

**Liverpool Victoria Financial Services Limited (“LVFS”)  
Audit Committee (“Committee”)  
Terms of Reference**

Status and Source of Authority	<p>Sub-committee of the Board of Directors of LVFS (the “Board”).</p> <p>Authority is derived from the Board’s establishment of the Committee and the approval by the Board of these Terms of Reference on 28<sup>th</sup> January 2021. These Terms of Reference replace in their entirety those last adopted on 30<sup>th</sup> January 2020.</p>
Main purpose	<ul style="list-style-type: none"> <li>• To review the effectiveness of the internal control framework and risk management systems.</li> <li>• To monitor and review the financial reporting process and outputs so as to ensure the balance, transparency and integrity of published financial information and the process for monitoring compliance with laws and regulations affecting financial reporting.</li> <li>• To review the effectiveness of the internal audit function (whose remit covers all risk classes) and the effectiveness of the external audit process (the remit for which is external reporting matters), including the appointment or reappointment of the external auditor and the use of the external auditor for non-audit work.</li> </ul>
Membership	<p>Members:</p> <ul style="list-style-type: none"> <li>• At least three members, all of whom shall be independent Non-Executive Directors (NEDs) of LVFS; one of which to be the Chair of the Committee as determined by the Board.</li> <li>• At least one member must possess recent and relevant financial experience, and the Committee as a whole must have competence relevant to the sector in which the company operates.</li> <li>• The Chair of the Board must not be the Chair or a member of the Committee but can attend.</li> <li>• The Chair of the Risk Committee must be a member of the Committee.</li> <li>• The Board will approve the members of the Committee on the recommendation of the Corporate Governance and Nomination Committee and in consultation with the Chair of this Committee.</li> </ul>
In attendance	<p>Regular attendees:</p> <ul style="list-style-type: none"> <li>• Chief Executive Officer</li> <li>• Director of Finance</li> <li>• Chief Risk Officer</li> <li>• Internal Audit Director</li> <li>• External Auditor</li> </ul> <p>The Committee may also invite such other persons to its meetings to observe, report, answer questions or make presentations, as it deems necessary. The External Auditors’ lead partner will generally be invited to attend. All other Board NEDs have a standing invitation to attend.</p>
Secretary	Company Secretary (or his / her delegate).
Quorum	Two members.

Meeting frequency	<p>Meetings shall be held not less than four times a year corresponding with LVFS's financial reporting cycle.</p> <ul style="list-style-type: none"> <li>• Within the above meetings, the Committee will meet with the external auditor and Internal Audit Director at least once a year without management present.</li> </ul>
Notice of Meeting	<ul style="list-style-type: none"> <li>• Interim "specific issue(s)" meetings may be convened, by the Secretary, at the request of any of its members, the Internal Audit Director or the external auditor. Typically such meetings shall be subject to at least 3 days' notice.</li> <li>• In circumstances where a decision is required to be made in a timely fashion, the interim meeting may take place by e-mail and shall be valid if the e-mail has been circulated to all members of the Committee and the decision is approved by a quorum.</li> <li>• Notice of any Committee meeting must indicate: a) its proposed date and time; b) where it is to take place; and c) if the members will not be in the same place, how they should communicate with each other during the meeting.</li> <li>• The Secretary shall circulate the agenda and supporting documentation to the Committee members a reasonable period in advance of each meeting.</li> </ul>
Minutes	<ul style="list-style-type: none"> <li>• The Secretary shall minute an accurate record of the proceedings and decisions of the Committee.</li> <li>• The Draft of the Minutes, as approved by the Chair, shall be presented to the next meeting of the Committee for formal adoption.</li> <li>• Where meetings take place by exchange of e-mail, copies of the e-mails shall be included in the minute book as the minutes of the e-mail meeting.</li> </ul>
Conflicts of Interest	<p>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 recorded accordingly in the minutes. The Chair may require any such conflicted member to withdraw from the meeting whilst the matter is considered by the Committee.</p>
Decide	<p>The Committee will decide on the following matters on behalf of the Board:</p> <p><u>Internal Control</u></p> <ol style="list-style-type: none"> <li>1. Annual Attestation report to the Board (based upon submissions by management), including commentary on the effectiveness of the system of internal controls, covering all key controls, including financial, actuarial, operational and compliance controls and risk management systems and matters identified by second line risk.</li> <li>2. Actions arising as a result of any material breach from any testing of the system of internal controls by either the internal audit function or the external auditor, or issues raised by the Board Risk Committee.</li> <li>3. Actions to be taken to address any material breach in the "Use of the external auditor for non-audit purposes" policy.</li> <li>4. Review arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, ensuring that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action (Speak-up policy).</li> <li>5. Procedures for dealing with external complaints regarding accounting, reporting, internal control or auditing matters.</li> </ol>

	<p><u>Financial Reporting</u></p> <p>6. Approval of the basis upon which the interim Solvency II results/accounts are produced. (Other than Annual which is recommended to the Board for approval – see ‘Recommend (1)’).</p> <p>7. Approval of recalculation of Solvency II Transitional Measure on Technical Provisions (TMTP).</p> <p><u>External Audit</u></p> <p>8. Approval of the terms of engagement of the external auditor in respect of audit services provided and of the engagement letter issued by the external auditor at the start of each audit, ensuring that it has been updated to reflect changes in circumstances arising since the previous year. The scope of the external audit should be reviewed by the Committee with the external auditor. If the Committee is not satisfied as to its adequacy it should arrange for additional work to be undertaken.</p> <p>9. Ensure that, at the start of each annual audit cycle, that appropriate plans are in place for the audit. The Committee should consider whether the auditor’s overall work plan, including planned levels of materiality and proposed resources to execute the audit plan appears consistent with the scope of the audit engagement, having regard also to the seniority, expertise and experience of the audit team.</p> <p>10. Ensuring the appropriateness of management’s responsiveness to findings in external auditor’s reports and recommendations.</p> <p>11. Development, implementation and approval of the policy for the “Use of the external auditor for non- audit purposes”.</p> <p>12. Approval of the practice for the “Employment of former employees of the external auditor” as declared within the annual review of the use of the external auditor.</p> <p>13. The remuneration to be paid to the external auditor in respect of audit services provided, having satisfied itself that the level of fee payable is appropriate and that an effective, high quality, audit can be conducted for such a fee.</p> <p>14. The selection procedure for the appointment of the audit firm in accordance with applicable Code and regulatory requirements, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process.</p> <p><u>Internal Audit</u></p> <p>15. Approval of annual internal audit plan and Internal Audit Charter and of any subsequent changes to it.</p> <p>16. Approval of the structure, organisation and resources allocated to the Internal Audit Function, which ensures the function has the necessary resources to meet its mandate.</p> <p>17. Ensuring the appropriateness of management’s responsiveness to findings in Internal Audit reports and recommendations.</p> <p>18. Appointment or termination of appointment of the Internal Audit Director.</p> <p><u>Other</u></p> <p>18. The policy for authorising claims for expenses from the directors (both Executive and Non-Executive).</p>
Recommend	The Committee will recommend to the Board on the following matters:

	<p><u>Financial Reporting</u></p> <ol style="list-style-type: none"> <li>1. All external financial reporting for LVFS (except for Decide items 6), together with the supporting narrative, ensuring estimates, judgments and reporting issues are considered, so that there is appropriate balance, transparency and integrity of information contained within the following: <ul style="list-style-type: none"> <li>• LVFS's Annual Report and Accounts; notably whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for members to assess LVFS's performance, business model, strategy and viability;</li> <li>• The statements included in the annual report in relation to internal control;</li> <li>• LVFS's PRA annual Solvency II returns (public QRTs);</li> <li>• Annual Solvency II Valuation Report;</li> <li>• The annual narrative SII Pillar 3 reporting, specifically the Solvency and Financial Condition Report (SFCR). As a public report, this will also be reviewed by the Disclosure Committee and approved for release;</li> <li>• The Regulatory Reporting and Disclosure Standard (where changes are considered material, else delegated to the Director of Finance);</li> <li>• Approval of the basis upon which the annual Solvency II results/accounts are produced; and</li> <li>• Design, calibration, validation and results from LVFS's economic capital model.</li> </ul> </li> <li>2. <b><u>To the relevant subsidiary Board:</u></b> the accounts of material subsidiaries of the Group.</li> <li>3. <b><u>To the Remuneration Committee:</u></b> The Committee Chair to participate in the Risk Adjusted Remuneration process and recommendations to be proposed to the Remuneration Committee</li> </ol> <p><u>External Audit</u></p> <ol style="list-style-type: none"> <li>4. Appointment, annual re-appointment and removal of the external auditor.</li> <li>5. The Committee should annually assess the qualification, expertise and resources and independence of the external auditors and the effectiveness of the audit process in forming its recommendation on whether to propose that the external auditor be reappointed.</li> </ol> <p><u>Other</u></p> <ol style="list-style-type: none"> <li>6. Changes to modus operandi of the Committee resulting from the annual effectiveness review and any changes to its Terms of Reference.</li> </ol>
Oversight	<p><u>Internal Control</u></p> <ol style="list-style-type: none"> <li>1. Oversight and monitoring of the effectiveness of the internal audit function.</li> <li>2. Oversight of commissioning of non-audit services from external auditors, by committees/individuals other than the Committee.</li> <li>3. Review the systems and controls for the prevention of bribery and detection of fraud and receive reports on non-compliance.</li> <li>4. Oversight of the Internal Audit Function to ensure it has has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the internal audit function</li> </ol>

	<p>evaluates the effectiveness of these functions as part of its internal audit plan, and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors</p> <p><u>Financial Reporting.</u></p> <ol style="list-style-type: none"> <li>5. Oversight, on behalf of the Board, of the private quarterly and annual Quantitative Reporting Templates (QRT), the Financial Stability Reporting, and the annual Regular Supervisory Report (RSR), which have been delegated to the Chief Executive Officer and Director of Finance to approve.</li> <li>6. To review the consistency of, and any changes to, accounting policies both on a year on year basis and across the companies/Group.</li> <li>7. To review the methods used to account for significant or unusual transactions where different approaches are possible.</li> </ol> <p><u>External Auditor</u></p> <ol style="list-style-type: none"> <li>8. Satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Group (other than in the ordinary course of business).</li> <li>9. Monitoring the implementation of the policy on the employment of former employees of the Group's auditor.</li> <li>10. Monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Group compared to the overall fee income of the firm, office and partner and other related requirements assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures seeking to ensure co-ordination with the activities of the internal audit function.</li> </ol>
Consult (With Profits Committees)	Not applicable.
Notify (With Profits Committees)	Not applicable.
Delegated Authorities	<p><u>Delegation onwards (for a recommendation back)</u> Not applicable.</p> <p><u>Delegation onwards (unconditional)</u> Not applicable.</p>
Escalation	<p><u>To:</u> The Board</p> <p><u>From:</u> Chief Risk Officer, MLRO, Director of Finance and Internal Audit Director.</p> <p>Remuneration Committee, Risk Committee, LVFS Subsidiary Board and Disclosure Committee.</p>
Guidance Notes	<p><u>Financial Reporting</u></p> <ol style="list-style-type: none"> <li>1. Taking into account the external auditor's view, consider whether appropriate accounting policies have been adopted and that, where necessary, appropriate estimates and judgments have been made.</li> <li>2. Within the annual report and taking into account the Group's current</li> </ol>

position and principal risks, the Committee should explain how it has accessed the prospects of the company and over what period it has done so and why it considers that period to be appropriate. The Committee should consider whether it has a reasonable expectation that the Group should be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions necessary.

#### External Audit

3. The Committee should review, with the external auditors, the findings of their work. In the course of its review, the Committee should:
  - discuss with the external auditor any major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved;
  - review key accounting and audit judgements; and
  - review levels of errors identified during the audit, obtaining explanations from management and, where necessary, the external auditors as to why certain errors might remain unadjusted.
4. The Committee should review the audit representation letters before signature and give particular consideration to matters where representation has been requested that relate to non-standard issues. The Committee should consider whether the information provided is complete and appropriate based on its own knowledge.
5. The audit services contract should be put out to tender at least once every ten years, to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms. So that there is time to undertake an effective tendering process, and to allow members to provide input to the process should they wish, the Group should announce its intention in advance of the commencement of the tendering process.
6. If the Committee recommends considering the selection of possible new appointees as external auditors, it should oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the selection process.
7. The annual assessment of the external auditor 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 audit firms' annual transparency reports, where available. It might also be appropriate for the Committee to consider whether there might be any benefit in using firms from more than one audit network.
8. If the external auditor resigns, the Committee should investigate the issues giving rise to such resignation and consider whether any action is required.

#### Annual Review of the External Auditor

9. At the end of the annual audit cycle, the Committee should assess the effectiveness of the audit process. In the course of doing so, the Committee should:
  - review whether the auditor has met the agreed audit plan and understand the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks;
  - consider the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgments identified and in responding to questions from the Committee, and in their

commentary where appropriate on the systems of internal control;

- obtain feedback about the conduct of the audit from key people involved, for example the Director of Finance and the Internal Audit Director;
- review and monitor the content of the external auditor's management letter, in order to assess whether it is based on a good understanding of the business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon.

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 of the approach taken to the appointment or reappointment of the external auditor, in order that members can understand why it recommended either to reappoint or to change the auditors. It should also include information on the length of tenure of the current audit firm, when a tender was last conducted, and any contractual obligations that acted to restrict the Committee's choice of external auditors.

10. The Committee should assess the independence and objectivity of the external auditor annually, taking into consideration:

- Relevant UK law, regulation and professional requirements;
- Relationships between the Group and the audit firm (including the provision of non-audit services) and any safeguards established by the external auditor; and
- Whether, taken as a whole and having regard to the views, as appropriate, of the external auditor, management and internal audit, those relationships appear to impair the auditor's independence and objectivity.

To assist, the Committee should seek:

- Reassurance that the auditors and their staff have no financial, business, employment or family and other personal relationship with the Group which could adversely affect the auditor's independence and objectivity, taking account of relevant Ethical Standards for Auditors; and
- Information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding the rotation of audit partners and staff.
- When reviewing the policy on the use of former employees, the Committee should take into account the Ethical Standards for Auditors and paying particular attention to the employment of former employees of the audit firm who were part of the audit team and moved directly to the Group. The Committee should monitor the practice, including the number of former employees of the external auditor currently employed in senior positions in the Group, and consider whether in the light of this there has been any impairment, or appearance of impairment, of the auditor's independence and objectivity in respect of the audit.

#### Use of External Auditor for Non-Audit Purposes

11. The policy for the use of the external auditor for non-audit work should specify the types of non-audit service (if any):

- for which the use of the external auditor is pre-approved (i.e. approval has been given in advance as a matter of policy, rather than the specific approval of an engagement being sought before it is contracted); and
- for which specific approval from the Committee is required before

they are contracted.

12. From which the external auditor is excluded. The objective for the policy should be to ensure that the provision of such services does not impair the external auditor's independence or objectivity. In this context the Committee should consider:

- Whether the skills and experience of the audit firm make it the most suitable supplier of the non-audit service;
- Whether there are safeguards in place to eliminate or reduce to an acceptable level any threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditor;
- The nature of the non-audit services; and
- The fees incurred, or to be incurred, for non-audit services both for individual services and in aggregate, relative to the audit fee.

13. The annual report should explain to LVFS's members how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded. The explanation should:

- describe the work of the Committee in discharging its responsibilities;
- set out the Committee's policy on the engagement of the external auditor to supply non-audit services in sufficient detail to describe each of the elements in Note 11. above, or cross- refer to where this information can be found on the LV.com website;
- set out, or cross refer to, the fees paid to the auditor for audit services, audit related services and other non-audit services; and
- if the auditor provides non-audit services, other than audit related services, explain for each significant engagement, or category of engagements, what the services are, why the Committee concluded that it was in the interests of the Group to purchase them from the external auditor (rather than another supplier) and how auditor objectivity and independence has been safeguarded.

#### Internal Audit

14. In its review of the work of the internal audit function, the Committee should:

- ensure that the Internal Audit Director has direct access to the Board Chair and to the Committee and is accountable to the Committee;
- review the independence and effectiveness of the internal auditor and internal audit function;
- receive a report on the results of the internal auditors' work on a periodic basis;
- monitor and assess the role and effectiveness of the internal audit function in the overall context of the risk management system;
- monitor and assess the role of the internal audit function in the overall context of the risk management system and work of compliance, finance and the external auditor; and
- consider whether an independent, third party review of process is undertaken every 5 years.

#### Other

15. The Board authorises the Committee, within the scope of its responsibilities, to engage independent counsel and other advisers as it deems necessary to carry out its duties.

16. The Board authorises the Committee, within the scope of its

responsibilities, to have unrestricted access to members of management, employees and relevant information.

17. The Board of any Subsidiary Company within the Group will take account of the work of the Committee, as applicable.
18. The Committee's role in respect of the effectiveness of LVFS's system of internal controls includes ensuring that internal controls in respect of the Economic Capital Model and any associated systems are robust. This includes the controls over financial reporting and production of the Economic Capital Model data.
19. Where making a decision or recommendation, the Committee shall consider each of the following points (and, where not applicable, specifically note in the minutes as such):
  - The material risks impacted by the decision / recommendation;
  - The alignment of the decision / recommendation with the risk appetite and risk strategy;
  - The impact of the decision / recommendation upon the current and future solvency of LVFS and any other subsidiaries of LVFS affected;
  - The impact of the decision / recommendation in terms of risk-adjusted performance;
  - Clear reasons for any decisions / recommendations contrary to that implied by the Economic Capital Model results; and
  - The effect that variations in key assumptions would have upon the risk, solvency and performance impacts of the proposal.

#### Effectiveness

20. 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 LVFS's business, operations and risks.
21. At the end of each meeting the Committee will briefly consider the effectiveness of the meeting, taking into account the quality of the papers and debate, the sufficiency of time and its appropriate allocation across matters relative to their respective importance.
22. On an annual basis the Committee will set out a programme of priorities, including training requirements, for the following year which will inform the agenda for its meetings.
23. On an annual basis the Committee will conduct a review of its effectiveness (having regard both to the discharge of its requirements under the Terms of Reference and the areas of priority set), including the adequacy of the Chair and Non-Executive Director time commitment and the effectiveness of working relationships with other committees (notably, the Board and Risk Committee).
24. The Committee will report accordingly to the Board with any recommendations. At least every three years, and more frequently if the Chair deems appropriate, external assistance with the review will be taken.
25. The Committee will keep its Terms of Reference and relationships with other committees under review and will propose to the Board amendments to the Terms of Reference as necessary to ensure that they continue to be appropriate and reflect any issues which arise from the effectiveness review. The review should also ensure that the Terms of Reference, taken in its entirety, adequately reflects the latest Financial Reporting Council (FRC) Guidance on Audit Committees.
26. The Committee's access to sufficient resources in order to carry out its

	duties. 27. That the Committee 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.
Version Effective	2021-01-28 Audit Committee
Supersedes Version	2020-01-30 Audit Committee
Effective From - To	19 March 2019 - 30 <sup>th</sup> January 2020