

# The Law Debenture Corporation p.l.c.

## Audit and Risk Committee Terms of Reference

### **1. Constitution**

- 1.1 The Law Debenture Corporation p.l.c.'s (the "Corporation") Board has established an Audit and Risk Committee (the "Committee").
- 1.2 The Committee has the delegated authority of the Board in respect of the functions and powers set out in these terms of reference.
- 1.3 The Committee may sub-delegate any or all of its powers and authority as it thinks fit, including, without limitation, the establishment of sub-committees which are to report back to the Committee.

### **2. Membership**

- 2.1 The Committee shall comprise a minimum of three members, all of whom shall be independent non-executive directors, in accordance with the provisions of the 2024 UK Corporate Governance Code ("the Code").
- 2.2 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee and in consultation with the Committee Chair. Appointments to the Committee shall be for a period of up to three years, which may be extended for up to two additional three-year periods, provided the director still meets the criteria for membership of the Committee.
- 2.3 At least one member of the Committee should have recent and relevant financial experience and the Committee as a whole should have competence relevant to the sector in which the Corporation operates.
- 2.4 The Chair of the Corporation shall not be a member of the Committee but may be invited to attend its meetings.
- 2.5 The Committee Chair shall be appointed by the Board. In the absence of the Committee Chair, if the meeting is quorate, the Committee members present first shall agree that one of them should act as Chair for the purposes of the meeting. If the meeting is not quorate, it shall be postponed.
- 2.6 The membership of the Committee shall be reviewed annually as part of the annual performance evaluation of the Committee.

### **3. Quorum**

- 3.1 The quorum shall be two members.

### **4. Attendance at meetings**

- 4.1 Only Committee members have the right to attend Committee meetings. However, the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the Chief Technology Officer (together the "Executive Leadership team"), the Head of Legal, Risk and Compliance, the Head of Internal Audit, and representatives of the external auditors may be invited to attend all or part of any meeting as and when appropriate.

- 4.2 Additionally, at least once a year, the Committee shall separately meet with the external auditors in the absence of the Executive Leadership team, to discuss the auditors' remit and any issues arising from the audit.
- 4.3 Other individuals may be invited to attend all or part of any meetings as and when appropriate and necessary.

## **5. Secretary**

- 5.1 The Corporate Secretary for the Corporation shall be the Secretary of the Committee.
- 5.2 A representative of the Corporate Secretary shall attend meetings and will ensure that the Committee receives information and papers to enable full and proper consideration to be given to issues.
- 5.3 If the Committee wishes to meet without a representative of the Corporate Secretary, a member of the Committee shall act as Secretary for that meeting.
- 5.4 The Corporate Secretary (in conjunction with others) shall advise the Committee on The Law Debenture Corporation plc's group of companies' (the "Group") compliance with the financial aspects of corporate governance, their remit, the requirements of the Corporation's Articles of Association, company law in general, the requirements of the Code, and any other obligations under the Listing Rules of the FCA.
- 5.5 The Corporate Secretary will minute the proceedings and decisions of all Committee meetings.

## **6. Frequency of meetings**

- 6.1 Meetings shall be held not less than three times a year; once to consider the Half Yearly Report, once to discuss the scope of the annual audit with the external auditor and once to consider the Annual Report and Financial Statements.
- 6.2 The external auditors or internal auditors may request a meeting if they consider one necessary.
- 6.3 The Committee will hold such additional meetings as it considers necessary to perform its duties as specified below.
- 6.4 Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Corporation's governance, including but not limited to, the Chair of the Corporation, the Executive Leadership team, the external audit lead partner and the Head of Internal Audit.

## **7. Authority**

- 7.1 The Committee is authorised by the Board to:
  - (i) investigate any activity which it considers to be relevant to the carrying out of its duties within its terms of reference;
  - (ii) seek any information it requires from any Group employee and all Group employees are directed to co-operate with any request made by the Committee;

- (iii) call any employee to be questioned at a meeting of the Committee as and when required; and
- (iv) obtain, at the Corporation's expense, outside legal, accounting or other independent professional advice on matters falling within its terms of reference and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

7.2 The Committee has the right to publish in the Corporation's annual report details of any issues that cannot be resolved between the Committee and the Board. If the Board has not accepted the Committee's recommendation on the external auditor appointment, reappointment or removal, the annual report should include a statement explaining the Committee's recommendation and the reasons why the Board has taken a different position.

## **8. Duties**

8.1 The Committee shall have oversight of the Group as a whole and, unless required otherwise by regulation, shall carry out the duties below for the Corporation, its subsidiaries and the Group as a whole, as appropriate:

### **Financial reporting**

- (A) To monitor the integrity of the financial statements including the annual and half-yearly reports, preliminary announcements and any other formal statements or announcements relating to financial performance, before submission to the Board.
- (B) To review and report to the Board on significant financial reporting issues and judgements which those statements contain, having regard to matters communicated to it by the external auditor.
- (C) In particular, to review and challenge where necessary:
  - (i) the consistency and appropriateness of, any changes to, and compliance with applicable accounting policies and practices;
  - (ii) major judgmental areas including, but not limited to, the review of the basis of the valuation of any unlisted or impaired investments;
  - (iii) accounting for significant adjustments and judgements arising from the external audit;
  - (iv) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (v) the clarity and completeness of disclosure in the financial reports and the context in which statements are made;
  - (vi) all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to audit and risk management;
  - (vii) the assessment that the annual report and financial statements as a whole are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's business model and strategy and whether it informs the Board's

statement in the annual report on these matters that is required under the Code;

- (viii) the assumptions or qualifications in support of the going concern statement and the Group's ongoing viability and risks thereto; and
  - (ix) compliance with applicable Code, Listing Rules, Financial Conduct Rules and any other legal and regulatory requirements or provisions, as appropriate.
- (D) Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Corporation, it shall report its views to the Board.

#### **Internal controls and risk management systems**

- (E) To keep under review the adequacy and effectiveness of internal control and risk management systems.
- (F) To advise the Board on the Group's overall risk appetite, tolerance and strategy, and the principal and emerging risks the Group is willing to take in order to achieve its long-term strategy objectives.
- (G) To review annually the key risks inherent and emerging in the business and the system of internal control necessary to monitor such risks and where requested by the Board provide them with assurance of the robustness of their assessment and management of principal risks prior to the directors making their statement thereon.
- (H) To review and recommend to the Board the statements to be included in the annual report concerning internal controls and risk management including the assessment of principal risks and emerging risks and viability statement.
- (I) To review regular reports from the Group Risk function or any other applicable person on risk and internal control matters and the adequacy and effectiveness of the control functions.

#### **External audit**

- (J) To consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting ("AGM"), in relation to the appointment, re-appointment and removal of the Corporation's external auditor.
- (K) To require the Corporation to manage its non-audit relationships with audit firms to ensure that it has a fair choice of suitable external auditors at the next tender and in light of the need for greater market diversity and any market opening measures which may be introduced.
- (L) To conduct the tender process for a new auditor and if an auditor resigns, to investigate any action that may be required, ensuring applicable Code and regulatory requirements are satisfied.
- (M) To create a culture which recognises the work of and encourages challenge by the auditor, including:
  - a. approving the auditor's terms of engagement, including any engagement letter issued at the start of each audit, and the scope of the audit;

- b. setting and monitoring the remuneration of the auditor, whether for audit or non-audit services, and ensure that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
  - c. ensuring that the external auditor has full access to company staff and records;
  - d. inviting challenge by the external auditor, giving due consideration to points raised and making changes to financial statements in response, where appropriate;
  - e. considering the actions management has taken to implement the auditor's recommendations, for example in the management letter, and if they have not been acted upon, why not;
  - f. documenting details of how effective oversight has been achieved throughout the year and reporting to the Board and the members of the Corporation on how the Committee has discharged its responsibilities with respect to the external audit; and
  - g. reviewing any representation letter(s) requested by the external auditor before they are signed by management.
- (N) To review the effectiveness of the external audit process, in order to satisfy itself and to justify supported by evidence that the quality of the audit is of a sufficiently high standard, in line with the recommendations set out in the Minimum Standard. This shall include considering key audit firm and network level controls relied upon by the external auditor to address identified risks to audit quality, and obtaining an understanding of findings from internal and external inspections of the audit and the audit firm and how they are being addressed.
- (O) To review and monitor annually the auditor's independence and objectivity, taking into consideration relevant UK professional and regulatory requirements. Such review to include any threats to the auditor's independence and the safeguards applied to mitigate those threats.
- (P) To assess annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process.
- (Q) To discuss problems and reservations arising from the annual audit, and any other matters the auditor may wish to discuss (in the absence of management where necessary).
- (R) To seek to ensure coordination of the external audit with the activities of the internal audit function.
- (S) To review the auditor's management letter and management's response.

#### **Internal audit**

- (T) The appointment or termination of the Head of Internal Audit should be approved by the Chair of the Committee. The Committee should ensure that internal audit has a reporting line which enables it to be independent of the Executive and so able to exercise independent judgement.

- (U) To review and approve the role and mandate of the internal audit function, monitor and review the effectiveness of its work, the effectiveness of the Head of Internal Audit's work, oversee the implementation of any corrective actions. In doing this it will bear in mind:
  - a. the need to ensure that the internal audit plan is aligned to the key risks of the business;
  - b. oversight of relationships and open communication between internal audit and the risk, compliance, finance, internal audit and external audit functions to ensure they are operating effectively and avoid duplication; and
  - c. that internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate in line with appropriate professional standards for internal auditors.
- (V) To approve the internal audit programme in the context of the Group's overall risk management system and ensure it is aligned to the key risks of the business.
- (W) To ensure internal audit has adequate standing and sufficient access to perform its function effectively and in accordance with relevant standards.
- (X) To ensure the Head of Internal Audit has direct access to the Chair and the Committee and is accountable to the Committee.
- (Y) To receive and review reports from the Head of Internal Audit and consider any major findings from their work.
- (Z) To review and monitor management's responsiveness to internal audit's findings and recommendations and management's actions to support the effective working of the internal audit function.
- (AA) To monitor, review and carry out an annual assessment of the effectiveness of the internal audit function in the overall context of the Corporation's risk management system. As part of that assessment the Committee shall:
  - a. meet with the Head of Internal Audit at least once a year, without the presence of management;
  - b. review and assess the annual internal audit work plan;
  - c. receive a report on the results of the internal auditors' work;
  - d. confirm whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business;
  - e. consider the actions management has taken to implement the internal auditors' recommendations and whether these properly support the effective working of internal audit; and
  - f. consider whether an independent, third party assessment (an external quality assessment) of the effectiveness of internal audit is appropriate.

#### Compliance, speaking up and fraud

- (BB) To review regular reports on compliance matters and keep under review the adequacy, effectiveness and security of the Group's compliance reporting and obligations.
- (CC) To review regular reports from the MLRO and the adequacy and effectiveness of the Group's anti-money laundering systems and controls.
- (DD) To review the Group's procedures, systems and controls for ethical behaviour and the detection and prevention of fraud, bribery and modern slavery and to receive reports on non-compliance (if any) and oversee the implementation of any corrective actions.
- (EE) To review the arrangements in place for Group staff, contractors and external parties to raise concerns in confidence about possible improprieties in matters of financial reporting or other matters insofar as they may affect the Group (whistleblowing). The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action and that they mitigate against the risk of retaliation.

## **9. Reporting and governance procedures**

- 9.1 The Committee shall work and liaise as necessary with all other Board committees, taking particular account of any delegation of the impact of risk management and internal controls to different committees and ensure that interaction between committees and between the Committee and the Board is reviewed regularly.
- 9.2 The Committee shall ensure a report on its activities be included in the annual report, covering the areas prescribed by the Code.
- 9.3 The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities, including:
  - (i) the significant issues that it considered in relation to the financial statements and how these issues were addressed;
  - (ii) its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
  - (iii) any other issues on which the Board has requested the Committee's opinion.
- 9.4 Minutes of meetings of the Committee shall be made available to all members of the Board.
- 9.5 The Head of Internal Audit will report directly to the Committee Chair. The General Counsel may report directly to the Committee Chair if he/she has concerns that have not properly been addressed via the Executive Risk Committee.
- 9.6 The Committee should ensure that a periodic evaluation of its performance is carried out.

- 9.7 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed, whether the subject of a specific request by the Board or not.
- 9.8 The Committee shall include within the annual report a description of the work of the Committee in how it has discharged its responsibilities. The description shall include:
- (iv) a summary of the role and work of the Committee;
  - (v) how the Committee composition requirements have been addressed, and the names and qualifications of all members of the Committee during the period, if not provided elsewhere;
  - (vi) the number of Committee meetings and the attendance at those meetings, if not provided elsewhere;
  - (vii) how the Committee's performance review has been conducted;
  - (viii) the significant issues that the Committee considered relating to the financial statements, and how these issues were addressed, including an explanation of the application of the entity's accounting policies as necessary;
  - (ix) where shareholders have requested that certain matters be covered in an audit and that request has been rejected, an explanation of the reasons why;
  - (x) an explanation of how the Committee has assessed the independence and effectiveness of the external audit process;
  - (xi) an explanation of the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of retendering plans;
  - (xii) where an external audit tender has taken place during the year, an explanation of the criteria used to make the selection and the process followed;
  - (xiii) where a regulatory inspection of the quality of the Corporation's audit has taken place, information about the findings of that review, together with any remedial action the auditor is taking in the light of these findings;
  - (xiv) in the case of a Board not accepting the Committee's recommendation on the external auditor appointment, reappointment or removal, a statement from the Committee explaining its recommendation and that of the Board, and the reasons why the Board has taken its different position;
  - (xv) an explanation of how auditor independence and objectivity are safeguarded, if the external auditor provides non-audit services; and
  - (xvi) a report on the activities the Committee has undertaken to meet the requirements of the Minimum Standard.
- 9.9 At least annually, the Committee should review its constitution and terms of reference and recommend any changes to the Board.

## 10. Shareholder Engagement



- 10.1 In normal circumstances, the Committee Chair should attend the AGM to answer any shareholder questions on the Committee's activities and achievements of the Committee over the year, which could include details of engagement with shareholders on significant matters related to their areas of responsibility, and any subsequent actions taken, and to answer shareholder questions.
- 10.2 In addition, the Committee Chair should seek engagement with shareholders on significant matters related to the Committee's areas of responsibility including on the scope of the external audit, where appropriate.

## **11. Other Matters**

The Committee shall:

- 11.1 have access to sufficient resources in order to carry out its duties, including access to the Corporate Secretary for assistance as required;
- 11.2 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;
- 11.3 be provided with funds to enable it to take independent legal, accounting or other advice when the Committee reasonably believes it necessary to do so;
- 11.4 give due consideration to laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority's UK Listing Rules, Prospectus and Disclosure Guidance and Transparency Rules and any other applicable rules, as appropriate;
- 11.5 oversee any investigation of activities which are within its terms of reference.

Approved by the Board on 22 May 2025