

The Royal London Mutual Insurance Society Limited

Audit Committee

Terms of Reference

Approved by the Board: 9 March 2010

1. Membership

- 1.1 The Audit Committee (“the Committee”) comprises not less than three independent non-executive directors appointed by the Board from time to time. Appointments are made on the recommendation of the Nomination Committee in consultation with the chairman of the Committee.
- 1.2 At least one member of the Committee must have recent relevant financial experience and a professional qualification from one of the professional accountancy bodies.
- 1.3 The chairman of the Company must not be a member of the Committee. The board shall appoint the committee chairman who shall be an independent non-executive director. In the absence of the committee chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.
- 1.4 Appointments to the Committee will be for a period of up to three years extendable by no more than two additional three year periods so long as members continue to be independent.
- 1.5 In addition to the remuneration paid to non-executive directors, the Company is entitled to pay further remuneration to members of the Committee to recompense them for the additional responsibilities of membership.
- 1.6 An induction programme will be provided for new members of the Committee and training as appropriate will be provided to members on topics such as:
 - developments in financial reporting and relevant company law
 - understanding financial statements, applicable accounting and financial reporting standards and recommended practice
 - FSA regulations and the regulatory framework of the Company's business, and

- the role of internal audit (and the external auditors), and risk & compliance.

2. Meetings

- 2.1 The Committee must meet at least 4 times a year. The external auditors may request an additional meeting if they consider this necessary.
- 2.2 At least once a year, the Committee must meet without management with the external auditors and (separately) with the head of internal audit to discuss matters relating to the Committee's roles and responsibilities.
- 2.3 No-one other than the Committee is entitled to be present at the meetings of the Committee – it is for the Committee to decide if non-members should attend. It is expected that the chairman, group chief executive, group finance director and external auditors' lead partner will generally be invited to attend. The Committee may invite external advisers to attend meetings where it considers this to be appropriate.
- 2.4 The Board may determine the quorum for meetings of the Committee from time to time. In the absence of any such determination, the quorum will be two.
- 2.5 Sufficient time must be allowed to enable the Committee to undertake as full a discussion as may be required.

3. Services

- 3.1 The Committee has access to the services of the company secretariat in connection with:
 - assisting the chairman of the Committee in planning the Committee's work
 - drawing-up meeting agendas
 - maintenance of minutes
 - collection and distribution of information, and
 - provision of any necessary practical support.

- 3.2 The Committee must receive papers in a timely manner to enable full and proper consideration to be given to the issues.
- 3.3 The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The company secretariat must promptly circulate minutes of the meeting of the Committee to:
- members of the Committee
 - other directors, unless a conflict of interest exists
 - the external auditors
 - others as may from time to time be agreed by the Committee.
- 3.4 The Board must make funds available to the Committee to enable it to take independent advice when the Committee reasonably believes that it is necessary to do so.

4. Role of the Committee

The role of the Committee is to ensure that the interests of the members are properly protected in relation to financial reporting and internal control. The Committee must act independently from the Executive.

5. Responsibilities of the Committee

The responsibilities of the Committee are to:

Financial Statements

- monitor the integrity of the financial statements of the Company (including the interim financial statements, the summary financial statements and the annual FSA return) prior to their approval by the Board and to review:
 - ◆ the significant financial reporting issues and judgments contained in the financial statements, taking into account the views of the external auditor
 - ◆ all material information presented within the financial statements such as the directors' report, the operating and financial review and the corporate governance statement
 - ◆ the clarity and completeness of disclosure in the financial statements and the context in which the statements are made

- ◆ whether the accounting policies of the Company are in accordance with the statutory requirements and relevant accounting and financial reporting standards, and if any changes to them need to be made
- report its views to the Board where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company
- approve all announcements to the London Stock Exchange made by the Company on its performance

Internal Controls

- monitor and review the effectiveness of the Company's:
 - ◆ internal controls
- monitor the role, effectiveness, resourcing and standing within the Company of compliance and internal audit and in particular to
 - ◆ ensure that the head of internal audit has direct access to the chairman of the Company and the chairman of the Committee, and is accountable to the Committee
 - ◆ review and assess the annual internal audit plan
 - ◆ assess the effectiveness of the internal audit in the overall context of the Company's risk management process
 - ◆ receive periodic reports on the results of internal audit's work
 - ◆ review the material findings of internal audit's audits and investigations and management's responsiveness to internal audit's findings and recommendations, and
 - ◆ approve the appointment and termination of appointment of the head of internal audit.

External Auditors

- review the external auditors' findings (including those contained in management letters) and management's response to them.
- make recommendations to the Board for it to put to the members for their approval in general meeting in relation to the appointment of the external auditors and to approve the remuneration and terms of engagement of the external auditors
- review and monitor the external auditors' independence, objectivity, expertise, resources and effectiveness, taking into consideration relevant UK professional and regulatory requirements, including the provision of any non-audit services

- maintain, implement and monitor a policy on the engagement of the external auditors to supply non-audit services that is designed to ensure that the provision of such services does not impair the external auditors' independence or objectivity, and that takes into account the relevant ethical guidance regarding the provision of non-audit services by the external auditors
- determine on behalf of the Board the Company's policy for the employment of former employees of the external auditors
- ensure that an appropriate audit plan is in place at the start of each annual audit cycle, and
- assess the effectiveness of the audit at the end of the annual audit cycle

Other

- review arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or otherwise with the objective of ensuring that arrangements are in place:
 - ◆ for the proportionate and independent investigation of such matters
 - ◆ for appropriate follow-up action, and
 - ◆ to ensure that any matters that fall within the responsibilities of the Committee are brought to its attention
- the committee chairman shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities
- report to the Board on any matters in respect of which it considers that action or improvement is needed, and to make recommendations as to the steps to be taken, and
- consider any other matters required by the Board from time to time.

6. The Committee and employees

- 6.1 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information that it requires from any employee and all employees are directed to co-operate with any request made by the Committee and to provide it with any information that it requires.
- 6.2 The Executive must keep the Committee properly informed of matters that are relevant to its terms of reference.

7. Reviewing effectiveness

- 7.1 The Committee must review annually its terms of reference and its own effectiveness and recommend any necessary changes to the Board.
- 7.2 The Board must review the Committee's effectiveness annually.

8. Report and Accounts

- 8.1 A separate section must be included in the annual report and accounts that describes the work of the Committee in discharging its responsibilities and includes:
- a summary of the role of the Committee
 - the names and qualifications of all members of the Committee during the period
 - the number of Committee meetings
 - a report of the actions taken by the Committee to discharge its responsibilities and an explanation if the external auditors provide non-audit service of how external auditors objectivity and independence is safeguarded.
- 8.2 The chairman of the Committee should be available at the annual general meeting to reply to questions that may be raised that are relevant to the role and responsibilities of the Committee.

9. Availability of terms of reference

The terms of reference of the Committee will be included on the Company's website and will be made available to members on demand.