

**SANTANDER UK PLC**  
**(the Ring-Fenced Bank (“RFB”))**

**BOARD AUDIT COMMITTEE**  
**(the “Committee”)**

**TERMS OF REFERENCE**

Approved by the Board of Directors of Santander UK plc (the “**Board**”) on 30 December 2019.

**1. AUTHORITY**

- 1.1 The Committee is a committee of the Board from which it derives its authority and to which it regularly reports.
- 1.2 The Committee may sub-delegate all or any of its responsibilities as it sees fit, including without limitation, to a sub-committee established for a specific purpose.
- 1.3 The Committee has authority to investigate any matter relating to the RFB, its subsidiaries and subsidiary undertakings (together the “RFB Sub-group”) within its Terms of Reference and to obtain such information as it may require from any Director, officer or employee of the RFB Sub-group or Santander UK Group Holdings plc (“HoldCo, and together with its subsidiaries, the “HoldCo Group”).

**2. SCOPE**

- 2.1 The Committee is concerned with the oversight of:
  - the integrity of the financial statements of the RFB, and any formal announcements relating to its financial performance, including significant financial reporting judgements contained therein;
  - the effectiveness of internal financial controls;
  - the audit scope and statutory audit of the annual financial statements;
  - the external auditor's independence and objectivity and the effectiveness of the audit process;
  - the effectiveness of the internal audit function; and
  - the effectiveness of whistleblowing arrangements,

in respect of the entire RFB Sub-group.

**3. RESPONSIBILITIES**

The Committee’s responsibilities are as follows:

**3.1 Financial Reporting**

The Committee shall:

- 3.1.1 Monitor and review the integrity of the financial statements of the RFB including its annual and half-yearly reports and relevant quarterly management statements and any other formal announcement relating to its financial performance.
- 3.1.2 Review the significant financial reporting issues and judgements contained in the financial statements of the RFB.
- 3.1.3 Report to the Board key significant financial reporting issues and judgements they contain.
- 3.1.4 Review any financial information contained in other relevant documents, such as announcements of a price sensitive nature.
- 3.1.5 In particular, the Committee shall review and challenge where necessary:
  - 3.1.5.1. The consistency of, and any changes to, significant accounting policies on a year on year basis across the RFB Sub-group.
  - 3.1.5.2. The methods used to account for significant or unusual transactions where different approaches are possible.
  - 3.1.5.3. Whether the RFB Sub-group has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor.
  - 3.1.5.4. The clarity and completeness of disclosure in the RFB's financial reports and the context in which statements are made.
  - 3.1.5.5. All material information presented with the financial statements, such as the business and financial review and the corporate governance statement.
- 3.1.6 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the RFB, it shall report its views to the Board.
- 3.1.7 The Committee shall keep under review the adequacy and effectiveness of the RFB Sub-group's internal financial controls.
- 3.1.8 The Committee should review the content of the annual report and accounts including the going concern assumptions and the viability statement 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 RFB's performance, business model and strategy.

### **3.2 Internal Financial Controls**

- 3.2.1 The Committee shall review the adequacy and effectiveness of the RFB Sub-group's systems for internal financial control and financial reporting.

### **3.3 Whistleblowing**

The Committee shall:

- 3.3.1 Review the adequacy and security of the RFB Sub-group's arrangements for its employees and contractors to raise concerns about possible wrongdoing in financial reporting or other matters and to ensure the confidentiality, protection and fair treatment of whistleblowers.
- 3.3.2 The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.
- 3.3.3 Receive reports from the Head of Whistleblowing on whistleblowing matters, including material instances of disclosure.

#### **3.4 Internal Audit**

The Committee shall:

- 3.4.1 Monitor and review the effectiveness of the RFB's Internal Audit function.
- 3.4.2 In respect of the Chief Internal Auditor;
  - 3.4.2.1 Approve their appointment and removal;
  - 3.4.2.2 Participate in setting their objectives and annually review their performance against those objectives; and
  - 3.4.2.3 In conjunction with the Board Remuneration Committee, approve their variable remuneration.
- 3.4.3 Consider and approve the remit of the Internal Audit function in so far as it relates to the RFB Sub-group. In particular ensure it has adequate resources, has 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, suitable expertise and experience, and is free from management or other restrictions.
- 3.4.4 Review and approve the RFB's annual Internal Audit plan.
- 3.4.5 Receive regular reports on the results of the Internal Audit function's work.
- 3.4.6 Review and monitor management's responsiveness to the findings and recommendations of the Internal Audit function.
- 3.4.7 Meet the Chief Internal Auditor at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out in respect of the RFB Sub-group. In addition, the Chief Internal Auditor shall be given the right of direct access to the Chair of the Board and the Committee Chair.
- 3.4.8 Obtain an independent external assessment of the Internal Audit function at least once every five years in accordance with the Chartered Institute of Internal Auditor Standards.

#### **3.5 External Audit**

The Committee shall:

- 3.5.1 Consider and make recommendations to the Board, to be put to the Shareholders for approval, in relation to the appointment, re-appointment and removal of the RFB's External Auditor. The Committee shall oversee the selection process for a new auditor, whilst having due regard to any Group-wide audit tender and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.

- 3.5.2 Oversee the relationship with the External Auditor including (but not limited to):
  - 3.5.2.1 Approval of their remuneration and terms of engagement (including any engagement letter issued at the start of each audit) and the scope of the audit.
  - 3.5.2.2 Considering whether fees (and the level of fees) for audit or non-audit services are appropriate to enable an effective and high quality audit to be conducted.
  - 3.5.2.3 Regularly review their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the external auditor as a whole, including the provision of non-audit services.
  - 3.5.2.4 Satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the RFB Sub-group (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity.
  - 3.5.2.5 Agreeing a policy on the employment of former employees of the RFB Sub-group's external auditor, then monitoring the implementation of this policy.
  - 3.5.2.6 Monitoring their compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the RFB compared to the overall fee income of the firm, office and partner and other related requirements.
  - 3.5.2.7 Developing and implementing a policy on the supply of non-audit services by the External Auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.
  - 3.5.2.8 Assessing annually the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process, which shall include a report from the external auditor on its own internal quality procedures.
  - 3.5.2.9 Monitoring co-ordination of activities with the Internal Audit function.
- 3.5.3 Meet regularly with the External Auditor including, at least once a year, without management being present, to discuss the External Auditor's remit and any issues arising from the audit.
- 3.5.4 Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
- 3.5.5 Review the findings of the audit with the External Auditor. This shall include but not be limited to the following:
  - 3.5.5.1 A discussion of any major issues which arose during the audit, including whether they have been subsequently resolved or remain unresolved.
  - 3.5.5.2 Any key accounting and audit judgements.
  - 3.5.5.3 Levels of errors identified during the audit.
  - 3.5.5.4 The effectiveness of the audit process.
- 3.5.6 Review representation letters relating to financial statements requested by the External Auditor before they are signed by management.

- 3.5.7 Review the management letter and management's response to the auditor's findings and recommendations.

### **3.6 Other Matters**

- 3.6.1 Review the Resolvability Assessment Framework, the Recovery Plan and Resolution Pack.

## **4. MEMBERS**

- 4.1 The Committee shall be made up of at least three members, all of whom shall be Independent Non-Executive Directors<sup>1</sup>. At least two members shall be RFB Double Independent<sup>2</sup> Non-Executive Directors.
- 4.2 Members of the Committee shall be appointed by the Board (upon recommendation of the Board Nomination Committee) and in consultation with the Committee Chair and shall include at least one member of the Board Risk Committee.
- 4.3 At least one member of the Committee shall have recent and relevant financial experience in accordance with the Financial Reporting Council's guidelines and be a financial expert as defined in the rules promulgated under the US Securities Exchange Act of 1934, as amended (a "Financial Expert"), with all other members having appropriate financial expertise to sit on the Committee. The Chair of the Board shall not be a member of the Committee.

## **5. ATTENDEES**

- 5.1 Only members of the Committee have the right to attend Committee meetings. However, standing attendees may include the Board Chair, Chief Executive Officer, the Company Secretary (and/or their appointed nominee), the Chief Financial Officer, the Chief Risk Officer, the Chief Internal Auditor, and the Director of External Reporting. The Committee Chair retains the discretion to invite any other individual to observe or present at Committee meetings (subject to any conflicts of interests).
- 5.2 The External Auditors will be invited to attend meetings of the Committee on a regular basis.

## **6. CHAIR**

- 6.1 Upon recommendation of the Board Nomination Committee, the Board shall appoint the Committee Chair who shall be an Independent Non- Executive Director. The Chair of the Board shall not be a member of the Committee.
- 6.2 In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

## **7. QUORUM**

- 7.1 The quorum necessary for the transaction of business shall be two members, one of whom must be a Financial Expert and one of whom must be a Double Independent Non-Executive Director. A duly convened meeting of the Committee at which a quorum is present shall be

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<sup>1</sup> INED has the meaning set out at section D.2.(ii) (B) of the UK Group Framework dated 5 December 2019.

<sup>2</sup> Double Independent Non-Executive Directors are those RFB INEDs that are a senior management function holder for the RFB and not also an employee or director of any other member of the RFB group other than an RFB affiliate.

competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

## **8. SECRETARY**

- 8.1 The Committee Secretary shall be a member of the Secretariat as agreed with the Committee Chair.

## **9. MINUTES**

- 9.1 The Secretary of the Committee shall minute the proceedings, which shall be circulated promptly to all members of the Committee, once agreed by the Committee Chair, and to all members of the Board (subject to any actual or potential conflicts of interest restricting such circulation).

## **10. NOTICE AND FREQUENCY OF MEETINGS**

- 10.1 The Committee shall meet at least four times a year at appropriate times as determined by the Committee Chair and otherwise as required. Meetings of the Committee and the HoldCo Board Audit Committee may be held concurrently but the Committee shall hold at least two separate meetings each year to consider matters that relate to the RFB alone.
- 10.2 Meetings of the Committee shall be convened by the Secretary of the Committee at the request of the Committee Chair or any of the Committee's members.
- 10.3 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and, as appropriate, any other person required to attend, no later than five calendar days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.
- 10.4 Outside of the formal meeting programme, the Committee Chair shall maintain a dialogue with key individuals in management and those involved in the RFB's governance, including the Board Chair, the Chief Executive Officer, the Chief Financial Officer and the Head of Internal Audit.

## **11. ADVICE**

- 11.1 The Committee is authorised to obtain any information it requires from any employee of the HoldCo Group in order to perform its duties and, at the RFB's expense, obtain outside legal or other professional advice on any matter within its Terms of Reference. The Committee is also authorised to select, appoint and set the terms of appointment for any external advisers to the Committee.

## **12. GENERAL MATTERS**

The Committee shall:

- 12.1 Have access to sufficient resources to carry out its duties, including access to external advisors and Secretariat for assistance as required.
- 12.2 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.
- 12.3 Give due consideration to laws and regulations, as appropriate.
- 12.4 Oversee any investigation of activities which are within its Terms of Reference.

**13. REPORTING RESPONSIBILITIES**

- 13.1 The Committee Chair (or their elected nominee) shall report to the Board on the Committee's proceedings after each meeting.
- 13.2 The Committee shall make such recommendations to the Board as it deems appropriate with respect to any area within its remit.
- 13.3 The Committee shall produce a report to be included in the RFB's Annual Report about its activities, including an explanation of how the Committee has addressed the effectiveness of the external audit process, the significant issues 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. In this context, the Committee should exercise judgement in deciding which issues it considers significant but should include at least those matters that have informed the Board's assessment of whether the RFB is a going concern.

**14. CHANGES TO THE TERMS OF REFERENCE**

- 14.1 These Terms of Reference shall be reviewed annually by the Committee and any proposed amendments will be recommended to the Board for approval.