

**LLOYDS BANKING GROUP  
AUDIT COMMITTEE  
TERMS OF REFERENCE  
(LLOYDS BANKING GROUP PLC, LLOYDS BANK PLC,  
BANK OF SCOTLAND PLC & HBOS PLC)**

*(Definition of term used in this document – the ‘Banks’ refer to Lloyds Bank plc and Bank of Scotland plc).*

These terms of reference are the terms of reference for the Audit Committee (the “Committee”) of the Boards of each of Lloyds Banking Group plc, Lloyds Bank plc, Bank of Scotland plc and HBOS plc. Meetings of the Banks’ Audit Committee and the Group Audit Committee will generally occur concurrently but will have discrete sections for each Company. At least twice a year the Committees of each of the Banks will meet to consider matters that relate to the Bank alone. Where necessary or appropriate the terms of reference set out any aspect unique to Lloyds Banking Group plc, Lloyds Bank plc, Bank of Scotland plc or HBOS plc.

## **1. SCOPE**

### **1.1 PURPOSE**

To monitor and review the formal arrangements established by the Board in respect of:

- (a) the financial reporting and narrative reporting of the Group and each of the Companies;
- (b) the effectiveness of the internal controls and the risk management framework;
- (c) whistleblowing;
- (d) internal audit process; and
- (e) external auditors’ process.

The Committee will act independently of the executive to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control, always within the principle of all directors having a duty to act in the interests of the Company and all directors remaining equally responsible for the Company's affairs.

### **1.2 AUTHORITY**

The Committee is a committee of the Board of the Company. The Committee is authorised by the Board to:

- 1.2.1 investigate any activity within its terms of reference and have such direct access to the resources of the Group and Companies as it may reasonably need;
- 1.2.2 seek any information that it needs from any employee, and all employees are directed to co-operate with any request made by the Committee;
- 1.2.3 engage outside legal or other independent professional advisers and obtain appropriate funding for the payment of relevant fees and expenses; and
- 1.2.4 obtain assurances and, when appropriate, reports from the boards of subsidiary companies which have appointed separate audit committees.

Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company it will report its views to the Board of the Company. In the event of any disagreement between the Committee members and the rest of the Board, such matters will be resolved at Board level and where a disagreement cannot be resolved the Committee will have the right to report the issue to the shareholders as part of the report on its activities in the annual report.

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

## 2. RESPONSIBILITIES

The responsibilities of the Committee will be to:

### 2.1 FINANCIAL STATEMENTS AND REPORTING OF THE GROUP

- 2.1.1 monitor, submitting recommendations and proposals as necessary on the integrity of the **financial reporting process** and the financial and narrative statements of the Group and Companies, including annual and half-yearly reports, interim management statements and other formal announcements relating to the Group and Companies financial performance, reviewing significant financial reporting issues and the judgements which they contain;
- 2.1.2 review, and challenge where necessary, the **significant judgements of management** (and any changes in them), in relation to the interim and annual financial statements before submission to the Board, paying particular attention to:
  - a) significant accounting policies and practices, and any changes in them;
  - b) disclosures and estimates requiring a major element of judgement;
  - c) the extent to which the financial statements are affected by any unusual transactions in the year, the methods used to account for any significant or unusual transactions where different approaches are possible, and how such transactions are disclosed;
  - d) the clarity and completeness of disclosures, and the context within which financial statements are made;
  - e) compliance with accounting standards;
  - f) compliance with legal and regulatory requirements;
  - g) the going concern assumption and the viability statement;
  - h) the representation letter to the auditors; and
  - i) all material information presented with the financial statements including the business review, and corporate governance statements relating to the audit and risk management.
- 2.1.3 wherever practicable, review other **statements containing financial information** (which needs Board approval, in advance of their consideration by the Board, subject always to not being inconsistent with the obligation to comply with prompt reporting obligations);
- 2.1.4 review any **significant adjustments to financial reporting resulting** from the audit, and resolve any disagreements between management and the external auditors regarding financial reporting;
- 2.1.5 review the content of the **annual report and accounts** and advise the Board on whether, taken as a whole, it provides a fair, balanced and understandable assessment of the Company's position and prospects, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The review undertaken by the Committee should assess whether the narrative is consistent with the accounting information and how the statutory audit contributed to the integrity of the financial reporting; and
- 2.1.6 review, approve and recommend to the Board for approval, in connection with the Bank for International Settlements Basel Accord - Basel II - Pillar 3, the Group's or Bank's **Pillar 3 disclosure policy**; assess annually whether the frequency of the Group's or Bank's Pillar 3 disclosures remains appropriate; receive periodic independent review reports conducted on the Pillar 3 disclosures; and review, approve and recommend to the Board for approval for publication the Group's or Bank's periodic Pillar 3 reporting;

### 2.2 WHISTLEBLOWING

- 2.2.1 review the arrangements, approved by the Board, by which staff may, in confidence, raise concerns about possible **improprieties in matters of financial reporting** or other matters including consideration of the procedures for: -

- (a) the receipt, retention and treatment of complaints received by the Group regarding accounting, internal accounting controls or auditing matters; and
- (b) the confidential submission by employees of the Group (which may be anonymous) of concerns on any matter, including those regarding questionable accounting or auditing matters.

The objectives of the review are to ensure that:

- effective arrangements are in place for the proportionate and independent investigation of such matters;
- effective arrangements are in place for appropriate follow up action; and
- Internal Audit reviews are being undertaken appropriately.

The Board's Whistleblowing (or Speak Up) Champion oversees/reviews the report made to the Committee and the reporting to the Board, prior to their submission to the Committee and the Board respectively.

## **2.3 INTERNAL CONTROLS AND THE RISK MANAGEMENT FRAMEWORK**

- 2.3.1 review management's reports on the **effectiveness of systems for internal control** and financial reporting;
- 2.3.2 review **Group Internal Audit's reports** on the effectiveness of systems for internal control;
- 2.3.3 review management's reports on **critical control issues** that have an impact on financial reporting;
- 2.3.4 review the Group's procedures for detecting **financial reporting fraud**;
- 2.3.5 consider the major findings of any relevant **internal investigations** into control weaknesses, fraud or misconduct and management's response (in the absence of management where appropriate);
- 2.3.6 review management's and the **Chief Risk Officer's** and where appropriate the Banks' Risk Officers' reports on the effectiveness of systems for risk management;
- 2.3.7 review the Group and Banks' **statement on internal control and risk management** systems for the purposes of the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, prior to endorsement by the Board;

## **2.4 GROUP INTERNAL AUDIT**

- 2.4.1 review and approve the role and mandate of the **Group Internal Audit function** and monitor, review and conclude upon the effectiveness of the Group Internal Audit function in the context of the Group's and Banks' overall risk management system;
- 2.4.2 approve the appointment or removal of each of the **Chief Internal Auditor**, as the head of Group Internal Audit and, in relation to the Banks, the Chief Internal Auditor, as the head of the Banks' internal audit function;
- 2.4.3 approve the Group and Banks' **Internal Audit Annual Plan** and any material changes to the Internal Audit Plan, setting audit priorities (on a risk-based approach) and ensure that the Group internal audit function is adequately resourced and has appropriate access to information and standing within the Group;
- 2.4.4 review on a quarterly basis reports for the Group and Banks' respectively on the **results of the internal auditors work** and in particular consider reporting including audit reports, progress against the Internal Audit plan, major findings, and management's response of any significant internal audit escalated to the Committee by the Chief Internal Auditor or equivalent;
- 2.4.5 review, for the Group and the Banks, on an annual basis, the **Chief Internal Auditors annual opinion** on control environment;
- 2.4.6 where the tenure of the Chief Internal Auditor exceeds seven years, the Audit Committee should explicitly discuss annually the Chair's assessment of the Chief Internal Auditor's **independence and objectivity**;

- 2.4.7 monitor and assess, each year, the **independence** of the Group's Internal Audit function;
- 2.4.8 obtain an independent **external assessment** of the Group Internal Audit function, in line with the Chartered Institute of Internal Auditors' Standards at least once every five years;
- 2.4.9 provide **oversight** of the Banks' Chief Internal Auditor.

## 2.5 RELATIONSHIP WITH EXTERNAL AUDITORS

- 2.5.1 make recommendations to the Board, to be put to shareholders for approval at general meeting, on the appointment, reappointment and removal of the **external auditor**. The Committee will oversee the process for selecting the external auditor;
- 2.5.2 oversee the **relationship with the external auditor**, including:
  - (a) approving the terms of engagement (and the engagement letter) of the external auditor, including the remuneration to be paid, monitoring the fee compared to the fee income of the firm, office and partner and to consider the fee in the context of relevant legal, professional and regulatory requirements and guidance;
  - (b) assessing in accordance with best practice including considering any findings and conclusions of the Financial Reporting Council, the external auditor's effectiveness, independence and objectivity, ensuring that key partners are rotated at appropriate intervals;
  - (c) agreeing the policy for, and where needed by that policy, approving the provision of non-audit services by the external auditor and the related remuneration; and
  - (d) agreeing with the Board a policy on the employment of former employees of the Group's auditor, and monitoring the implementation of this policy;
- 2.5.3 review and approve the **annual audit plan**, and ensure that it is consistent with the scope of the audit engagement, and co-ordinated with the activities of Group Internal Audit;
- 2.5.4 discuss with the external auditor, before the audit commences, the **nature and scope of the audit** and review the auditor's **quality control procedures** and steps taken by the auditor to respond to changes in regulatory and other requirements;
- 2.5.5 review the findings of the **audit with the external auditor**, considering the external auditor's management letter and management's responses to the auditor's findings and recommendations;
- 2.5.6 review such **reports** prepared by the external auditor as the Committee needs, considering management's response to any major external audit recommendations;
- 2.5.7 review annually and report to the Board on the **qualification, expertise and resources, and independence of the external auditors** and the effectiveness of the audit process taking account of relevant legal, professional and regulatory requirements and guidance (including contribution to the integrity of the financial report), with a recommendation on whether to propose to the shareholders that the external auditor be re-appointed. The assessment should cover all aspects of the audit service provided by the audit firm, and include obtaining a report on the audit firm's own internal quality control procedures and consideration of the audit firm's annual transparency report where available;
- 2.5.8 ensure that the **Committee section of the annual report** should include an explanation of how the Committee has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, including length of term, when the tender was last conducted and restructures on appointment;
- 2.5.9 review the **audit representation letters** before signature, considering to any non-standard issues within the representations;
- 2.5.10 where the **external auditor resigns**, review/investigate the issues giving rise to such resignation and assess whether any action is needed.

## 2.6 OTHER MATTERS

- 2.6.1 undertake similar duties for all **subsidiary companies** where a legal or regulatory provision needs Audit Committee involvement, except where the subsidiary company's board has appointed a separate Audit Committee;
- 2.6.2 review any **other matters** referred to it by the Chair or the Board;
- 2.6.3 in relation to the Group's end to end risk adjusted bonus process, the Chair of the Committee, on behalf of the Committee, will approve the **performance assessment** of the Group Internal Audit and individual ratings for Code Staff in the audit function;
- 2.6.4 review periodically the **Recovery and Resolution Plans**, including noting the nominated Executive Director responsible for each of these plans;
- 2.6.5 approve, on the recommendation of the Nomination & Governance Committee, the **appointment of the Audit Committee Chair**;
- 2.6.6 The Committee should give due consideration to all relevant laws and regulations including the provisions of the Corporate Governance Code and associated guidance, the FCA and PRA rules, guidance and sourcebooks and any other rules or regulation as applicable.
- 2.6.7 The Committee should work and liaise as necessary with the Board and all other Board Committees ensuring such interaction is reviewed regularly, taking account of the impact of risk management and internal controls being delegated to committees.
- 2.6.8 review on a regular basis the Group's supplier payment practices.

## 3. MEMBERSHIP AND ATTENDANCE

### 3.1 MEMBERSHIP

- 3.1.1 Members of the Committee will be appointed by the Board on the recommendation of the Nomination & Governance Committee in consultation with the Chair of the Committee. Members will be independent Non-Executive Directors. The Chair of the Group will not be a member of the Committee. Normally at least one member of the Remuneration Committee will be a member of the Audit Committee.

At least one of the members of the Committee must have recent and relevant financial experience (holding a professional qualification from one of the professional accountancy bodies) and all members of the Committee will have experience of corporate financial matters and competence in the financial sector.

Appointments to the Committee will be for a period of up to three years, which may be extended for two further three-year periods, provided the director still meets the criteria for membership of the Committee. The Committee should 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.

FOR LLOYDS BANK PLC AND BANK OF SCOTLAND PLC ONLY:

- 3.1.2 For each of Lloyds Bank plc and Bank of Scotland plc at least two members will be Bank Only Non-Executive Directors.

FOR LLOYDS BANK PLC AND BANK OF SCOTLAND PLC ONLY:

- 3.1.3 Each of the Bank Only Non-Executive Directors may appoint an alternate (who must be a Bank Only Non-Executive Director) to attend a meeting of the Committee on his/her behalf. In exceptional circumstances where a Bank Only Non-Executive Directors or his/her alternate cannot attend the Board or Committee meeting the Chair will, in so far as possible, seek to obtain the views of the Bank Only Non-Executive Directors on any potential RFB Conflict Matter which is to be considered at that meeting, in so far as possible, also ensuring that the PRA is notified should such a situation arise.
- 3.1.4 An induction programme will be provided by the Company for any new member of the Committee, covering the role of the Committee, including its terms of reference and expected time commitment and an overview of the Company's business model and

strategy identifying the main business and financial dynamics and risks. Ongoing training will also be provided, including an understanding of the principles of and developments in financial reporting and related company law and any other matters considered appropriate to assist the members in fulfilling their role on the Committee.

### 3.2 CHAIR<sup>1</sup>

The Chair of the Committees will be appointed by the members of the relevant Committee following the recommendation of the Nomination & Governance Committee. The role of the Chair of each of the Banks' Audit Committees may be held by the Chair of the Lloyds Banking Group Audit Committee. In the Chair's temporary absence, one of the Committee members nominated by the Chair or elected by the other members of the Committee will act as Chair. The Chair of the Committees may not perform a similar role for any of the Group's other subgroups.

The Chair's primary responsibility is chairing and overseeing the performance of the Audit Committee of the Company and ensuring and overseeing the integrity, performance and independence of Group Internal Audit. The Chair's other responsibilities include:

- ensuring that the Committee meets with suitable frequency;
- fostering an open, inclusive discussion which challenges executives, where appropriate;
- ensuring that the Committee devotes enough time and attention to the matters within its remit;
- helping to ensure that the Committee and its members have the information necessary to discharge its and their duties and tasks;
- reporting to the Board on the Committee's activities;
- facilitating the running of the Committee to assist it in providing independent oversight of executive decisions;
- safeguarding the independence and overseeing the performance of the Committee;
- ensuring that the regulatory requirements in relation to the Committee are satisfied;
- in relation to the Chief Internal Auditor (or equivalent):
  - being the primary reporting line for the Chief Internal Auditor (or equivalent);
  - setting the objectives of the Chief Internal Auditor (or equivalent) and appraising their performance in the role; and
  - being responsible for recommending the remuneration of the Group Audit Director (or equivalent);\_and
- engaging with stakeholders, including the PRA, FCA and principal shareholders, on behalf of the Committee.

The Chair will be available, wherever possible, at the Group's Annual General Meeting.

### 3.3 ATTENDEES

Only members of the Audit Committee have the right to attend meetings. However, the Chief Financial Officer, the Group Audit Director, the Chief Risk Officer and a representative of the external auditors will normally attend meetings, and other members of management will attend as appropriate. For the Group meetings, two Bank Only Non-Executive Directors will normally attend the meetings. For the Banks' meetings, the Banks' Chief Internal Auditor and the Banks' Chief Risk Officer will normally attend as appropriate.

The Chair of the Group, the Group Chief Executive and other board members will attend if requested by the Committee.

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<sup>1</sup> The Chair of the Committee (insofar as it considers issues on behalf or in relation to an SMCR Entity) is a Senior Manager for the purposes of the SMCR. This role needs approval by the PRA/FCA.

The Committee may invite such other attendees as it deems necessary to fulfil its duties as set out above.

### **3.4 QUORUM**

Quorum for meetings of the Committee will be three members. If members are unavailable for a particular meeting, any two members may co-opt an independent Non-Executive Director if necessary, to constitute a quorum.

## **4. COMMITTEE MANAGEMENT**

### **4.1 SECRETARY**

The secretary to the Committee will be the Company Secretary or their nominee.

### **4.2 PAPERS/AGENDA**

Group Secretariat will support the Chair in managing the business of the Committee. The agenda and papers will be circulated to all members of the Committee at least 4 working days before the meeting. Such circulation of agenda and papers may be in paper or electronic format as preferred.

Where appropriate, relevant agenda items and meeting papers will be clearly identified as being for consideration by the relevant Committee of the appropriate entity. Active consideration will be given to the distribution of meeting papers, to ensure that the correct papers are provided to the relevant Board and Committee members. Such circulation of agenda and papers may be in paper or electronic format as preferred.

### **4.3 MINUTES/REPORTING**

The secretary will minute the proceedings of all meetings of the Committee, including recording the names of those present and in attendance. Minutes of Committee meetings will be circulated promptly to all members of the Committee, and the Committee Chair will report formally to the Board on the Committee's proceedings including covering the significant issues considered by the Committee in relation to the financial statements (and how these issues have been addressed); the Committee's assessment of the effectiveness of the external audit process; and any other appropriate (in the opinion of the Chair and Committee) matters.

The minutes of each meeting will be produced as separate documents and will clearly identify the issue being considered as discussed by the meeting(s), any potential RFB Conflict Matter and any action to be taken in relation to any potential RFB Conflict Matter. Each Audit Committee will report to the relevant Company Board to ensure effective governance and oversight at both Group and Bank level.

### **4.4 FREQUENCY**

Meetings will be held as circumstances need, but at least three times a year. The Chair, in consultation with the Company Secretary will decide on the frequency and timing of the Committee meetings. Enough meetings will be held as the Committee's role and responsibilities need. Enough time will be allowed to enable the Committee to undertake as full a discussion as may be needed.

The external auditors and the Chief Internal Auditor (or equivalent) may request a meeting with the Committee or its Chair if they consider that one is necessary.

At least once a year, without the presence of executive management, the relevant Committee will meet with the external auditors and with the Chief Internal Auditor to discuss matters relating to its remit and any issues arising from the audit.

At least once a year, to ensure that risks are considered from the perspective of the Banks the Banks' Audit Committees will hold a private session without the Chief Internal Auditor present to enable the free discussion of any issues on which the Chief Internal Auditors may be conflicted.

At least twice a year the Committees of each of the Banks will meet to consider matters that relate to the Bank alone.

## **5. TERMS OF REFERENCE**

### **5.1 REVIEW REQUIREMENTS**

These terms of reference are drafted and amended (as necessary) by Group Secretariat and must be approved by the Board. These terms of reference will be reviewed annually by the Committee along with a review of its own effectiveness and will then be subject to review by the Nomination & Governance Committee at least annually, or as needed by the Board.

### **5.2 APPROVAL**

These Terms of Reference were approved by the Board of the Company November 2020.