

**Santander UK Group
Holdings plc and
Santander UK plc
INTERNAL AUDIT**

AUDIT CHARTER

February 2019

1) INTRODUCTION

This document contains the Santander UK Group Holdings plc and Santander UK plc (collectively “Santander UK”), the Ring Fenced Bank Group Internal Audit Charter, which defines the purpose, authority and responsibilities of the Internal Audit function. This Charter is adapted from the Santander Group Internal Audit Corporate Framework.

2) SCOPE OF APPLICATION AND IMPLEMENTATION

This Charter applies throughout Santander UK and has been approved by the Santander UK Group Holdings plc and Santander UK plc Board Audit Committees.

3) THE INTERNAL AUDIT FUNCTION: MISSION, SCOPE, AUTHORITY AND OPERATING GUIDELINES

(i) Mission

The Internal Audit Department of Santander UK (“IAD”) has adopted the definition of Internal Audit as defined by the Institute of Internal Auditors.

Internal Audit is a permanent function, independent of any other functions or units within Santander UK, whose objective is to provide the Santander UK Board Audit Committees (“BACs”) and Senior Management with independent assurance on the quality and effectiveness of internal control, risk management (current or emerging) and governance processes and systems, thereby helping to protect the company’s assets, solvency, reputation and sustainability. To such ends, Internal Audit evaluates:

- The efficiency and effectiveness of these processes and systems;
- Compliance with applicable legislation and regulatory requirements;
- The reliability and integrity of financial and operational information; and
- Asset integrity.

(ii) Scope

The scope of the activities of the IAD comprises of:

- All legal entities forming part of Santander UK, over which control is exercised; and
- The separate assets (e.g. investment funds) managed by the entities mentioned in the Section above.

Transactions and contracts for services outside the Santander UK perimeter are carried out on an arm’s length basis and third-party terms and they are paid for and documented in a Local Service Agreement (LSA).

The scope defined in this section will include, in all cases, any activities, businesses and processes carried out (whether directly or through outsourcing), as well as the existing organisation and, if applicable, any commercial networks.

In addition to the mission explained in sub-section (i) above, Internal Audit may conduct audits of any other investees not included under the preceding points when the Santander Group has reserved itself this right as shareholder.

(iii) Authority

The Internal Audit Department's authority is directly empowered by the BACs.

The IAD should have full, free and unrestricted access to any and all information. This access shall include documents, records and applications, physical sites and, if applicable, physical, computer-based and electronic files, as well as the cooperation of employees of Santander UK or external staff, whenever necessary.

The IAD will also have the right of attendance at any senior committees that the Santander UK Chief Internal Auditor ("CIA") considers relevant or necessary.

(iv) Operating Guidelines

The IAD will discharge its responsibilities based on the following principles:

- Independence, objectivity and impartiality;

All IAD opinions shall be based on objective analysis of the facts, unaffected by any undue influences, pressure or conflicts of interest of any kind.

Internal Audit may provide consulting and advisory services or undertake special projects, provided that:

- i. They do not compromise the integrity of the Audit Plan;
- ii. They relate to specific issues or processes; and
- iii. They are requested or approved by the Santander UK Board, BACs, the Chief Executive Officer or the Santander Group Chief Audit Executive ("Group CAE");

In all events, whether within the scope of these projects or in its ordinary activity, Internal Audit shall not undertake the design, implementation or execution of control mechanisms, develop procedures, install systems or prepare records and it shall take the necessary measures to ensure that its independence and objectivity remain uncompromised;

- Integrity, ethical behaviour and high degree of confidentiality of any data handled and any conclusions. Internal Auditors' shall adhere to the principles and rules of conduct set forth in the Santander Group Internal Audit Department Code of Conduct, and in the Institute of Internal Auditors Code of Ethics, which all IAD staff must at least annually confirm in writing that they have read and understood the requirements;

Internal Audit will establish appropriate procedures to prevent the existence of conflicts of interest that might compromise the performance of its functions and duties;

- Competent, skilled and professionally qualified auditors. To this end, Internal Auditors shall be engaged in continuous professional development;
- Quality work, based on objective drawn conclusions, documented and supported by performed audit tests, using uniform criteria, common and suitable methodology and tools. In performing their duties, Internal Auditors must at all times exercise due professional care;
- Pursuit of the creation of value, generating relevant and substantiated reports and supporting the management in the units audited in a spirit of mutual collaboration and contribution of measures for improvement;
- Appropriate collaboration with the other existing control functions in Santander UK;
- Suitable collaboration with external auditors and the rest of external assurance providers, holding regular meetings and sharing with them the results of the reviews performed and audit reports issued;

- Effective relationship with the UK regulators; and
- Adherence to international standards pertaining to the performance of its duties, particularly the ‘International Standards for the Professional Practice of Internal Auditing’ and the “Core Principles for the Professional Practice of Internal Auditing” published by “The Institute of Internal Auditors”, the Chartered Institute of Internal Auditors (“CIIA”) Guidance on ‘Effective Internal Audit in Financial Services Sector’ (“the Code”), second edition, September 2017 and the principles established by the Basel Committee on Banking Supervision, June 2012, for Internal Audit functions in banks.

4) REPORTING, ORGANISATIONAL STRUCTURE AND GOVERNANCE

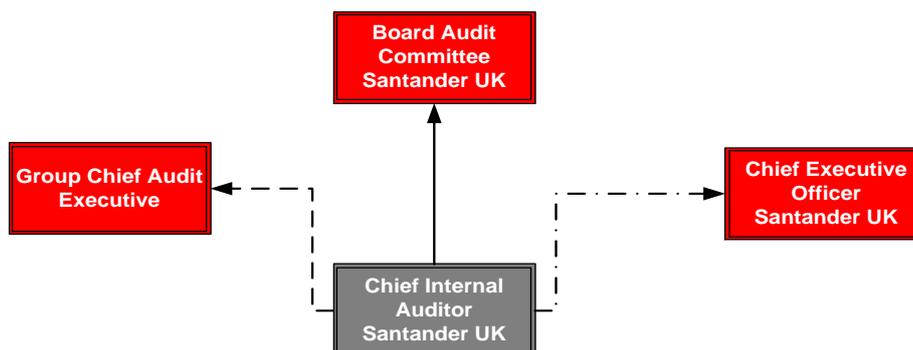
The IAD is part of the Santander Group Internal Audit function.

The CIA has a direct reporting line to the BACs and an administrative reporting line to the Santander UK Chief Executive Officer. In addition, the CIA has a functional reporting line to the Group CAE.

The CIA has ultimate responsibility for the Internal Audit function in Santander UK, and is appointed by the BACs (subject to approval under the PRA and FCA Senior Managers Regime) with the endorsement of the Chief Executive Officer of Santander UK and the involvement of the Group CAE, in accordance with the Group-Subsidiaries Governance Model and the corresponding procedures, subject to being permissible under local law and regulations. Specifically, the Financial Services (Banking Reform) Act 2013 (“the Act”) and the ring-fencing rules set out by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) take precedence over the Group-Subsidiaries Governance Model.

The Chairman of the BACs is accountable for setting the objectives of the CIA, recommending his or her variable remuneration to the Santander UK Board Remuneration Committee and appraising the performance of the CIA, considering also the views of the Santander UK Chief Executive Officer and Group CAE. The CIA’s variable remuneration will be approved jointly by the BACs and the Santander UK Board Remuneration Committee. As required by the Code, the appraisal should consider the independence, objectivity and tenure of the CIA. Where the CIA’s tenure exceeds seven years, the BACs should explicitly discuss annually the BACs Chairman’s assessment of the CIA’s independence and objectivity.

IAD shall be organised with the necessary flexibility to adapt at all times to its circumstances and structure, in order to achieve its objectives with maximum effectiveness and efficiency.



5) RESPONSIBILITIES

The following is a description of the roles and responsibilities of functions involved in the matters covered by this Charter. Such roles and responsibilities must be exercised respecting the three lines of defence and the need to achieve collaboration between the Corporation and Subsidiaries. Accordingly, Internal Audit is the third line of defence, independent from any others.

The CIA, in discharge of his or her duties, is responsible for:

- Proposing a suitable Charter to the BACs for the internal audit function, for its subsequent implementation and for obtaining the necessary approvals. The CIA shall also propose any changes that may be necessary due to periodic reviews of the Charter;
- Designing, implementing and maintaining a suitable methodology that embraces all aspects of audit work and identifies key risks (including emerging and systemic risks) within Santander UK, ensuring coordination with Santander Group Internal Audit Division methodology;
- Ensuring that every activity, including outsourced activities, and every entity of Santander UK falls within the audit universe of the Internal Audit function;
- The development of an Audit Plan based on its own evaluation of existing risks in Santander UK, through prioritisation of the risk-based assessment of the audit universe and including the input of Senior Management and the BACs. The Audit Plan will be coordinated with Group and will be integrated into the Group Internal Audit Plan;

This Audit Plan shall be submitted to Senior Management and to the BACs for review and approval at least once a year. Any significant changes from the approved Audit Plan will be communicated to Senior Management and submitted for approval to the BACs;

- Delivery of the agreed Audit Plan through the issuance of audit reports and other assurance and monitoring reports;

This includes the notification to the audited units of the audit conclusions and the recommendations, setting of target dates for the implementation of recommendations and monitoring the business' mitigation plans of identified risks and control weaknesses, through the implementation of recommendations.

All Internal Audit reports will be made available to members of the BACs.

The IAD shall also report the results of their reviews to the Group Internal Audit, along with the issued recommendations, the extent to which they have been implemented and any other relevant aspect that may arise.

- Periodic updates to the BACs in regard to the evolution of the approved Audit Plan, including any important deviation that might arise, if applicable, and the most relevant conclusions of the work carried out and providing all information requested by this Committee;
- Reporting, at least on a quarterly basis, to the BACs on the main conclusions of the audits carried out and on other matters relating to the Internal Audit function;
- Keeping the BACs informed of all conclusions of its work performed and providing relevant information;
- Undertaking all audits, special reviews, reports and commissions requested by the BACs and in accordance with this Charter;
- Carrying out ad-hoc investigations or reviews requested by the Chief Executive Officer and ratified by the BACs;
- Undertaking regular business monitoring through engagement with internal control functions, regular meetings with external audit and sharing the outcome of reports with them. Also, IAD monitors key strategic developments, partake in industry forums and working groups and

engage with regulatory bodies. In addition, IAD will be aware of emerging risks resulting from changes in market forces, regulations and economic factors;

- The CIA will attest to the BACs, at least annually, the organisational independence of the Internal Audit activity. If IAD's independence or objectivity is impaired, the details of the impairment will be disclosed to the Chair of the BACs;
- Developing and maintaining a quality assurance and continuous improvement programme that covers every aspect of the Internal Audit activity, ensuring coordination with the Santander Group Internal Audit Division. This includes an internal quality assurance capability that must be independent of the delivery of audits and it should be able to challenge IAD's performance, judgement and opinions, enabling IAD to internally assess the effectiveness of its Internal Audit function.

Additionally, the effectiveness of the Internal Audit function shall be evaluated by an independent and qualified team external to Santander UK at least once every five years.

- Communicating to the BACs the results of on-going internal assessments and external assessments conducted at the BACs' or Regulator's request;
- Ensuring that Internal Audit staff have the skills and experience commensurate with the risks of the organisation. This entails developing and implementing a training plan for staff, recruitment of appropriate skill sets, secondment from other parts of the organisation or co-sourcing with external third parties; and
- Carrying out periodic assessments of the sufficiency of the resources in place and confirming to the BACs, at least annually, the appropriateness of resources of the IAD and adequacy of the budget.

The CIA may rely on a management team committee consisting of Audit Directors and Heads of Audit to assist in discharging his or her responsibilities under the terms of this Charter.

6) OUTSOURCING OF TASKS

In the event that the IAD is unable to source or supply specialist skills or competence internally, it may source appropriate resources from external experts and consultants. In all cases, IAD shall retain control over planning, execution and responsibility for its content at all times.

7) KEY PROCESSES

The key processes that enable the IAD to conduct its work properly are detailed below:

- (i) Periodic planning;
 - a. Maintaining the audit universe;
 - b. Identifying and assessing risks; and
 - c. Carrying out annual audit planning.
- (ii) Performing audit work;
 - a. Planning;
 - b. Undertaking audit work and drawing conclusions; and
 - c. Producing and distributing reports.
- (iii) Recommendations follow up;
- (iv) Reporting to senior management and BACs; and
- (v) Quality Assurance and Continuous Improvement Programme.

These processes are carried out by Santander UK Internal Audit, under the terms of this Charter, and in accordance with the Santander Group Internal Audit Corporate Framework.

8) OWNERSHIP

The Santander UK Board of Directors, through its BACs, shall be responsible for determining the scope and application of this Charter, based on proposals made by the Group Internal Audit Division and the Santander UK IAD.

9) INTERPRETATION

The Santander UK CIA shall be responsible for the interpretation of this Charter and of all other functions assigned to it herein.

10) DATE OF VALIDITY AND PERIODIC REVIEW

The contents of this Charter shall be subject to review carried out at least once a year, making any changes or modifications that are deemed necessary. It will be reviewed by the CIA, shared with the Group CAE and submitted to the BACs for approval.

APPENDIX: GLOSSARY OF KEY TERMS

Santander Group or the Group: group of companies comprising Banco Santander, S.A. as the parent company, and the dependent companies over which it has direct or indirect control. For clarification, it comprises the Banco Santander, S.A. parent company, including the Santander Spain organisational units, which are part of said company, and any other unit / subsidiaries of Banco Santander, S.A.

Corporation: all the governing bodies, organisational structures and employees entrusted by Banco Santander, S.A. to exercise oversight and control across the entire Group, including those functions typically associated with the relationship between a parent company and its subsidiaries.

Subsidiary: a dependent company that forms part of the Santander Group or one directly or indirectly controlled by Banco Santander, S.A.

Governing Body: Governance body or group of bodies of a company that are responsible for the supervision and management of the business at the highest level.

Senior management: individuals who exercise executive functions in the entity and who are responsible for the daily management of the entity, and who are accountable to the Governing Body.

Ring-fencing: The Ring-fencing legislation requires each large UK bank to separate its retail banking activity from the rest of its business. Ring-fencing legislation refers to the Financial Services (Banking Reform) Act 2013 ('the Act') and the ring-fencing rules set out by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

Ring Fenced Bank Group, in the context of this document, refers to:

- Santander UK plc, the Ring Fenced Sub-Group; and
- Santander UK Group Holdings plc and its subsidiaries and subsidiary undertakings.