

LETTER FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

Dear Shareholder

I am pleased to present the report of the Audit Committee which covers the year to 31 December 2012.

The Committee's primary responsibility is to review the financial information provided to shareholders on behalf of the Board, to review the Group's internal financial controls and to oversee the Company's relationship with the external auditor. In previous years, the Committee was also responsible for reviewing the Company's system of internal (non-financial) controls and risk management but, with the formation of the Risk Committee, this duty has been passed to that Committee.

The main agenda item at the four meetings of the Committee is to review the regular financial reports made to shareholders. Details of the further work carried out by the Committee are given in the report that follows. The Group's Finance Director is invited to all the meetings although time is allocated for the Committee to meet the auditor with no executive present. In addition, as Chairman of the Committee, I have separate meetings with the audit partner. Members of the Committee also meet with the external valuers twice a year to discuss the valuation of the Group's portfolio, which is the key judgement required in determining the accuracy of the financial statements.

Following its review of the UK Corporate Governance Code in 2012 the Financial Reporting Council (FRC) issued updated guidance for audit committees in respect of the new requirements. Whilst these requirements are not mandatory for the Company until next year, the report of the Audit Committee that follows has been expanded to include more detail on the specific matters raised by the FRC.

Stephen G. Young
Chairman of the Audit Committee
28 February 2013