



## 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 two independent non-executive directors appointed by the Board, on the recommendation of the Nomination Committee and in consultation with the Committee Chairman. 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.
- 2.2 Each of the members of the Committee shall be independent non-executive directors, as determined by the Board, in accordance with the provisions of the UK Corporate Governance Code (the "Code").
- 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 Chairman of the Corporation shall not be a member of the Committee but may be invited to attend its meetings.
- 2.5 The Committee Chairman shall be appointed by the Board. In the absence of the Chairman, if the meeting is quorate, the Committee members present first shall agree that one of them should act as Chairman 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.
- 4.2 The Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer (together the "Executive Leadership team"), the Head of Internal Audit, the Group Risk, MLRO and ESG Manager and representatives of the external

auditors shall normally attend meetings and, at least once a year, the Committee shall 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 Company Secretary (in conjunction with the General Counsel) 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 Company 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 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 Chairman will maintain a dialogue with key individuals involved in the Corporation's governance, including but not limited to, the Chairman 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; and
- (iii) obtain 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.

## 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) significant adjustments arising from the external audit;
  - (iv) the methods used to account for significant or unusual transactions;
  - (v) the clarity 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.

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

- (D) To keep under review the adequacy and effectiveness of internal control and risk management systems.
- (E) 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.
- (F) 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.
- (G) To review and approve 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.
- (H) To review regular reports from the Group Risk, MLRO and ESG Manager (which is responsible for day-to-day management of the operational risk within the Group), the General Counsel, Head of Internal Audit or any other applicable person on risk and internal control matters and the adequacy and effectiveness of the control functions.

## **External audit**

- (I) To consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Corporation's external auditor.
- (J) To oversee the selection 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.
- (K) To approve the auditor's terms of engagement, including any engagement letter issued at the start of each audit, and the scope of the audit.
- (L) To set and monitor 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.
- (M) To review and monitor annually the auditor's independence and objectivity and the effectiveness of the audit process, 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.
- (N) To assess annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process.

- (O) 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).
- (P) To seek to ensure coordination of the external audit with the activities of the internal audit function.
- (Q) To review any representation letter(s) requested by the external auditor.
- (R) To review the auditor's management letter and management's response.
- (S) To develop and implement the formal policy on the engagement of the external auditor for the supply of non-audit services.

## Internal audit

- (T) The appointment or termination of the Head of Internal Audit should be approved by the Chairman of the Committee.
- (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 and oversee the implementation of any corrective actions.
- (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.

## Compliance

- (AA) To review regular reports on compliance matters and keep under review the adequacy and effectiveness of the Group's compliance reporting and obligations.
- (BB) To review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the Group's anti-money laundering systems and controls.
- (CC) To review the Group's procedures, systems and controls for ethical behaviour and the prevention of fraud, bribery and modern slavery and to receive reports on non-compliance (if any) and oversee the implementation of any corrective actions.
- (DD) To review the arrangements in place for Group staff, contractors and external parties in confidence to raise concerns 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.

## **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 Chairman 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.
- 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 Chairman. The General Counsel may report directly to the Committee Chairman 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 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 Chairman should attend the annual general meeting to answer any shareholder questions on the Committee's activities.
- 10.2 In addition, the Committee Chairman should seek engagement with shareholders on significant matters related to the Committee's areas of responsibility.

Approved by the Board on 6 December 2023