

Report of the Audit Committee

Composition of the Audit Committee

The members of the Audit Committee, who are all independent non-executive directors, are:

Kent Atkinson (Chairman)

David Newlands (resigned 6 March 2006)

Lord Norman Blackwell

Sir Nicholas Monck (retired 22 March 2005)

Jocelyn Proteau

Gerry Grimstone

On 6 March 2006, David Newlands announced he would step down from the Board and his role as Chairman of the Audit Committee. Kent Atkinson, the former Finance Director of Lloyds TSB, was appointed a director on 26 January 2005 and assumed the Chair of the Audit Committee on 6 March 2006. The Board believes that the new Chairman of the Audit Committee has recent and relevant financial experience. Gerry Grimstone, was appointed a director on 22 July 2003 and was appointed to the Audit Committee on 14 March 2006.

Role of the Audit Committee

The Audit Committee's remit is to consider any matter relating to the financial affairs of the Group, its internal and external audit arrangements and its internal control and compliance arrangements, which it determines to be desirable. A copy of the Committee's terms of reference is available from the Group's website at www.standardlife.com. The Audit Committee meets at least four times a year, although will meet more frequently when required, and during the current period met seven times. At least once a year, it meets with the external and internal auditors without management being present. Audit Committee meetings are also attended by the Group Chief Executive, Group Finance Director and other members of senior management as appropriate. The Audit Committee reports its activities and makes recommendations to the Board.

The Audit Committee reviews the financial statements of the Group, the Company's regulatory returns and any formal statements relating to the financial performance of the Group and Group companies. This incorporates consideration of significant accounting policies, estimates and judgements applied, changes made to these during the period, and the view of the external auditors. It considers the effectiveness of the Group's internal audit function and monitors the external auditors' independence and objectivity and the effectiveness of the external audit process. It receives regular updates from the Group Operational Risk Committee and Group Technical Risk Committee. The Audit Committee also reviews the arrangements by which staff of the Group may, in confidence, raise concerns about possible impropriety in matters of financial reporting and other matters under the Committee's remit. Any concerns are independently investigated and the Committee ensures that appropriate follow up action is taken. In undertaking its duties the Committee is authorised by the Board to obtain any information it requires from any director or employee of the Group. The Committee is also authorised to seek, at the expense of the Group, appropriate professional advice inside and outside the Group whenever it considers this necessary.

External audit

The Audit Committee approves statutory and regulatory audit fees annually. A policy is in place which aims to support and safeguard the objectivity and independence of the auditors, taking into consideration relevant professional and regulatory requirements, so that the services provided are not impaired by the provision of certain allowed non-audit services. The policy prohibits the auditors from performing certain types of non-audit services and ensures that where non-audit fees are significant, they are subject to the approval of the Audit Committee. The involvement of the auditors in performing non-audit work has increased during the period, primarily as a result of the implementation of International Financial Reporting Standards (IFRS) and preparations for the proposed demutualisation.

The Committee reviews annually a report provided by the external auditors confirming their independence and objectivity within the context of regulatory requirements and professional standards. The Audit Committee, having reviewed the service provided by the external auditors, considers PricewaterhouseCoopers LLP to be independent.

Report of the Audit Committee

The Audit Committee assesses the qualifications, expertise and resources of the external auditors in order to assess their effectiveness. It considers the scope and planning of the external audit of the Group, reviewing the findings with the external auditors. It also approves the terms of engagement and remuneration to be paid to the external auditors for audit services and reviews and agrees the engagement letter issued by the external auditors at the start of each audit.

The Audit Committee has responsibility for making a recommendation to the Board on the appointment, reappointment and removal of the external auditors. The external audit was the subject of a tender process in 2003, following which the present auditors were re-appointed.

Internal audit

The Audit Committee is required to assist the Board to fulfil its responsibilities relating to the effectiveness of the internal audit function. To fulfil these duties the committee reviews the internal audit programme and ensures that the internal audit function is adequately resourced, considers the scope and planning of the internal audit of the Group and reviews any findings with the internal auditors.

Kent Atkinson, Chairman, Audit Committee
Edinburgh, 28 March 2006