

**LLOYDS BANKING GROUP
AUDIT COMMITTEE
TERMS OF REFERENCE
(LLOYDS BANKING GROUP PLC, LLOYDS BANK PLC,
BANK OF SCOTLAND PLC & HBOS 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. References to the Board are to the Board of each of Lloyds Banking Group plc, Lloyds Bank plc, Bank of Scotland plc and HBOS plc as appropriate. References to Company and Bank are to each of Lloyds Banking Group plc, Lloyds Bank plc Bank of Scotland plc and HBOS plc as appropriate. 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 shall 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

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;
- (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.

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 as it may reasonably require;
- 1.2.2 seek any information that it requires 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 shall 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 shall 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, including annual and half-yearly reports, interim management statements and other formal announcements relating to the Group's 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 require 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 **FOR LLOYDS BANKING GROUP PLC only** - 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 Pillar 3 disclosure policy; assess annually whether the frequency of the Group'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 periodic Pillar 3 reporting;

2.2 WHISTLEBLOWING

- 2.2.1 review arrangements 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 objective of the above is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow up action. The Board's Whistleblowing (or Speak Up) Champion oversees/reviews the report made to the Committee, prior to its submission to the Committee.

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 reports on the effectiveness of systems for risk management;
- 2.3.7 review the Group's 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 monitor, review and conclude upon the effectiveness of the Group Internal Audit function in the context of the Group's 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 review the Group Internal Audit Annual Plan, setting audit priorities 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 a report on the results of the internal auditors work on a periodic basis and in particular consider the 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 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;
- 2.4.6 monitor and assess, each year, the independence of the Group' Internal Audit function; and
- 2.4.7 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;

2.5 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 shall 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;
 - (b) assessing in accordance with best practice including taking into account 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 required 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 shall require, 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 (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; and
- 2.5.9 review the audit representation letters before signature, giving particular consideration to any non-standard issues within the representations;

2.6 OTHER MATTERS

- 2.6.1 undertake similar duties for all subsidiary companies where a legal or regulatory provision requires 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 Chairman or the Board;
- 2.6.3 in relation to the Group's end to end risk adjusted bonus process, the Chairman of the Committee, on behalf of the Committee, shall approve the performance assessment of the Group Internal Audit and individual ratings for Code Staff in the audit function; and
- 2.6.4 review periodically the Recovery and Resolution Plans, including noting the nominated executive director responsible for each of these plans.

3. MEMBERSHIP AND ATTENDANCE

3.1 MEMBERSHIP

- 3.1.1 Members of the Committee shall be appointed by the Board on the recommendation of the Nomination and Governance Committee in consultation with the Chairman of the Committee. Members shall be independent non-executive directors. The Chairman of the Group shall not be a member of the Committee. Normally at least one member of the Remuneration Committee shall be a member of the Audit Committee.

At least one of the members of the Committee is required to 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.

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 shall be Bank Only NEDs.

FOR LLOYDS BANK PLC AND BANK OF SCOTLAND PLC ONLY:

- 3.1.3 Each of the Bank Only NEDs may appoint an alternate (who must be a Bank Only NED) to attend a meeting of the Committee on his/her behalf. In exceptional circumstances

where a Bank Only NED 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 NED 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 CHAIRMAN¹

The Chairman of the Committee shall be appointed by the members of the Committee following the recommendation of the Nomination and Governance Committee. The role of the Chairman may be held by the Chairman of the Lloyds Banking Group Audit Committee. In the Chairman's temporary absence, one of the Committee members nominated by the Chairman or elected by the other members of the Committee will act as Chairman.

The Chairman'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 Chairman's other responsibilities include:-

- ensuring that the Committee meets with sufficient frequency;
- fostering an open, inclusive discussion which challenges executives, where appropriate;
- ensuring that the Committee devotes sufficient time and attention to the matters within its remit;
- helping to ensure that the Committee and its members have the information necessary to its and their 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;
- 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.

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 Banks' meetings the Banks' Chief Internal Auditor and the Banks' Chief Risk Officer will normally attend as appropriate.

¹ The Chairman 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 requires approval by the PRA/FCA.

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

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 shall 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 Chairman 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 shall 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 Chairman will report formally to the Board on the Committee's proceedings covering inter alia 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 Chairman 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.

4.4 FREQUENCY

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

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

At least once a year, without the presence of executive management, the relevant Committee shall 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 twice a year the Committees of each of the Banks shall 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 require to be approved by the Board. These terms of reference shall be reviewed annually by the Committee along with a review of its own effectiveness and will then be subject to review by the Nomination and Governance Committee at least annually, or as required by the Board.

5.2 APPROVAL

These Terms of Reference were approved by the Board of the Company on 18 December 2018.