be appointed by the Board and shall normally consist of no less than four Non-Executive Directors, at least two of whom shall be Directors determined by the Board to be independent on appointment.
- 2.2 At least one member of the Committee shall have recent and relevant financial experience.
- 2.3 Appointments shall be for a period of up to three years, extendable by no more than two additional three-year periods.
- 2.4 The Chair of the Committee shall be appointed by the Board. In the absence of the Committee Chair, the remaining members present shall elect one of themselves to chair the meeting.
- 2.5 The Secretary, or such person as the Secretary may recommend to the Board, shall be the Secretary of the Committee.

#### 3. Quorum

A quorum shall be two members, at least one of whom must be a director determined by the Board to be independent.

#### 4. Attendance at meetings

- 4.1 No one other than the Committee Chair and its members shall attend meetings of the Committee, unless at the invitation of the Chair.
- 4.2 The Committee shall have the opportunity to meet with the Chief Risk Officer, the Internal Auditor or the External Auditor privately.

#### 5. Frequency of Meetings

Meetings shall be held no fewer than four times a year or more frequently as circumstances require.

#### 6. Authority

- 6.1 The Committee is authorised by the Board to investigate any activity within its terms of reference and seek information that it requires from any employees of the Bank, all of whom are directed to co-operate with any respect made by the Committee.
- 6.2 The Committee is authorised to engage any firm of professionals to provide independent advice within any budgetary restraints imposed by the Board.
- 6.3 The Committee has the right to publish in the Bank’s annual report, details of any

issues that cannot be resolved between the Committee and the Board.

## **7. Responsibilities**

The responsibilities of the Committee are set out below:

### **Financial Statements and Annual Reports**

7.1 Monitor the integrity of the financial statements of the Bank 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 by the External Auditor.

In particular, the committee shall review and challenge where necessary:

- any changes to significant accounting policies
- the methods used to account for significant or unusual transactions where different approaches are possible
- whether the Bank has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the External Auditor
- the clarity and completeness of disclosure in the Bank's financial reports and the context in which statements are made; and
- all material information presented with the financial statements, such as the strategic report and the corporate governance statements relating to the audit and to risk management;

7.2 Where requested by the Board, 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 shareholders to assess the company's performance, business model and strategy;

### **Internal Control**

7.3 Keep under review the effectiveness of the Bank's internal controls and risk management systems including:

- the annual statements on internal control and their compliance with the UK Corporate Governance Code or subsequent corporate governance guidance (as applicable) prior to consideration by the Board;
- regular assurance reports from management, Internal Audit, and External Audit, including internal control self assessments, on the operational effectiveness and adequacy of controls within risk appetites; and
- the timeliness of, and reports on, the effectiveness of corrective action taken by management;

7.4 Review and recommend to the Board the Whistleblowing Policy;

### **External Auditor**

7.5 Make recommendations to the Board to be put to the members for approval at the Annual General Meeting in relation to the appointment, re-appointment and removal of the external auditor. If the Board 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 explaining the recommendation and should set out reasons why the Board has taken a different position;

7.6 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;

- 7.7 Assess annually the qualification, expertise, resources, effectiveness and independence and objectivity of the External Auditor including the provision of non-audit services, which shall include a report from the External Auditor on their own internal quality procedures;
- 7.8 Approve the terms of engagement and the remuneration to be paid to the External Auditor in respect of the audit services provided;
- 7.9 Satisfy itself that the level of fees payable in respect of the audit service are appropriate and that an effective audit can be carried out for such a fee;
- 7.10 Monitor the External Audit firm's compliance with applicable UK ethical and professional guidance relating to rotation in partners, fees in proportion to the overall fee income of the firm, office and partner;
- 7.11 Discuss with the External Auditor the nature and scope of the audit;
- 7.12 Receive annual declarations from the External Auditor regarding any family, financial, employment, investment or business relationship with the Bank, and their policies on maintaining their independence and objectivity;
- 7.13 If the External Auditor resigns, investigate the issues giving rise to such resignation and consider whether any action is required;
- 7.14 Agree and monitor the application of the Bank's formal policy for non-audit work and the employment of former employees of the External Auditor;
- 7.15 At least once a year meet with the External Auditor without management present;
- 7.16 Review the findings of the audit with the External Auditor. This shall include but not be limited to, the following:
  - a discussion of any major issues and material weaknesses which arose during the audit
  - key accounting and audit judgements
  - levels of errors identified during the audit; and
  - the effectiveness of the audit process;
- 7.17 Review any representation letter(s) requested by the External Auditor before they are signed by management;
- 7.18 Review the management letter and management's response to the auditor's findings and recommendations;

#### **Internal Audit**

- 7.19 Consider if Internal Audit is to be outsourced and approve the Internal Audit outsourcing arrangements and contractual agreements, including provider selection;
- 7.20 Review the tenure of any outsourced Internal Audit provider;
- 7.21 Review and approve Internal Audit's scope of work and its annual audit plan;
- 7.22 Review and discuss with Internal Audit the issues identified as a result of internal audit work and how management is addressing these issues;

- 7.23 Receive reports on management's response to audit recommendations;
- 7.24 Consider and approve the remit of the Internal Audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions which may impair the independence of Internal Audit;
- 7.25 Ensure Internal Audit has direct access to the Board and Committee Chairs, and is accountable to the committee;
- 7.26 Review co-ordination between the Internal and External Auditors and the Risk function;
- 7.27 Meet with Internal Audit at least once a year without the presence of management;
- 7.28 Monitor and assess the role and effectiveness of the Internal Audit function in the context of the overall risk management system, including the efficiency and effectiveness of the outsourcing arrangement;
- 7.29 Consider the major findings of any relevant internal investigations into control weaknesses, fraud or misconduct and management's response (in absence of management where necessary);

#### **Chief Financial Officer**

- 7.30 Recommend to the Board the appointment and/or removal of the Chief Financial Officer;
- 7.31 Review promptly all reports from the Chief Financial Officer;
- 7.32 Review and monitor management's responsiveness to the findings and recommendations of the Chief Financial Officer;
- 7.33 Ensure the Chief Financial Officer is given the right of direct access to the Chair of the Committee;

#### **Risk**

- 7.34 Advise the Board on the Bank's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment drawing on financial stability assessments such as those published by relevant industry and regulatory authorities, including the Bank of England, the Prudential Regulation Authority, the Financial Conduct Authority and other authoritative sources that may be relevant for the Bank's risk policies;
- 7.35 Review annually the Bank's Risk Framework and recommend it to the Board for approval;
- 7.36 Review and approve specific risk policies in respect of, but not limited to, the following financial and non-financial risks: Credit; Operational; Conduct and Compliance;
- 7.37 Review and recommend the Bank's Treasury Policy to the Board for approval;
- 7.38 Review and recommend to the Board for approval on an annual basis the Liquidity Risk Appetite and overall Liquidity Risk Framework, including scenarios for and the results of different stress assumptions;

- 7.39 Review and recommend to the Board for approval on an annual basis the Bank's ICAAP and ILAA;
- 7.40 Consider and recommend actions in respect of all risk issues escalated by the Chief Risk Officer;
- 7.41 Oversee and advise the Board on the current risk exposures of the Bank (both non-financial and financial) and future risk strategy on both an aggregated basis and by risk type;
- 7.42 Approve temporary or non material (as determined at the discretion of the Chair of the Committee and highlighted in subsequent Board notifications) changes to Board Risk Appetite concentration limits. Any such change shall be reported promptly to the Board;
- 7.43 Delegate to the Chair of the Committee authority to approve urgent material change requests to concentration limits in between Committee meetings, with all such material changes being reported to the members of the Committee and to the Board promptly;
- 7.44 In relation to risk assessment:
  - 7.44.1 Keep under review the Bank's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used;
  - 7.44.2 Review regularly and approve the parameters used in these measures and the methodology adopted;
  - 7.44.3 Set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance;
- 7.45 Review the Bank's capability to identify and manage new risk types;
- 7.46 Oversee and challenge the design and execution of stress and scenario testing;
- 7.47 Oversee and challenge the day-to-day risk management and oversight arrangements of management and ensure the Bank's adherence to the approved risk framework and policies;
- 7.48 Review reports on any material breaches of risk limits and the adequacy of proposed action;
- 7.49 Provide advice, oversight and challenge to embed and maintain a supportive risk culture throughout the Bank;
- 7.50 Produce a report of its activities and the Bank's risk management and strategy to be included in the Bank's annual report. The report should include an explanation of how the committee has addressed the effectiveness of the external audit process; 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 auditor; and all other information requirements set out in the Code;
- 7.51 Review reports from management on the effectiveness of the risk systems that management have established and on the conclusions of any testing carried out by

internal audit;

- 7.52 Before a decision is taken to proceed by the Board, oversee, challenge and advise the Board on strategic or material transactions including acquisitions or disposals, focusing in particular on risk aspects and implications for the risk appetite and tolerance of the Bank, and taking independent external advice where appropriate and available;
- 7.53 Provide qualitative and quantitative advice to the Board Remuneration Committee on risk weightings to be applied to performance objectives incorporated in executive remuneration;
- 7.54 On an annual basis review the Bank's procedures for detecting fraud;
- 7.55 On an annual basis review the Bank's procedures for the prevention of bribery;
- 7.56 Review on an annual basis the adequacy and effectiveness of the Bank's anti-money laundering systems and controls;
- 7.57 Consider and approve the remit of the risk oversight and risk management functions and ensure they have adequate resources and appropriate access to information to enable them to perform their functions effectively and in accordance with the relevant professional standards. The Committee shall also ensure the functions have adequate independence and are free from management or other restrictions;
- 7.58 Recommend to the Board the appointment and/or removal of the Chief Risk Officer;
- 7.59 Review promptly all reports from the Chief Risk Officer and the Head of Credit Risk;
- 7.60 Review and monitor management's responsiveness to the findings and recommendations of the Chief Risk Officer;
- 7.61 Ensure the Chief Risk Officer is given the right of direct access to the Chair of the Committee;
- 7.62 In respect of sanctions undertaken by the Chief Risk Officer, ensure the Head of Credit Risk is given the right of direct access to the Chair of the Committee;
- 7.63 Without prejudice to the role of the Remuneration Committee, to consider whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings;
- 7.64 Review whether prices of liabilities and assets offered to clients take fully into account the firm's business model and risk strategy. Where prices do not properly reflect risks in accordance with the business model and risk strategy, the Committee must present a remedy plan to the management body;
- 7.65 Recommend to the Board approval limits for credit sanctioning;
- 7.66 Review adequacy and reliability of risk models used within the Bank; and
- 7.67 Review and challenge (if necessary) the minutes of the Risk and Compliance Committee, and Asset and Liability Committee;

#### **Sanctioning Authority**

- 7.68 Consider, and if thought fit, authorise lending proposals in excess of Executive credit

sanctioning approval limits. These proposals may be agreed by telephone conference call, or, subject to the Committee's unanimous approval, by circulation of emails.

## **8 Other Matters**

The Committee shall:

- 8.1 Have access to sufficient resources in order to carry out its duties, including access to external advisers and Secretariat for assistance as required;
- 8.2 Ensure that appropriate and timely training is provided, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 8.3 Give due consideration to laws and regulations, as appropriate;
- 8.4 Oversee any investigation of activities which are within its Terms of Reference; and
- 8.5 Ensure there is regular review of its performance and Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary for approval by the Board;
- 8.6 In order to support the Committee in discharging its responsibilities in accordance with these Terms of Reference, maintain and regularly review the annual schedule of agenda items.

## **9 Reporting responsibilities**

- 9.1 The Chair of the Committee shall report on how it has discharged its responsibilities to the Bank Board. This report shall include, at appropriate times, detail of issues that it considered in relation to the financial statements and its assessment of the effectiveness of the external audit process as well as any other issues on which the Board has requested the Committee's opinion, and such recommendations as the Committee may deem appropriate.
- 9.2 The minutes of the meeting shall be provided to the Board.
- 9.3 The Chair of the Committee shall attend the Annual General Meeting and be prepared to respond to any shareholder questions on the Committee's activities.