

Group Internal Audit Charter

Approved January 2021

1. INTRODUCTION

The Group Internal Audit Charter defines the purpose of Group Internal Audit (GIA) for Lloyds Banking Group plc and its subsidiaries ("the Group"). GIA includes Internal Audit (IA) and Group Conduct Investigations (GCI).

This Charter applies to all of the Group, including key subsidiaries below, each of which are separate regulated legal entities:

- Lloyds Bank plc and Bank of Scotland plc (the Ring Fenced Bank)
- Lloyds Bank Corporate Markets plc
- Scottish Widows Group Ltd

It will be presented to the Groups and key subsidiary Board Audit Committees for approval when material changes are made to the Charter.

2. INTERNAL AUDIT

2.1 ROLE OF INTERNAL AUDIT

2.1.1 The primary role of IA is to help the Board and Executive Management protect the assets, reputation and sustainability of the Group. IA does this by:

- Assessing whether all significant risks are identified and reported appropriately to the Board and Executive Management of the Group and key subsidiaries;
- Assessing the design and operation of key controls to determine whether they are effective at mitigating significant risks e.g. to ensure customers are treated fairly, to protect the capital and / or financial position; and
- Challenging Executive Management to improve the effectiveness of governance, risk management and internal controls by providing assurance over the effectiveness of the first and second line of defence functions.

2.1.2 IA acts as a single independent internal audit function, reporting to the Group Audit Committee and the Board Audit Committees of the key subsidiaries.

2.1.3 IA undertakes assurance activity to assess the effectiveness of first and second line management in identifying and mitigating risks through performing reviews and engaging with committees / executive management, providing opinion, challenge and informal advice on risk and the state of the control environment.

2.1.4 IA does not perform consulting engagements.

2.1.5 Where appropriate, IA may also provide assurance to external parties including regulators and similar industry bodies. This assurance follows standard IA audit methodology and procedures.

2.1.6 The IA Vision is to be "a leading internal audit function", the IA Purpose is to "keep the Group secure and sustainable".

2.2 SCOPE AND PURPOSE OF INTERNAL AUDIT

2.2.1 IA is the third line of defence within the Group's Risk Management Framework.

- 2.2.2 The scope of IA's work is unrestricted and is based on IA's independent assessment of the key risks faced by the Group, and its key subsidiaries, and how effectively these risks are being managed.
- 2.2.3 IA undertakes assurance projects or related engagements that can be at the request of the relevant Audit Committee or a third party. In addition, IA may review lessons learned analysis if a significant adverse event has occurred. IA validates that management actions arising from audits have sustainably remediated the control weaknesses identified.

2.3 INTERNAL AUDIT INDEPENDENCE AND AUTHORITY

- 2.3.1 IA receives its authority from the Group Audit Committee.
- 2.3.2 IA has a full, free and unrestricted right of access to all of the Group's records, personnel, fora, property and management information, necessary to discharge its responsibilities.
- 2.3.3 IA is independent of the Group's operational management and has no direct operational responsibility or authority over the activities it reviews.
- 2.3.4 The Group Chief Internal Auditor (Group CIA) has a direct reporting line to the Chair of the Group Audit Committee and a secondary reporting line to the Group Chief Executive for administrative purposes only.
- 2.3.5 All IA staff report directly or indirectly to the Group CIA. They are responsible for being independent, objective, and constructive in the conduct of their work and avoiding conflicts of interest and personal, business or other issues that may impair impartiality.
- 2.3.6 Audit Directors who are CIAs of subsidiaries report directly/indirectly to the Group CIA, in addition to any required reporting line to the governance structure of the subsidiary.

2.4 STANDARDS OF INTERNAL AUDIT PRACTICE

- 2.4.1 IA operates in accordance with the CIIA International Professional Practices Framework (IPPF), which includes the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics. Additionally, IA operates in accordance with the CIIA guidance on Effective Internal Audit in the Financial Services Sector and relevant regulatory requirements and guidelines for internal audit in relevant jurisdictions.
- 2.4.2 IA staff are required to follow the CIIA's Code of Ethics which is a statement of principles and expectations governing behaviour required in the conduct of internal auditing.
- 2.4.3 In addition, CIA staff must comply with the Group's policies and procedures together with relevant professional bodies' standards of conduct, and possess the knowledge, skills and disciplines necessary to discharge their responsibilities.

3. GROUP CONDUCT INVESTIGATIONS

- 3.1 GCI activities include managing whistleblowing and severe and material event investigations.
- 3.2 GCI provides confidential support and guidance for colleagues reporting a matter when dealing with an internal investigation or raising a concern, as well as overseeing conduct related allegations.

GCI are also accountable for the governance, control and application of performance and conduct rule breach investigations.

- 3.3 The Group Conduct Investigations Director reports directly to the Group CIA. In addition, the Board has appointed a Non-Executive Director as its whistleblowing champion, a regulatory requirement with responsibility for overseeing the integrity, independence and effectiveness of the Group's whistleblowing procedures.

4. CHIEF INTERNAL AUDITOR RESPONSIBILITIES

4.1 The responsibilities of the CIA include:

- Developing and delivering an audit plan that focuses on the key risks to the Group and key subsidiaries.
- Attending and presenting reports as appropriate, at the relevant Audit Committees, Risk Committees and to senior management. This reporting will include reporting significant findings and their root causes and providing opinions periodically on the overall effectiveness on the governance, risk management and control environment.
- Providing the relevant Audit Committees with a regular assessment of GIA's resources, skills and compliance with Chartered Institute of Internal Auditor's (CIIA) Code of Ethics.
- Maintaining a Quality Assurance function with the standing and experience to meaningfully challenge GIA's performance, assess adherence to policies, procedures and applicable regulatory / industry guidance and to annually report GIA's effectiveness
- If GIA's independence or objectivity becomes impaired, the Group CIA will disclose details, including any safeguards, to all relevant Audit Committees.
- Accessing additional expertise through the use of third parties e.g. professional services firms. In appointing third parties GIA considers the following factors: competence, independence and objectivity.
- Accountability for whistleblowing, significant, or material investigations.

5. AUDIT COMMITTEE RESPONSIBILITIES

5.1 The Audit Committee responsibilities are reflected within the individual relevant Audit Committee Terms of Reference, specifically:

- 5.1.1 Lloyds Banking Group, Lloyds Bank Plc and Bank of Scotland plc Audit Committee Terms of Reference, Section 2.4.
- 5.1.2 LBCM Audit Committee Terms of Reference, Section 2.4.
- 5.1.3 Insurance Audit Committee Terms of Reference, Section 2.4.