



PSA FINANCIAL SERVICES SPAIN, E.F.C., S.A.



Internal Audit Charter

March 2018



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1. Introduction

This document (the “Charter”) describes the definition, scope, principles, roles and responsibilities, key processes and governance of the Internal Audit function within PSA Financial Services Spain. E.F.C, S.A. (henceforth the “JV”).

2. Definition and Scope

- **Definition**

Internal Audit adheres to the definition of internal audit provided by “The Institute of Internal Auditors”.

Internal Audit is a permanent function, independent of any other functions and units whose objective is to provide the Board of Directors and the 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 value, solvency and reputation. To such ends, Internal Audit evaluates:

- the effectiveness and efficiency of these processes and systems;
- compliance with applicable laws and regulations, and with the requirements from supervisors;
- the reliability and integrity of financial and operational information;
- and asset integrity.

- **Scope of action**

Internal Audit’s scope of action embraces:

- all entities under effective control of the JV.
- separate assets (such as investment funds) managed by the entities mentioned above.
- any entity (or separated asset) not included in the previous sections but with an agreement in place to implement the JV’s internal audit function.

The defined scope set out above will also include the activities, businesses and processes implemented (whether directly or through outsourcing), the current organisation and, as the case may be, the commercial networks.

Additionally, and also to further the mission explained above, Internal Audit may conduct audits of any other investees not included under the preceding points when the JV has reserved itself this right as shareholder.



3. Scope of application

This Charter is applicable throughout the whole JV, and has been approved by the Board of Directors.

4. Principles

The following principles reflect the minimum expectations of the JV as a whole. These principles are mandatory and must be applied at all times. Internal Audit will perform its duties following these principles:

- **Independence, objectivity and impartiality:** All Internal Audit opinions will be based on an objective analysis of the facts, without any kind of influence, pressure or interest.

Internal Audit will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair their judgment.

Internal Audit will offer advice and consultancy services and will also perform special projects provided these:

- do not compromise or undermine its other works;
- relate to specific and limited processes or topics; and
- are requested or approved by the Board of Directors.

In this regard, the necessary measures will be taken to ensure the independence and objectivity of Internal Audit.

- **Integrity, ethical conduct and confidentiality** in respect of all information compiled and of the final conclusions obtained. The auditors' work will be performed under the principles and rules of conduct set out in the JV's codes of conduct and the Internal Audit Code of Ethics, all of which should be acknowledged and accepted with the signature of all Internal Audit members.

In addition, Internal Audit will establish the necessary procedures to prevent conflicts of interest that may disrupt performance of its functions and responsibilities.

- **Maintenance of Auditors' professional competence and qualification**, with continuous training to be provided.
- **Quality work:** based on reasoned conclusions, documented and supported by audit tests conducted under uniform criteria through suitable shared methodologies and tools, as well as the required due of professional care.
- **Value creation:** Geared towards creating value, generating relevant and reliable reports while supporting the management teams of audited functions with the aim of collaborating and offering improvement measures.



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- **Collaboration:** Suitable levels of collaboration with other control functions and bodies including external auditors and other assurance providers working within the “JV”. This should include arranging periodic meetings and sharing the results of review processes and audit reports issued.
- **Supervisor relation:** Fluid relation with supervisors, attending to their requests on time and in an appropriate manner.
- **Respect for international audit standards,** especially the "International Standards for the Professional Practice of Internal Auditing" and the "Core Principles for the Professional Practice of Internal Auditing" of 'The Institute of Internal Auditors' and the principles established by the Basel Committee on Banking Supervision on the matter.

5. Roles and 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 defence line, independent from any others.

Internal Audit will be organized with the necessary flexibility to adapt to the JV's structure and situation at any time and to meet its objectives with the utmost efficiency and effectiveness. Accordingly, the responsible individual for the internal audit function may establish a committee to support the functions and responsibilities under the terms of this Charter.

The Chief Audit Executive (the “CAE”) will be responsible for proposing a suitable charter for Internal Audit to the Board of Directors, for its approval and subsequent implementation. The charter should define the function of internal audit and the way it should be carried out. The CAE shall also propose any changes that may be required due to periodic reviews of the charter.

The CAE will be responsible for:

- **Designing and implementing,** in coordination with the Internal Audit function at the Corporation, **a suitable methodology** that envisages the different aspects of the audit work and identifies material risks existing within the JV, taking also into account that the execution of the audit engagements are outsourced to BPF.
- **Implementing an Audit Plan** based on an assessment of risks existing within the JV, ensuring adequate coordination with corporate requirements. The expectations of the Governing Bodies, senior management and other involved parties will be duly taken into account.

The aforementioned Audit Plan must be presented to the Board Audit Committee for its approval at least once a year.

- **Delivery of the different activities included in the Audit Plan and preparing and distributing the reports envisaged under the plan.**



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- **Communicating the audit conclusions and recommendations to the audited parties**, establishing a schedule for implementing the recommendations and monitoring the work to ensure that the recommendations are implemented on a timely basis.
- **Reporting the results of their reviews to the to the shareholders' Internal Audit function**, along with the suggested recommendations, the extent to which they have been implemented and any other relevant aspect that may arise.
- **Carrying out periodic assessments of the sufficiency of the resources** in place to carry out the function.

Presenting a budget proposal for Internal Audit to the Board Audit Committee, including the human and material resources for carrying out the function, for its later submission to the Board of Directors (indicate the competent government body) for approval.

- **Periodically reporting to the Board Audit Committee on the implementation of the approved Audit Plan**, including any relevant changes, if applicable, the most relevant conclusions of the works conducted providing with all necessary information, and any other issues regarding its function.
- **Reporting to the Board of Directors on the activities performed by Internal Audit under its plan**, the main conclusions reached and any other issues regarding its function.
- **Informing the Governing Bodies and senior management of any situations that should warrant special attention.**
- **Carrying out all audit works, special works and assignments and preparing all reports** requested by the Board of Directors or the Board Audit Committee in the terms described in this Charter.
- **Presenting to the Board Audit Committee at least once a year to confirm that it has acted independently and that the works carried out have not been compromised by any factor that could have affected the independence or objectivity of Internal Audit.** Otherwise, Internal Audit shall explain why exactly it has not been able to act independently or objectively.
- **Developing and implementing a training plan for internal auditors.**

6. Key Processes

Key processes are those activities that allow for the proper functioning of Internal Audit, based on the following list:

- Audit plan
 - Maintaining the audit universe
 - Identifying and assessing risks
 - Periodic planning of audit work
- Executing audit engagements



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- Planning
- Conducting the work and drawing conclusions
- Filing and distributing reports
- Monitoring and follow up of recommendations
- Informing to senior management and the governing bodies

All these processes are conducted by the JV Internal Audit function under the terms of this Charter, and are described in the development documents¹ of the Audit function.

The Internal Audit function will have full, free and unlimited access to all the information in order to carry out their work and meet their objectives. This access extends to documents, systems and applications, physical locations, and, when applicable, physical, IT or virtual archives, as well as the co-operation of JV's or external staff when required.

When the need arises for external specialists or knowledge, Internal Audit may co-source specific activities and tasks, but will invariably remain in control of planning and implementing the work and will remain responsible for its content. All co-sourcing agreements should be approved by the Board Audit Committee.

7. Governance

The authority of Internal Audit comes directly from the Board of Directors

Internal Audit shall report to the Board Audit Committee and shall respond to requests for information that it receives relating to the performance of its duties. Notwithstanding the foregoing, as an independent unit, shall periodically report to the Board of Directors, and, in any event, at least two times per year, and shall also have direct, independent and unrestricted access when it deems it appropriate.

As laid out in the Framework and Investment Agreement, the Internal Audit function of the Bank will be integrated in Santander Consumer Group to the extend required to comply with the requirements of the Government Authorities. SCF HQ's CAE will carry out an oversight role to assure the correct use of Santander Group's Internal Audit methodology.

The CAE is in charge of the internal audit function and administratively reports to the JV'S CEO.

The CAE is appointed by the Board of Directors upon a proposal from the Board Audit Committee, with the involvement of the SCF CAE and of the Global Audit Committee of the Cooperation.

¹ Given that the IT related audits are delegated to BPF, some of the above mentioned points, especially "Executing audit engagements" are described in BPF's methodology.



8. Ownership

This document must be presented to the Board Audit Committee for its latter submission and approval by the Board of Directors of the JV.

The CAE and/or Board Audit Committee (indicate the responsible for the supervision and management of the business at the highest level) shall be responsible for interpreting this Charter.

9. Validity Date and Periodic Review

This Charter will be effective from the date of its publication.

Its contents will be reviewed periodically, and any changes or modifications will be made as appropriate.

10. Document History and Version Control

10.1. Ownership and Authorship

Version	Date	Author	Owner	Reason for Change
1.0	28.01.2016	Chief Audit Executive	Chief Audit Executive	Finalized version
2.0	15.03.2018	Chief Audit Executive	Chief Audit Executive	Updated version

10.2. Sign off

Approving Body	Governance Committee Approval	Final Approval Date
Board of Directors	Board of Directors	28.01.2016
Board of Directors	Board of Directors	15.03.2018



APPENDIX: DEFINITION OF 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.

Cooperation: the cooperation between Banque PSA Finance S.A. and Santander Consumer Finance S.A. under the Framework and Investment Agreement signed in July 2014.

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.

SCF Group: group of companies comprising Santander Consumer Finance, S.A. as the parent company, and the dependent companies over which it has direct or indirect control.

SCF HQ: all the governing bodies, organisational structures and employees exercising oversight and control across the entire SCF Group, including those functions typically associated with the relationship between a parent company and its subsidiaries.

SCF local units: a dependent company that forms part of the Santander Group or one directly or indirectly controlled by Santander Consumer Finance, 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.