

## **SANTANDER UK GROUP HOLDINGS PLC**

### **BOARD AUDIT COMMITTEE**

#### **TERMS OF REFERENCE**

## **1. SCOPE**

The Santander UK Group Holdings plc (the “Company”) Board Audit Committee (the “Committee”) is a committee of the Board of Directors (the “Board”) to oversee the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, including significant financial reporting judgements contained in them; review the audit scope and monitor the statutory audit of the annual financial statements; review the Company's internal financial controls; review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process; monitor and review the effectiveness of the Company's internal audit function; and review whistleblowing arrangements.

The Committee is concerned with the business of the entire UK Group and its authority extends to all matters relating to its responsibilities below for the Company, Santander UK plc, their major subsidiaries and the UK group as a whole, as appropriate (together the “UK Group”).

In the event of any perceived overlap between the Committee and the Board Risk Committee, the committee chairmen shall between them agree the most appropriate committee to consider the matter. Any matter covered in the terms of reference of either committee shall be deemed to have been duly addressed provided it is satisfied by either this Committee or the Board Risk Committee.

### **1.1. AUTHORITY**

The Committee is a Committee of the Board of Directors of the Company constituted in accordance with the Company's Articles of Association.

The Committee may delegate all or any of its responsibilities to a sub-committee including one established solely for that purpose.

## **2. RESPONSIBILITIES**

The Committee's responsibilities are as follows:

### **2.1. Financial Reporting**

- 2.1.1. The Committee shall monitor and review the integrity of the financial statements of the Company including its annual and half-yearly reports, interim and quarterly management statements and any other formal announcement relating to its financial performance, reviewing the significant financial reporting issues and judgements which they contain. The Committee shall also report to the Board key significant financial reporting issues and judgements they contain and to review any financial information contained in other relevant documents, such as announcements of a price sensitive nature.

2.1.2. In particular, the Committee shall review and challenge where necessary:

- 2.1.2.1. The consistency of, and any changes to, significant accounting policies both on a year on year basis and across the Company/UK Group;
  - 2.1.2.2. The methods used to account for significant or unusual transactions where different approaches are possible;
  - 2.1.2.3. Whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - 2.1.2.4. The clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
  - 2.1.2.5. All material information presented with the financial statements, such as the business and financial review and the corporate governance statement (insofar as it relates to the audit).
- 2.1.3. 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.
- 2.1.4. The Committee shall keep under review the adequacy and effectiveness of the Company's internal financial controls.
- 2.1.5. 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.

## **2.2. Whistleblowing**

- 2.2.1. The Committee shall review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

## **2.3. Internal Audit**

The Committee shall:

- 2.3.1. Monitor and review the effectiveness of the Company's Internal Audit function in the context of the Company's overall risk management system;

- 2.3.2. Approve the appointment and removal of the Head of Internal Audit;
- 2.3.3. Consider and approve the remit of the Internal Audit function in so far as it relates to the Company. In particular ensure it provides 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;
- 2.3.4. Review and approve the annual Internal Audit plan;
- 2.3.5. Receive a report on the results of the Internal Auditor's work on a regular basis;
- 2.3.6. Review and monitor management's responsiveness to the findings and recommendations of the Internal Auditor; and
- 2.3.7. Meet the Head of Internal Audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the Head of Internal Audit shall be given the right of direct access to the Chair of the Board and of the Committee.

## **2.4. External Audit**

The Committee shall:

- 2.4.1. 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 Company'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.
- 2.4.2. Oversee the relationship with the External Auditor including (but not limited to):
  - 2.4.2.1. 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;
  - 2.4.2.2. 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;
  - 2.4.2.3. Assessing annually 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;
  - 2.4.2.4. Satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;

- 2.4.2.5. Agreeing with the Board a policy on the employment of former employees of the Company's external auditor, then monitoring the implementation of this policy;
  - 2.4.2.6. Monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
  - 2.4.2.7. 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;
  - 2.4.2.8. 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; and
  - 2.4.2.9. Seeking to ensure co-ordination with the activities of the Internal Audit function.
- 2.4.3. 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 shall meet the External Auditor at least once a year, without management being present, to discuss the External Auditor's remit and any issues arising from the audit.
- 2.4.4. Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard for the seniority, expertise and experience of the external audit team;
- 2.4.5. Review the findings of the audit with the External Auditor. This shall include but not be limited to the following:
- 2.4.5.1. A discussion of any major issues which arose during the audit;
  - 2.4.5.2. Any accounting and audit judgements;
  - 2.4.5.3. Levels of errors identified during the audit; and
  - 2.4.5.4. The effectiveness of the audit process.
- 2.4.6. Review representation letters relating to financial statements requested by the External Auditor before they are signed by management; and
- 2.4.7. Review the management letter and management's response to the auditor's findings and recommendations.

## **2.5 Other Matters**

The Committee shall:

- 2.5.1 Have access to sufficient resources in order to carry out its duties, including access to the Secretariat for assistance as required;

- 2.5.2 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;
- 2.5.3 Give due consideration to laws and regulations, as appropriate;
- 2.5.4 Be responsible for co-ordination of the Internal and External Auditors;
- 2.5.5 Oversee any investigation of activities which are within its Terms of Reference;
- 2.5.6 Work and liaise as necessary with all other Board Committees; and
- 2.5.7 Ensure there is a regular review of its performance, constitution and Terms of Reference.

### **3. MEMBERSHIP AND ATTENDANCE**

Members of the Committee shall be appointed by the Board on the recommendation of the Board Nomination Committee in consultation with the Chair of the Committee. The Committee shall be made up of at least three members and shall include at least one member of the Board Risk Committee.

All members of the Committee shall, where possible, be Independent Non-Executive Directors at least one of whom shall 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 Audit Committee. The Chair of the Board shall not be a member of the Committee.

Appointments to the Committee shall be for a period of up to three years, which may be extended for further three year periods, provided that the Director to whom the extension is applicable still meets the criteria for membership of the Committee. Committee membership shall be reviewed on a regular basis and any extension of the term shall not be given without consultation with the Board Nomination Committee.

#### **3.1. QUORUM**

The quorum necessary for the transaction of business shall be two members, one of whom must be a Financial Expert. 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 vested in or exercisable by the Committee.

#### **3.2. ATTENDEES**

Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chair of the Board, other Directors (including those Non-Executive Directors who are not members of the Committee), the Chief Financial Officer the Chief Risk Officer, the Financial Controller, other Heads of the Risk, Compliance, Legal, Finance and Internal Audit functions together with external advisers, the Head of the Group Internal Audit and Group Board Audit Committee

Chair may be invited to attend all or part of any meeting as and when appropriate or necessary, at the discretion of the Chair of the Committee.

The External Auditors will be invited to attend meetings of the Committee on a regular basis.

#### **4. COMMITTEE MANAGEMENT**

The Board shall appoint the Committee Chair. 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.

##### **4.1. SECRETARY**

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

##### **4.2. MEETINGS**

The Chair of the Committee shall decide the frequency and time of Committee meetings, provided that the Committee meets at least four times a year at appropriate times in the reporting and audit cycle and otherwise as required.

Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of the External or Internal Auditors if they consider it necessary.

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.

Outside of the formal meeting programme, the Committee Chair shall maintain a dialogue with key individuals in Management and those involved in the Company's Governance, including the Board Chair, the Chief Executive Officer, the Chief Financial Officer, the Financial Controller, the Head of Internal Audit and the External Auditors.

##### **4.3. MINUTES**

The Secretary of the Committee shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.

Draft Minutes of Committee meetings shall be circulated promptly to all members of the Committee once agreed by the Chair, and to all members of the Board, unless it would be inappropriate to do so.

##### **4.4. REPORTING**

The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities, and sufficient time should

be allowed between Committee and Board meetings to enable work arising from the Committee meeting to be undertaken and reported to the Board.

The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

The Committee shall produce a report to be included in the Company'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 Company is a going concern.

## **5. ADVICE**

The Committee is authorised to obtain any information it requires from any employee of the Company in order to perform its duties and, at the Company's expense, outside legal or other professional advice on any matter within its Terms of Reference.

## **6. VERSION CONTROL**

### **6.1. CHANGES TO THE TERMS OF REFERENCE**

These Terms of Reference shall be reviewed by the Committee at least once a year and any proposed amendments will be recommended to the Board for approval. Changes to the Terms of Reference must be approved by the Company's Board.

### **6.2. CHANGE HISTORY**

Version 1	Approved by the Board on 29 November 2011
Version 2	Approved by the Board on 25 September 2012
Version 3	Approved by the Board on 17 December 2013
Version 4	Approved by the Board on 15 December 2015
Version 5	Approved by the Board on 22 April 2016
Version 6	Approved by the Board on 15 December 2017
Version 7	Approved by the Board on 30 November 2018