

SHAWBROOK GROUP PLC

AUDIT COMMITTEE (the “Committee”) TERMS OF REFERENCE

The following are the terms of reference of the Audit Committee of Shawbrook Group plc (the “Company”) and its subsidiaries (together, the “Group”).

1. Membership

- 1.1 The Committee shall be appointed by the board of directors of the Company (the “Board”) on the recommendation of the Nomination Committee in consultation with the Chairman of the Audit Committee. The Audit Committee shall comprise at least three members of which at least the majority should be independent and at least one should be the Chairman of the Risk Committee. The Chairman of the Board will not be a member of the Committee.
- 1.2 The Board shall appoint the chairman of the Committee (the “Chairman”), who shall be an independent non-executive director. In the absence of the Chairman, the remaining members present shall elect one member to chair the meeting.
- 1.3 At least one member of the Committee should have significant, recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies.
- 1.4 The Committee as a whole should have competence relevant to the sector in which the Company operates.
- 1.5 At least one member of the relevant body must have competence in accounting or auditing, or both.
- 1.6 Appointments to the Committee shall be for a period of up to three years, which may be extended for no more than two additional periods of up to three years, so long as (where applicable) members continue to be independent.
- 1.7 The Company Secretary (or his or her nominee) shall act as the Secretary of the Committee (the “Secretary”) and shall ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration of the issues.

2. Quorum

- 2.1 The quorum necessary for the transaction of business shall be two members of the Committee. Ideally, at least one of the members present in any quorum should have significant, recent and relevant financial experience.
- 2.2 A duly convened and quorate meeting of the Committee shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

3. Frequency of meetings

- 3.1 The Committee shall meet at least six times a year at appropriate intervals in the financial reporting and audit cycle and at such other times as required. Meetings may be convened by telephone when necessary. Meetings should be held, where possible, alongside Board Risk Committee meetings, to ensure that the work of the two Committees is coordinated and consistent.
- 3.2 Outside the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Company's governance, including the chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the external audit lead partner and internal audit lead partner (if and when appointed) the head of internal audit.

4. Notice of meetings

- 4.1 Meetings of the Committee shall be called by the Secretary at the request of any of its members or at the request of any of the following people if they consider a meeting to be necessary:
- (A) the Chairman of the Board;
 - (B) the Chief Executive Officer;
 - (C) the Chief Financial Officer;
 - (D) the External Audit lead partner; or
 - (E) (if appointed) the Head of Internal Audit.
- 4.2 Unless otherwise agreed, notice of each meeting confirming the venue, date and time, together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the Committee, and to other attendees as appropriate, no later than ten business days before the date of the meeting. The notice period for the meeting may be reduced to consider urgent business on receipt of written consent from the Parent company of the Group. In these cases, 24 hours' notice will be provided with an accompanying agenda and papers for the meeting.

5. Proceedings of the Committee

- 5.1 Only Committee members have the right to attend Committee meetings. However, the Committee may invite the External Auditor, Internal Audit and the Chief Financial Officer to attend meetings on a regular basis and other non-members (such as the Chief Risk Officer, the Chairman of the Board, the Chief Executive Officer, other directors or management) to attend all or part of any meeting as and when appropriate and necessary.
- 5.2 At least once a year the Committee will meet the External Auditors without executive directors or other management present.

- 5.3 At least once a year the Committee will meet Internal Audit (if appointed) without executive directors or other management present.
- 5.4 Similarly, the Committee may meet separately with any of the executive directors without any other executive management being present.
- 5.5 The Chairman will be available to the Secretary and the Chief Financial Officer to discuss any matters of concern in relation to financial reporting matters or compliance with the Group's legal and regulatory obligations, in the widest sense, should this be considered necessary by those individuals.
- 5.6 Although normally decisions are reached on a consensus, in the event of a disagreement, decisions on any matter are made by the majority, with the Chairman having a second, casting vote in the event of a tie. An Committee member who remains opposed to a proposal after a vote can ask for his or her dissent to be noted in the minutes.

6. Minutes of meetings

- 6.1 The Secretary shall minute the proceedings and decisions of all Committee meetings and record the names of those present and in attendance. Any members with conflicts of interest should declare these at the start of the meeting and the Secretary shall note them for the minutes.
- 6.2 Draft minutes of Audit Committee meetings shall be circulated to all members of the Audit Committee as soon as practicable after each meeting. Once approved, minutes shall be circulated to all other members of the Board unless it would be inappropriate to do so in the opinion of the Chairman.

7. Annual general meeting

The Chairman shall attend the annual general meeting of the Company prepared to respond to any shareholder questions on the Committee's activities and responsibilities.

8. Authority

- 8.1 The Committee is authorised by the Board to undertake any activity within its terms of reference. The Committee is entitled to sufficient resources from the Group to undertake its duties and may at any time request Internal Audit to carry out such independent reviews as it deems necessary and report back to the Committee.
- 8.2 In particular, the Committee is authorised to:
- (A) seek any information it requires from any employee of the Group to perform its duties;
 - (B) obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;

- (C) call any employee or contractor of the Group to be questioned at a meeting of the Committee as and when required; and
- (D) publish in the Company's annual report details of any issues that cannot be resolved between the Committee and the Board.

9. Responsibilities

External Audit

9.1 The Committee shall:

- (A) consider and make recommendations to the Board, to be recommended to shareholders for approval in relation to the appointment, re-appointment or removal of the external auditors;
- (B) monitor the statutory audit of the Company's annual and consolidated accounts and review and agree with the external auditors the results of their audit. This shall include, but not be limited to, the following:
 - (i) a discussion of any major issues which arose during the audit;
 - (ii) key accounting and audit judgements;
 - (iii) levels of errors identified during the audit;
 - (iv) effectiveness of the audit; and
 - (v) compliance with relevant financial reporting standards and relevant financial and governance reporting requirements.
- (vi) review of any changes to accounting policies or practices for recommendation to the Board and shareholders for approval.

9.2 The Committee shall 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. In respect of such tender the Committee shall oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process.

9.3 If an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required.

9.4 The Committee shall oversee the relationship with the External Auditor, which shall include (but is not limited to):

- (A) negotiating and setting their remuneration, including fees for both audit and non-audit services, and ensuring that the level of fees is appropriate to enable an effective and high quality audit to be conducted;

- (B) approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- (C) authorising to the extent permitted by law and regulations the external auditor to provide non-audit services to the Company or Group before the commencement of the non-audit services;
- (D) specifying a policy for the pre-approval of permitted non-audit services including setting materiality thresholds based on the value of the proposed non-audit service engagements;
- (E) assessing annually their independence and objectivity, taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- (F) 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;
- (G) agreeing a policy with the Board on the employment of former employees of the Company's auditor, and monitoring the implementation of this policy;
- (H) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared with the overall fee income of the firm, office and partner and other related requirements for maintaining independence and objectivity;
- (I) 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;
- (J) seeking to ensure co-ordination with the activities of the internal audit function and that any conflicts of interest between the external auditor and internal audit are managed appropriately;
- (K) evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market in that evaluation; and
- (L) at least annually, formally reviewing the relationship with the external auditor.

9.5 The Committee shall meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without executive directors or management being present, to discuss the auditor's remit and any issues arising from the audit.

9.6 The Committee shall review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.

- 9.7 The Committee shall also:
- (A) review any representation letter(s) requested by the external auditor before they are signed by management;
 - (B) review the management letter and management's response to the auditor's findings and recommendations; and
 - (C) develop and implement 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.

Financial reporting

- 9.8 The Committee shall monitor the Company's financial reporting process, and the integrity of the financial statements of the Company, including its annual and half-yearly reports and any other formal announcement relating to its financial performance. It shall review and report to the Board on significant financial reporting issues and judgements which the financial statements contain having regard to matters communicated to it by the External Auditor.
- 9.9 The Committee shall review the annual report and accounts of Shawbrook Bank and Shawbrook Group, and through reports from the executive management and the external auditors to the Committee, consider (and challenge where necessary):
- (A) the consistency of, and any changes to, significant accounting and treasury policies on a year on year basis, across the Company and the Group. Including the recommendation of any changes to the Board and shareholder for approval;
 - (B) compliance with legal, regulatory and statutory requirements;
 - (C) compliance with the requirements of any body by which the activities of the Group or its subsidiaries are regulated;
 - (D) the methods used to account for significant or unusual transactions where different approaches are possible;
 - (E) the appropriateness of accounting policies selected, the consistency with which they are applied and any changes in significant accounting policies and practice both on a year-on-year basis and across the Company/Group. Including the recommendation of any changes to the Board and the shareholders for approval;
 - (F) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the External Auditor;
 - (G) the appropriateness of the material judgements and estimates made in the course of preparation of the accounts taking into account the views of the external auditor;

- (H) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
 - (I) all material information presented with the financial statements, such as the business review and the corporate governance statements relating to the audit and to risk management;
 - (J) significant adjustments resulting from the audit;
 - (K) the going concern assumption; and
 - (L) the Viability Statement.
- 9.10 The Committee shall assess the effectiveness of the Group's financial reporting procedures.
- 9.11 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.
- 9.12 The Committee shall consider any issues raised by executive management and the External Auditors relating to the interim review and year end audits, and any matters the External Auditors may wish to discuss (in the absence of management where necessary).

Narrative reporting

- 9.13 Where requested by the Board, the Committee should review the content of the annual report and accounts and provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Internal Audit

- 9.14 Where applicable, the Committee shall monitor and review the effectiveness of the activities of internal audit.
- 9.15 The Committee shall:
- (A) approve the appointment or termination of appointment of the internal auditor;
 - (B) review and approve the charter of the internal audit function and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
 - (C) ensure the internal auditor has direct access to the board chairman and to the Audit Committee Chairman, and is accountable to the Committee;
 - (D) review and assess the annual internal audit work plan;

- (E) receive a report on the results of the internal auditor's work on a periodic basis;
- (F) meet the internal auditor at least once a year, without management present, to discuss their remit and any issues arising from the internal audit reviews;
- (G) review and monitor management's responsiveness to the internal auditor's findings and recommendations; and
- (H) monitor and review the effectiveness of the Company's internal audit function, in the context of the Company's overall risk management system.

9.16 The Committee shall consider any statements or reports presented to the Committee (whether issued internally or by external bodies, including regulatory bodies, external auditors, consultants, advisers or other persons) relating to any regulatory or supervisory investigations, enquiries, visits or other regulatory or compliance-related matters and the appropriateness of management's response (if any is required).

Whistleblowing

9.17 The Committee shall review the adequacy and security of the Group'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.

The Chairman of the Committee shall be the Group's Whistleblowing Champion.

10. Reporting responsibilities

10.1 The Chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:

- (A) the significant issues that it considered in relation to the financial statements and how these were addressed;
- (B) its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor including the approach taken to such appointment or reappointment, information on the length of tenure of the current audit firm and when a tender was last conducted; and
- (C) any other issues on which the Board has requested the Committee's opinion.

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

10.3 The Committee shall produce an annual report on its activities to be included in the Company's annual report. The report should include:

- (A) 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;
- (B) an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or re-appointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted;
- (C) if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded;
- (D) all other information requirements set out in the UK Corporate Governance Code; and
- (E) make any statement of compliance required by law or regulations.

10.4 In compiling the reports referred to in 10.1 and 10.3, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern.

11. Other matters

11.1 The Committee shall:

- (A) 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;
- (B) give due consideration to laws and regulations, the provisions of the Prudential Regulation Authority Rulebook and the Financial Conduct Authority's Handbook, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing Rules and Disclosure Guidance and Transparency Rules and any other applicable rules and guidance, as appropriate;
- (C) have regard to the relevant regulations of the European Parliament imposing a mandatory firm rotation for the statutory auditor of public interest entities;
- (D) be responsible for co-ordination of the internal and external auditors;
- (E) have regard to regulatory requirements including any applicable rules and guidance issued by regulatory bodies;
- (F) oversee any investigation of activities which are within its terms of reference;
- (G) work and liaise as necessary with all other Board committees; and
- (H) arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at

maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

These terms of reference were reviewed and approved by the Board on 5 December 2017.

APPROVAL RECORD

Approval Body	Approval Date	Details
Shawbrook Group/Bank Board	20 March 2015	Adopted by Board
Shawbrook Group/Bank Board	1 February 2016	Adopted by Board
Shawbrook Group/Bank Board	6 June 2017	Adopted by Board
Shawbrook Group/Bank Board	5 December 2017	Adopted by Board