

# LEGAL & GENERAL GROUP PLC

## Audit Committee – Terms of Reference

### 1. Constitution of the Committee

1.1. The Board of Directors resolved to appoint an Audit Committee (the “Committee”), which is a committee of the Board. The Committee’s responsibilities are discharged on behalf of Legal & General Group Plc and its subsidiaries (as appropriate), including review of issues and activities that relate to particular subsidiaries within the Group. The principal operating subsidiaries are Legal and General Assurance Society Limited, Legal & General Insurance Limited, Legal and General Assurance (Pensions Management) Limited and Legal & General Investment Management (Holdings) Limited (the “Principal Operating Subsidiaries”) and the Group’s CRD IV firm, Legal & General (Portfolio Management Services) Limited. The Board will annually review the terms of reference listed below and the Committee and the Board will annually review the effectiveness of the Committee.

### 2. Membership

- 2.1. Members of the Committee are appointed by the Board on recommendation of the Nomination Committee in consultation with the Chair of the Committee.
- 2.2. Appointments to the Committee will be for a period of three years, which may be extended for two further three year periods, provided the director remains independent.
- 2.3. The Committee will comprise a minimum of three independent Non-Executive Directors of the Company. Independence is determined by relevant legislation and corporate governance codes and guidance.
- 2.4. The Chairman of the Company shall not be a member of the Committee.
- 2.5. The Chair of the Risk Committee shall be a member of the Committee.
- 2.6. A member of the Remuneration Committee shall be a member of the Committee.
- 2.7. The Committee as a whole shall have competence relevant to the sector in which the Company and its subsidiaries operate. At least one of the members shall be determined to have recent and relevant financial experience.

### 3. Duties and Authority

- 3.1. The Committee will, through discussions with the external auditor, the Group Chief Executive, the Group Chief Financial Officer, the Group Chief Internal Auditor and such members of management as it shall request, discharge the following duties:
  - 3.1.1. Internal control
    - 3.1.1.1. Review and conclude upon the adequacy and effectiveness of the Group's system of internal control (including financial control), in line with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Financial and Business Reporting, and risk management system. Receive reports from the external and internal auditors, the Group Chief Financial Officer, Group Chief Risk Officer and management

on the effectiveness of the systems of internal control and financial risk management established. Report to the Board on issues and conclusions on adequacy and effectiveness of the Group's system of internal control.

- 3.1.1.2. Review and advise the Board on the content and clarity of disclosures in the Directors' statements related to internal controls, risk management and the viability statement - i.e. the report on the review of effectiveness of the risk management and internal control systems and the statement confirming that the directors have carried out a robust review of the principal risks.
- 3.1.1.3. Review reports on instances of financial crime and fraud involving the Group.
- 3.1.1.4. Review the Group's compliance with its statutory tax obligations.
- 3.1.1.5. Review and approve the policies and arrangements for operating the business in a sound and prudent manner and in compliance with any financial regulations relating to the business of the Group (including the UK Corporate Governance Code).
- 3.1.1.6. Review the adequacy and security of the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

### 3.1.2. Financial statements and announcements

- 3.1.2.1. Review the Group's accounting principles and policies adopted in the accounts and any changes proposed to them.
- 3.1.2.2. Satisfy itself through discussions with management and the external auditor that the Group's accounting and reporting procedures conform to the law and applicable accounting standards.
- 3.1.2.3. Review the disclosure and accounting treatment of any litigation and contingent liabilities affecting the Group, including consideration of any tax contingencies which may exist.
- 3.1.2.4. Review the going concern disclosures to be included in the half yearly and annual reports.
- 3.1.2.5. Review the viability statement to be included in the annual report.
- 3.1.2.6. Review the reporting of any significant transactions, which are not a normal part of the Company's business.
- 3.1.2.7. Review the report to be included in the annual report on the activities of the Committee, including disclosures relating to the appointment, independence and non-audit fees of the external auditor, advance notice of any retendering plans and the significant issues considered by the Committee in relation to the financial statements and how these issues were addressed.
- 3.1.2.8. Review the interim and annual financial statements, together with any related London Stock Exchange announcement, and any other announcement relating to the Company's financial performance prior to publication including regulatory reporting (such as the Solvency and Financial Condition Report under Solvency II) which will enter the public domain. This review will include:
  - 3.1.2.8.1. Whether the Strategic Report, the corporate governance statements relating to audit and any other information presented in the annual report are consistent with the financial statements;
  - 3.1.2.8.2. Consideration of issues addressed in the preparation of the accounts, including the level of insurance provisions and reserves and other significant judgmental areas; and

3.1.2.8.3. The explanation included in the annual report of the basis on which the Company generates or preserves value over the longer term (the business model).

3.1.2.9. Where requested by the Board, provide advice 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.

3.1.2.10. The Committee shall approve any other statements which contain financial information and require Board approval before the Board if such Committee approval would be both practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules sourcebook.

3.1.2.11. Consider the clarity of the Group's financial reporting and, in the case of the Chair of the Committee, be prepared to meet investors.

### 3.1.3. External Auditor

3.1.3.1. Assess the effectiveness of the annual audit through discussions with the external auditor on the scope and planning of their audit for the forthcoming year. The Committee will seek assurance that management has placed no restrictions on the scope of the audit.

3.1.3.2. Ensure there is sufficient co-ordination between the internal and external auditors.

3.1.3.3. Approve the terms of engagement and engagement letters for each audit, and review the management representation letters.

3.1.3.4. Review and negotiate the auditor's fees, once summarised annually for the Committee by management, before being approved by the Board in accordance with powers delegated at the AGM.

3.1.3.5. Develop, implement and monitor a policy on:

3.1.3.5.1. the type and extent of non-audit services provided by the external auditor, considering the impact this may have on independence and compliance with the Ethical Standard;

3.1.3.5.2. the assessment of non-audit services that have a direct or material effect on the audited financial statements; and

3.1.3.5.3. the types of non-audit service for which use of the external auditor is pre-approved

and recommend such policy to the Board.

3.1.3.6. Approve all non-audit services to be provided by the external auditors to entities that are consolidated in the Group financial statements. Approval for services (other than those that fall under the pre-approval policy) should be granted by the Committee or, between meetings, the Chair of the Committee in advance of the commencement of the service.

3.1.3.7. Monitor the objectivity and independence needed in the conduct of the audit in accordance with the Ethical Standard and other related regulatory standards.

3.1.3.8. Agree a policy on the employment of former employees of the Company's auditor and monitor this policy implementation in order to be satisfied that there are no relationships between the auditor and the Company other than in the ordinary course of business.

- 3.1.3.9. Make recommendations to the Board, subject to shareholder approval at the AGM, for the appointment, re-appointment or removal of the external auditor. The Committee shall develop and conduct the selection process for a new auditor, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process and, if the auditor resigns, investigate the issues leading to this and decide whether any actions are required.
- 3.1.3.10. Meet regularly with the external auditor and at least once annually without management present.
- 3.1.3.11. Review the results of the audits carried out by the external auditor and any significant recommendations made by them and the adequacy of management's response.
- 3.1.3.12. Monitor the auditor's compliance with the Ethical Standard, the level of fees that the Group pays in proportion to the overall fee income of the firm or relevant part of it and other related regulatory requirements.
- 3.1.3.13. To assist in forming an opinion on the above matters, the Committee will receive and review regularly the minutes of any audit committees, as may exist, of the Group's subsidiary businesses.

#### 3.1.4. Internal Auditors

- 3.1.4.1. Review and approve the role and mandate of internal audit, the annual plan and effectiveness of the Internal Audit Department, together with the key findings of Internal Audit and the adequacy of management's response.
  - 3.1.4.2. Approve the appointment and removal of the Group Chief Internal Auditor.
  - 3.1.4.3. Ensure the internal audit function is free from management restrictions or any other restrictions, and has adequate standing in the Company.
  - 3.1.4.4. Ensure that the internal audit function maintains its independence and objectivity in the discharge of its duties.
  - 3.1.4.5. Review the reports of the Group Chief Internal Auditor.
  - 3.1.4.6. Review and monitor management's response to the findings and recommendations of the Group Chief Internal Auditor.
  - 3.1.4.7. Meet at least annually with the Group Chief Internal Auditor, without management being present.
- 3.2. The Board has delegated authority to the Committee to assist the Board in discharging its responsibilities in relation to:
- 3.2.1. Monitoring the integrity of the financial statements; the oversight of the operational financial risk and internal control functions; external financial reporting and associated announcements; the independence of the Group's external auditors; the resourcing and plans of the Internal Audit department; and the adequacy and effectiveness of the control environment.
  - 3.2.2. In order to fulfill its duties, the Committee is able to seek information from any Director or employee of the Group and has access to all Group records. All employees and Directors will comply with all requests made by the Committee.
  - 3.2.3. The Committee is authorised by the Board to obtain outside accounting, legal, or other independent professional advice, where the Committee deems it necessary, at the Company's expense.
- 3.3. The Committee is concerned with the business of the whole of the Group and its authority extends to all relevant matters relating to the Group and its business groups and subsidiaries.

#### 4. Meetings and Quorum

4.1. Only members of the Committee have the right to attend Committee meetings. However, the following may attend by invitation:

- Chairman of the Company;
- Group Chief Executive;
- Group Chief Financial Officer;
- Any other director of the Company;
- Group Chief Risk Officer;
- Senior Representatives of the external auditor;
- Group Chief Internal Auditor;
- Other senior management, as appropriate, to provide such reports as are required for the Committee to discharge its duties; and
- Non-Executive Directors of the Principal Operating Subsidiaries (where applicable) in relation to items of business pertaining to that Principal Operating Subsidiary.

4.2. The Company Secretary, or his nominee, shall act as Secretary of the Committee.

4.3. Any two Members shall constitute a quorum.

4.4. The Committee normally meets four times per year, in accordance with the financial reporting calendar and at other times as the Chair of the Committee deems appropriate. The timing of meetings and meeting agendas are linked to events in the Group's financial calendar.

4.5. Notice of a meeting and distribution of papers shall be no less than five (5) working days prior to the meeting. Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way.

4.6. The Secretary of the Committee shall minute the proceedings and resolutions of meetings of the Committee including recording the names of those present and in attendance.

4.7. The Secretary will ascertain at the commencement of each meeting the existence of any conflicts of interest and minute these accordingly.

## **5. Reporting responsibilities**

5.1. Minutes of the meeting will be circulated to all Board members unless a conflict of interests exists.

5.2. The Chair of the Committee shall report to the Board on how the Committee has discharged its responsibilities including matters considered, decisions taken, its assessment of the effectiveness of the external audit process and its recommendation on the appointment/re-appointment of the external auditor and recommendations the Committee deems appropriate to the Board on any areas within the Committee's remit where action is required.

5.3. The Committee will report back on Committee activities, insofar as is relevant to the Principal Operating Subsidiaries, to the Board of the relevant Principal Operating Subsidiary through senior management.

5.4. The Committee will produce a report on its activities to be included in the Company's annual report. This report will include:

5.4.1. The significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;

5.4.2. An explanation of how the Committee has assessed the effectiveness of the external audit process and the approach taken to the appointment/re-appointment of the external auditor, information in respect of the length of tenure of the current auditor, when a tender was last conducted and advance notice of any retendering plans; and

5.4.3.If the external auditor provides non-audit services, an explanation of how the auditors' objectivity and independence has been safeguarded.

**6. Relationships with other Committees**

6.1. The Chair of the Committee must attend the Group Risk Committee.

6.2. The Chair of the Committee shall attend the AGM of the Company to answer questions on the Committee's activities.

**7. Other matters**

7.1. The Committee shall:

7.1.1.Be provided with appropriate and timely training, both in the form of an induction programme for new members and thereafter on an on-going basis;

7.1.2.Give due consideration to UK Listing, Prospectus, Disclosure and Transparency Rules and other applicable rules; and

7.1.3.Arrange for periodic reviews of its performance and review annually its constitution and terms of reference.