

Liverpool Victoria Friendly Society Limited ("The Society")
Group Audit, Risk & Compliance Committee ("Committee")

Terms of Reference

Status	Sub-committee of the board of directors of the Society (the "Board") Authority derived from the Board's establishment of the Committee and the approval by the Board of these terms of reference on 25 November 2009
Membership	<ul style="list-style-type: none"> • The Board will nominate the members of the Committee • At least three members, all of whom shall be independent non-executive directors (NEDs) of the Society. • Each member should have skills and experience appropriate to the Society's business. • Members of the Committee should attend every meeting. • Only Committee members are entitled to attend meetings.
Chairman	<ul style="list-style-type: none"> • One NED as determined by the Board
In Attendance	<ul style="list-style-type: none"> • The Secretary • The Committee may also invite such other persons (eg the CEO, CFO, head of internal audit and external audit engagement partner) to its meetings to report, answer questions or make presentations, as it deems necessary.
Quorum	Two members
Meeting Frequency	<ul style="list-style-type: none"> • Meetings shall be held not less than three times a year corresponding with the Society's financial reporting cycle. • The Committee should meet with the in-house Head of Legal on a regular basis. A meeting with outside legal counsel should be held if it is deemed necessary. • The Committee will meet with the external auditors at least once a year without management present. • Special meetings may be convened as required. The secretary will convene a meeting on receipt of a request by the external or internal auditors. • Interim meetings where a decision is required may take place by e-mail.
Agenda and Minutes	<ul style="list-style-type: none"> • The Secretary shall circulate the agenda and supporting documentation to the Committee members a reasonable period in advance of each meeting. • Minutes shall be presented to the next meeting of the Board, the head of internal audit and the external auditor for information and to the next meeting of the Committee for formal adoption. • Where meetings take place by exchange of e-mail, copies of the e-mails shall be signed by the relevant members of the Committee and included in the minute book as the minutes of the e-mail meeting.
Conflicts of Interest	<ul style="list-style-type: none"> • The Secretary shall ascertain any conflicts of interest of members of the Committee at the start of each meeting in relation to the matters to be discussed and record accordingly in the minutes.
Principal Role and Scope of Responsibilities	<ul style="list-style-type: none"> • To assist the Board in discharging its oversight responsibilities of the Society and its subsidiaries. • To oversee the financial reporting process so as to ensure the balance, transparency and integrity of published financial information. • To review: the effectiveness of the Society's internal financial control

	<p>and risk management system; the effectiveness of the internal audit function; the independent audit process including recommending the appointment and assessing the performance of the external auditor; the Society's process for monitoring compliance with laws and regulations affecting financial reporting and its code of business conduct, including the Groups plans to deliver regulatory initiatives such as TCF.</p> <ul style="list-style-type: none"> • In performing its duties, the Committee will maintain effective working relationships with the Board, management, and the external and internal auditors. To perform his or her role effectively, each Committee member will need to develop and maintain his or her skills and knowledge, including an understanding of the Committee's responsibilities and of the Society's business, operations and risks.
Specific Responsibilities	<p>The Committee will:</p> <p>1) Internal control and risk management</p> <p>1.1) Conduct a formal annual review of the effectiveness of the Society's system of internal controls, covering all material controls, including financial, operational and compliance controls and risk management systems ("Annual Controls Review") to assess whether they comply, as a minimum, with the standards required by the FSA and other applicable regulators.</p> <p>1.2) Evaluate whether management is setting the appropriate "control culture" by communicating the importance of internal control and management of risk.</p> <p>1.3) Understand the internal controls systems etc implemented by management for the approval of transactions and the recording and processing of financial data.</p> <p>1.4) Understand the controls and processes implemented by management to ensure that the financial statements derive from the underlying financial systems, comply with relevant standards and requirements, and are subject to appropriate management review.</p> <p>1.5) Evaluate the overall effectiveness of the internal control and risk management frameworks and consider whether recommendations made by the internal and external auditors have been implemented by management.</p> <p>1.6) Review the annual financial statements of the pension schemes operated by the Society or its subsidiaries</p> <p>1.7) Review and monitor Risk Appetite taking action as appropriate to address risks outside defined tolerances.</p> <p>1.8) Consider how management is held to account for the security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown or to protect against computer fraud or misuse.</p> <p>2) Financial Reporting</p> <p>2.1) Gain an understanding of the current areas of greatest financial risk and how these are being managed.</p> <p>2.2) Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on financial reports.</p> <p>2.3) Review management's process for ensuring that information contained in analyst briefings and press announcements is consistent with published financial information, balanced and</p>

	<p>transparent.</p> <p>2.4) Meet with management, the external auditors and the actuarial function holder to review the financial statements, the key accounting policies and judgements, and the results of the audit.</p> <p>2.5) Ensure that significant adjustments, unadjusted differences, disagreements with management and critical accounting policies and practice are discussed with the external auditor.</p> <p>2.6) Review the other sections of the annual report before its release and consider whether the information is understandable and consistent with members' knowledge about the Society and its operations and lacks bias.</p> <p>2.7) As a minimum, the chairman of the committee shall attend the board meeting at which the financial statements are approved.</p> <p>3) Compliance with laws and regulations</p> <p>3.1) Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance.</p> <p>3.2) Obtain regular updates from management and company's company secretary regarding compliance matters that may have a material impact on the Society's financial statements or compliance policies.</p> <p>3.3) Be satisfied that all regulatory compliance matters, related to the business of the company, have been considered in the preparation of the financial statements.</p> <p>3.4) Review the findings of any examinations by regulatory agencies.</p> <p>3.5) Review the arrangements in place for any employee to raise concerns in confidence about possible wrongdoing in financial reporting or other matters.</p> <p>3.6) Review significant returns to regulators.</p> <p>4) External audit</p> <p>4.1) Review the professional qualifications of the external auditor (including background and experience of partner and auditing personnel).</p> <p>4.2) Consider the independence of the external auditor and any potential conflicts of interest.</p> <p>4.3) Review on an annual basis the performance of the external auditor.</p> <p>4.4) Monitor the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners and the level of fees paid by the Society relative to the overall fee income of the external audit firm, office and partner.</p> <p>4.5) Review the external auditor's proposed audit scope and approach for the current year in the light of the Society's present circumstances and changes in regulatory and other requirements.</p> <p>4.6) Discuss with the external auditor any audit problems encountered in the normal course of audit work, including any restriction on audit scope or access to information.</p> <p>4.7) Ensure that significant findings and recommendations made by the external auditor and management's proposed</p>
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	<p>response are received, discussed and appropriately acted on.</p> <p>4.8) Discuss with the external auditor the appropriateness of the accounting policies applied in the company's financial reports and whether they are considered as aggressive, balanced or conservative.</p> <p>4.9) Review and approve any representation letter requested by the external auditor prior to its signature by management.</p> <p>4.10) Meet separately with the external auditor to discuss any matters that the Committee or auditor believe should be discussed privately. Ensure the external auditor has access to the chairman of the Committee when required.</p> <p>4.11) Review policies for the provision of non-audit services by the external auditor and where applicable the framework for pre-approval of audit and non-audit services.</p> <p>4.12) Ensure the Society has appropriate policies regarding the hiring of audit firm personnel for senior positions after they have left the audit firm.</p> <p>5) Internal audit</p> <p>5.1) Review the activities, resources and organisational structure of the internal audit function and ensure no unjustified restrictions or limitations are made.</p> <p>5.2) Participate in the appointment, promotion or dismissal of the lead internal auditor and discuss with the external auditor the standard of work of internal audit staff.</p> <p>5.3) Review the effectiveness of the internal audit function and ensure that it has appropriate standing within the Society.</p> <p>5.4) Meet separately with the lead internal auditor to discuss any matters that the Committee or internal auditors believe should be discussed privately including whistleblowing reports.</p> <p>5.5) Ensure that significant findings and recommendations made by the internal auditors and management's proposed response are received, discussed and appropriately acted on.</p> <p>5.6) Review the proposed internal audit plan for the coming year and ensure that it addresses key areas of risk and that there is appropriate co-ordination with the external auditor.</p> <p>6) Decisions, Recommendations and Reporting</p> <p>6.1) Evaluate, decide and advise the Board on</p> <ul style="list-style-type: none"> ➤ the independence and objectivity of the external auditor and the effectiveness of the external audit process. ➤ the a commissioning and cost of non-audit services from the external auditor including, when required, the framework for pre-approval of such services. ➤ the Society's Risk Register and the monitoring of risk mitigation plans. ➤ Statutory and regulatory compliance. ➤ the annual Compliance Plan, the delivery thereof and all "high risk" adverse findings and reports. ➤ the annual Audit Plan, the delivery thereof, and all "high risk" adverse findings and reports. <p>6.2) Evaluate and make recommendations to the Board on:</p> <ul style="list-style-type: none"> ➤ All external financial reporting for the Society, including annual Reports and Accounts. ➤ Appointment, re-appointment, remuneration and removal of the
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	<p>external auditor.</p> <ul style="list-style-type: none"> ➤ Definition of and compliance with Group Risk Appetite statement ➤ The Society's Individual Capital Assessment (ICA) ➤ General insurance reserving ➤ the Committee's own performance on a regular basis. ➤ the Committee terms of reference annually and any required changes with the board. <p>6.3) Report to the Board:</p> <ul style="list-style-type: none"> ➤ regularly about Committee activities with any appropriate recommendations. ➤ on any matters that may significantly impact on the financial condition or affairs of the Society. ➤ as required by law or listing rules or requested by the Board, including a report on the Committee's activities and duties to be included in the section on corporate governance in the annual report. ➤ the outcome of the Annual Controls Review. ➤ on the achievement of the duties specified in the Terms Of Reference.
Authority	<p>The Board authorises the Committee, within the scope of its responsibilities, to:</p> <ul style="list-style-type: none"> • Perform activities within the scope of these Terms Of Reference. • Engage independent counsel and other advisers as it deems necessary to carry out its duties • Ensure the attendance of Society officers at meetings as appropriate. • Have unrestricted access to members of management, employees and relevant information. • Establish procedures for dealing with concerns of employees regarding accounting, internal control or auditing matters. • Establish procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls or auditing matters.
Escalation	To the Board
Secretary	Group Company Secretary, or such other person as nominated by the Board.
Version No Effective From Date Withdrawn	2009-11 25 November 2009
Supersedes Version	2008-09 In force 24/9/2008 – 24 November 2009