

Audit Committee Terms of Reference

1. Purpose

The Audit Committee, working closely with the Risk Committee, is responsible for assisting the Board in discharging its responsibilities for monitoring the integrity of the Company's financial statements and the effectiveness of the systems of internal controls and to monitor the effectiveness, performance and objectivity of the internal and external auditors.

2. Membership

- 2.1 The members, including the chairman of the Committee, shall be appointed by the Board on the recommendation of the Nomination Committee. Members shall be appointed in consultation with the Chairman of the Audit Committee.
- 2.2 The Committee shall consist of not less than three members and all members shall be independent non-executive directors of the Company at least one of whom shall have recent and relevant financial experience and be considered an 'audit committee financial expert' in accordance with US regulations. For this purpose, independence shall be determined in accordance with Rule 10A-3 under the U.S. Securities Exchange Act of 1934, in addition to the other independence criteria set out in the Nomination Committee terms of reference. Appointments to the Committee shall be for a period of up to three years, which may be extended for further periods of up to three years, provided the director still meets the criteria for membership of the Committee.

3. Quorum and meeting proceedings

- 3.1 A quorum of the Committee shall be two members.
- 3.2 In the absence of the Committee chairman, the remaining members present shall elect one of themselves to chair the meeting.
- 3.3 The Group Company Secretary, or her nominee, shall be the secretary of the Committee.

4. Attendance at meetings

- 4.1 Only Committee members have the right to attend Committee meetings. The Group Chairman, the Group Chief Executive, the Chief Financial Officer, the Chief Audit Officer, the Chief Accounting Officer and a representative of the auditor will normally be invited to attend Committee meetings.
- 4.2 Other Board members may attend any meeting of the Committee and members of Management and any advisers appointed by the Committee shall attend, if invited by the Committee.
- 4.3 At least once a year, and at any other time as the Committee shall see fit, it shall meet separately with each of the Chief Audit Officer and the external auditor in the absence of other members of Management.

5. Frequency of Meetings

- 5.1 Meetings shall be held not less than five times each year and at such other times as required.
- 5.2 The external auditor, the Chief Audit Officer, the chairman of the Committee or two members of the Committee may request a meeting if any of them consider that one is necessary.

6. Notice of Meetings

- 6.1 Meetings of the Committee shall be called by the secretary of the Committee at the request of the Committee chairman.
- 6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend, no later than five working days before the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

7. Minutes of Meetings

- 7.1 The secretary of the Committee shall ensure that a formal record of Committee proceedings and resolutions is maintained.
- 7.2 Following approval of the minutes by the Chairman of the Committee they shall be circulated to all members of the Committee.

8. Authority

The Committee is authorised by the Board to:

- 8.1 investigate, or cause to be investigated, any activity within its terms of reference;
- 8.2 obtain at the Company's expense external legal or independent professional advice from such advisers as the Committee shall select, who may, at the invitation of the Committee, attend meetings as necessary;
- 8.3 seek any information that it requires from any employee of the Company in order to perform its duties and require all employees to co-operate with any request made by the Committee;
- 8.4 meet for despatch of its business, adjourn and otherwise regulate its business as it shall see fit, including approving items of business by the written resolution procedure set out in the Company's articles of association;
- 8.5 cause the Company to pay (to the extent it has not already done so) all:
 - a. compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company;
 - b. compensation to any advisers employed by the Committee under these terms of reference; and
 - c. ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties;
- 8.6 delegate any of its duties as is appropriate to such persons or person as it thinks fit; and
- 8.7 attend the meetings of the audit committees of the Group's principal subsidiaries or for any member of the Committee to attend the meetings of the audit committees of the Group's principal subsidiaries.

9. Duties

The duties of the Committee, which will be carried out in relation to the Company and the Group as a whole, as appropriate; shall be to:

- 9.1 consider the appointment, re-appointment, dismissal or resignation of the auditor and to directly oversee the process for selecting the external auditor and to make appropriate recommendations, through the Board, to shareholders to consider at the Annual General Meeting concerning the re-appointment of the auditor;
- 9.2 assess, and keep under review, the independence and objectivity of the external auditor, approve and monitor the application of the External Auditor Business Standard, ensure that key audit partners are rotated from time to time in accordance with UK and US professional and regulatory requirements and that the nature and amount of non-audit work does not impair the auditor's independence and objectivity;
- 9.3 approve the external auditor's engagement letter and any amendments thereto, and recommend the external audit fee to the Board;
- 9.4 discuss with the external auditor the nature, scope and effectiveness of the annual audit process taking into account relevant UK, US and EU professional and regulatory requirements, and review the external auditor's quality control procedures and the steps taken by the external auditor to respond to changes in regulatory and other requirements;
- 9.5 review the external auditor's control themes and observations report and Management's response thereto;
- 9.6 establish and monitor the implementation of policies or procedures for the receipt, retention, and treatment of complaints received by the Group regarding accounting, accounting controls and auditing matters and for confidential, anonymous submission by Group employees of concerns regarding questionable accounting or auditing matters or any other major issue relevant to the duties of the Committee;
- 9.7 review the annual Internal Audit Plan and the effectiveness of the Group's internal audit function, and ensure that it is adequately resourced and has appropriate standing within the Group;
- 9.8 consider (in the absence of Management if necessary) Management's response to any material recommendations made by the external auditor or by the Chief Audit Officer;
- 9.9 approve the appointment or dismissal of the Chief Audit Officer and to participate jointly with the Chief Financial Officer in the determination of the objectives of the Chief Audit Officer and the evaluation of his levels of achievement, and to help determine and approve his remuneration;
- 9.10 approve the policy within the External Auditor Business Standard relating to the employment of former employees of the external auditor and to the engagement of the external auditor to supply non-audit services, and review the application of the Standard in these respects from time to time;
- 9.11 review and assess the adequacy and effectiveness of the Group's systems for internal control, including financial reporting and financial controls;
- 9.12 review, and challenge where necessary, the actions and judgements of Management, in relation to the interim, quarterly and annual financial statements, and any formal announcements relating to the Company's financial performance having particular regard to the following points without being limited to them:
 - a. critical accounting policies, practices and methods, and any changes thereto;
 - b. decisions requiring a major element of judgement or significant estimates;

- c. the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
 - d. appropriateness of key assumptions and methods to deliver the financial results;
 - e. the main drivers of the financial results and their movements including MCEV based results;
 - f. the clarity accuracy and comprehensiveness of disclosures and the Group disclosure controls and procedures;
 - g. significant adjustments resulting from the audit;
 - h. the going concern assumption;
 - i. compliance with accounting standards; and
 - j. compliance with FSA (or Prudential Regulation Authority/Financial Conduct Authority) and other legal requirements.
- 9.13 After completing its review of the financial statements, regulatory financial returns and announcements the Committee shall (other than in relation to the review of the Group's quarterly management statement, which the Committee is authorised to approve) make a recommendation to the Board regarding their approval;
- 9.14 where requested by the Board, provide advice to the Board as a whole on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- 9.15 jointly with the Risk Committee approve the Corporate Governance Report to be contained in the Annual Report and Accounts and as appropriate recommend its acceptance to the Board;
- 9.16 note any significant pending legal actions against or by a Group company;
- 9.17 approve Group policies as determined by the Board from time to time, and any material changes thereto;
- 9.18 receive and review, at least semi-annually, reports on compliance with the Group's banking covenants;
- 9.19 receive and review, at least annually, reports on the reserving position relating to the Group's life assurance and general insurance operations;
- 9.20 approve the standard terms of reference for the audit committees of the Group's principal subsidiaries and any material deviations from it, receive and review a summary of material issues transacted at those committees and where appropriate the minutes of them and receive and review reports on any other material matters referred by the Chairs of these committees;
- 9.21 be available to advise the Board, or the Chairman of the Board, on any questions relating to the financial affairs of the Company on which advice might be sought;
- 9.22 via the chairman of the Committee, approve the appointment of members of Business Unit Audit Committees; and
- 9.23 consider other topics, as referred to it from time to time by the Board.

10. Reporting Procedures

- 10.1 The chairman of the Committee shall report to the Board at regular intervals on the matters it has reviewed, making recommendations when requested or when he considers appropriate. The Group Company Secretary shall circulate the minutes of the meetings of the Committee to all members of the Board.
- 10.2 The Committee members shall undertake a review of the Committee's performance and these terms of reference annually and, if necessary, make recommendations to the Board for approval.
- 10.3 The Committee shall produce an annual report of the Committee's duties and activities during the year, which will form part of the Company's Annual Report and Accounts.
- 10.4 The chairman of the Committee shall attend the Annual General Meeting and shall answer questions, through the Chairman of the Board, on the Committee's activities and responsibilities.