

THE EQUITABLE LIFE ASSURANCE SOCIETY

AUDIT AND RISK COMMITTEE – TERMS OF REFERENCE

1. Objectives

The objectives of the Committee are to assist the Board in ensuring that:

1.1 With regard to audit matters:

- (a) the accounting systems provide accurate and up to date information on the financial position of the Society , and that the published Annual Report and Accounts and Interim Review represent a true and fair reflection of this position and that regulatory information is on a properly prepared basis.
- (b) appropriate accounting policies and systems of internal control are in place for the Society , taking account of those internal controls and other activities carried out by third parties in relation to their provision of services to the Society .
- (c) the Society meets, in all material respects, the provisions relating to Principles C1, C2 and C3 of The Combined Code on Corporate Governance appended to the Listing Rules of the Financial Services Authority and the Guidance on Audit Committees , except where the Board does not consider that the guidance is appropriate or relevant to the Society (as shown in Appendix I to these Terms of Reference).
- (d) the Society complies with the Financial Services and Markets Act 2000 and Money Laundering Regulations.

1.2 With regard to risk matters:

- 1. The risk appetite is appropriate for the Society's needs.
- 2. Key risks are identified and managed.

2. Membership

- (a) The Committee shall be appointed by the Board from amongst the independent non-executive Directors of the Society and shall consist of not less than 3 members. In considering membership of the Committee, the Board will satisfy itself that the Audit and Risk Committee as a whole has the requisite experience and skills to fulfil its duties.
- (b) The Chairman of the Committee shall be appointed by the Board.
- (c) The quorum required for meetings of the Committee shall be attendance by two members of the Committee. The Committee, at each of its meetings, should consider whether those attending, taken as a whole, have the requisite experience and skills for the business under consideration.

3. Attendance at meetings

- (a) In addition to members of the Committee, the Chairman may request that others attend any or all meetings of the Committee, including:
- (i) Officers of the Society, including:
 - Chief Executive Officer
 - Finance Director
 - With-Profits Actuary
 - Head of Actuarial Function
 - Chief Operating Officer
 - Risk & Compliance Director / Chief Risk Officer
 - (ii) A Partner of the firm responsible for the external audit of the Society
 - (iii) The Head of Internal Audit or, where this function is outsourced, a partner of the firm undertaking internal audit services for the Society
 - (iv) Notwithstanding the primary role of the Chief Executive to monitor the activities of the Society, where considered appropriate, senior representatives of key third party service suppliers to the Society, including their Internal Audit, Regulatory Risk and relevant risk management functions
- (b) Subject to giving prior notification to the Chairman of the Board and to the Chairman of the Committee and with the limitation of the two immediately following paragraphs, other Board members shall also have the right of attendance. *(This is not consistent with the Guidance on Audit Committees (2.7) but is appropriate for the Society's circumstances.)*
- (c) At least once a year the Committee shall meet with the external auditors without executive Directors or other executives present, to discuss any unresolved issues or concerns. Where appropriate and unless there are justifiable reasons for not doing so, the substance of any such matters discussed shall be conveyed to the Chief Executive.
- (d) At least once a year the Committee shall meet with the Head of Internal Audit or, where this function is outsourced, a partner of the firm undertaking internal audit services for the Society without executive Directors or other executives present.
- (e) At least once a year the Committee shall meet with the Risk and Compliance Director without executive Directors or other executives present.
- (f) The Company Secretary, or a suitable delegate, shall be the Secretary of the Committee.

4. Frequency of meetings

- (a) Meetings shall be held not less than three times a year, or more frequently as circumstances require.
- (b) One meeting shall be scheduled prior to the approval of the Annual Report and Accounts. The same or another meeting shall be scheduled prior to the approval of the annual regulatory returns and Individual Capital Assessment submitted to the FSA.
- (c) The external auditors may request a meeting with the Committee or the Chairman if they consider that one is necessary.

5. Authority

The Committee is authorised by the Board:

- (a) to investigate any activity within its terms of reference;
- (b) to seek any information it requires from any employee related to any matter within the Committee's terms of reference, and all employees are directed to co-operate with any request made by the Committee;
- (c) to obtain, at the Society's expense, external legal or other professional advice on any matter falling within its terms of reference;
- (d) to invite third parties with relevant experience and expertise to attend meetings of the Committee, if it considers this necessary to properly discharge its duties.

6. Duties

AUDIT MATTERS (A)

A6.1 Financial Reporting

To comply with the Guidance on Audit Committees (4.1 to 4.4) on financial reporting and other aspects specific to the Society, as follows

- (a) to review the significant financial reporting issues and judgements made in connection with the preparation of the financial statements, interim reports and related formal statements;
- (b) to consider significant accounting policies, any changes to them and any significant estimates and judgements;
- (c) to consider whether the company has adopted appropriate accounting policies and, where necessary, made appropriate estimates and judgements;
- (d) to review the clarity and completeness of disclosures in the financial statements and consider whether the disclosures made are set properly in context.
- (e) to review any statements containing financial information, including summary financial statements, significant financial returns to regulators and release of price sensitive information. This will include returns to be submitted to meet the requirements contained in the FSA's Prudential Sourcebook, Supervision Manual

and other rules and guidance, and more generally to comply with the Insurance Companies Act (1982) and the Financial Services and Markets Act 2000.

A6.2 Internal controls and risk management systems

To comply with the Guidance on Audit Committees (4.5 to 4.7) on internal controls and other aspects specific to the Society, as follows

- (a) to review the Society's internal financial controls and the Society's internal control systems. This will include consideration of the following
 - the overall culture and attitude towards control established within the Society and relevant aspects of third party service suppliers;
 - the timeliness of any corrective action being taken by the Executive to address any shortcomings in internal control;
 - the policies and processes necessary for the Society to comply with their relevant regulatory and legal requirements, including taxation; and
 - where directed by the Board, other matters such as the Society's code of corporate conduct/business ethics
- (b) to review the Society's internal control and assurance framework and to provide a report to the Board on which it can base its statement in the Report and Accounts on effectiveness of the system of internal control.
- (c) In relation to the relevant 'Assurance' functions operated by the Society or within the Society's service suppliers (typically including Internal Audit,):
 - At least annually, to review reports prepared by the Executive covering, inter alia, their terms of reference, scope of work, authority and resources (insofar as they relate to the activities of the Society);
 - At least annually, to review reports prepared by the Executive on the relevant assurance work carried out in relation to the activities of the Society , together with the findings from that work.
- (d) To review the co-ordination of work between the external auditors and the other providers of assurance to the Society .
- (f) To ensure that a statement is made in the annual report and accounts to confirm that necessary action has been or is being taken to remedy any significant failings or weaknesses identified from the review of the effectiveness of the internal control system.

A6.3 Whistleblowing

To comply with the Guidance on Audit Committees (4.9) on whistleblowing, in particular to review arrangements by which staff may, in confidence, raise concerns about possible improprieties.

A6.4 The internal audit process

To comply with the Guidance on Audit Committees (4.10 to 4.16) on the internal audit process, in particular

- (a) to monitor and review the effectiveness of the company's internal audit function;
- (b) to review and approve the internal audit function's remit;
- (c) to ensure that the function has the necessary resources and access to information and is equipped to perform in accordance with appropriate professional standards;
- (d) to approve the appointment or termination of appointment of the head of internal audit.

A6.5 The external audit process

To comply with the Guidance on Audit Committees (4.17 to 4.44) on the external audit process, in particular

- (a) to have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors;
- (b) to assess annually the qualification, expertise and resources, and independence of the external auditors and the effectiveness of the audit process;
- (c) to consider whether there might be any benefit in using audit firms from more than one audit network
- (d) to approve the terms of engagement and the remuneration to be paid to the external auditor;
- (e) to review and agree the engagement letter issued by the external auditor at the start of each audit;
- (f) to satisfy itself that the level of fee payable in respect of the audit service is appropriate;
- (g) to have procedures to ensure the independence and objectivity of the external auditor annually;
- (h) to agree with the board the company's policy for the employment of former employees of the external auditor and monitor application of the policy;
- (i) to develop and recommend to the board the company's policy in relation to the provision of non-audit services by the auditor and to keep the policy under review;
- (j) to ensure, at the start of each annual audit cycle, that appropriate plans are in place for the audit;
- (k) to review, with the external auditors, the findings of their work;
- (l) to review the audit representation letters before signature by management;
- (m) to review the management letter and to monitor management's responsiveness to the external auditor's findings and recommendations;

- (n) to assess, at the end of the annual audit cycle, the effectiveness of the audit process.
- (o) To consider the need to include the risk of withdrawal of the auditor from the market in risk evaluation and planning.

RISK MATTERS (R)

Review

- (a) the development, implementation and maintenance of the Society's overall risk management framework and its risk appetite, strategy, principles and policies, to ensure they are in line with emerging regulatory, corporate governance and industry best practice;
- (b) the Society's risk exposures and adherence to the Society's risk policies and standards and to consider any material amendments to them; and
- (c) the work of the Executive Risk Committee.

R6.1 Financial Reporting

- (a) To review the Society's Individual Capital Assessment, including reporting to the FSA.
- (b) To consider any changes to the approach and methodology used in preparing the Individual Capital Assessment

R6.2 Internal controls and risk management systems

To comply with the Guidance on Audit Committees (4.5 to 4.8) on risk management systems and other aspects specific to the Society, as follows

- (a) to review the Society's risk management systems. This will include consideration of the following
 - the nature and extent of the risks facing the Society;
 - the extent and categories of risk which the Board regards as acceptable for the Society to bear;
 - the likelihood of the risks concerned materialising;
 - the ability of the Society to reduce the incidence and impact on the business of risks that do materialise;
 - the business continuity plans, and related testing of their maintenance and operation, covering the Society;
 - the timeliness of any corrective action being taken by the Executive to manage risks;
- (b) To review the reports presented by the Executive and other providers of assurance within and to the Society where appropriate, to address whether the overall system of internal control of the Society is functioning effectively to manage risks in the manner that the Board has approved.
- (c) In relation to the relevant 'Assurance' functions operated by the Society or within the Society's service suppliers (typically including Compliance, Internal Audit and Business Risk Management):

- At least annually, to review reports prepared by the Executive covering, inter alia, their terms of reference, scope of work, authority and resources (insofar as they relate to the activities of the Society);
 - At least annually, to review reports prepared by the Executive on the relevant assurance work, including that undertaken by the Society's service providers, carried out in relation to the activities of the Society, together with the findings from that work.
- (d) Taking account of the risks to the Society and any other factors, consider the plans or proposals by the Executive to undertake or commission any supplementary audit or other assurance work.
- (e) Specifically in relation to the regulatory obligations of the Society, to review reports from the Executive addressing:
- the relationship with the FSA and other relevant regulatory bodies;
 - the Society's compliance with the Financial Services & Markets Act 2000 and related legislation;
 - the systems and controls established by the Executive for compliance with the regulatory requirements, as specified in the FSA Handbook;
 - the culture of compliance within the Society, and other relevant third party service suppliers; and
 - the Society's overall compliance position, having particular regard to the FSA's annual regulatory themes.
- (f) To review reports from the Executive addressing:
- the relationship with HMRC and any relevant overseas tax authorities
 - the Society's compliance with relevant tax law, rules and regulations in the UK and elsewhere

AUDIT AND RISK MATTERS (AR)

AR6.1 Financial Reporting

To comply with the Guidance on Audit Committees (4.1 to 4.4) on financial reporting and other aspects specific to the Society, as follows

- (a) to review related information presented with the financial statements, including the operating and financial review, and corporate governance statements relating to the audit and to risk management;

AR6.2 Internal controls and risk management systems

- (b) Based upon reports prepared by the Executive covering the above plans, activities and findings, to consider the cumulative assurance that can be derived on the operational effectiveness of matters related to risk and control.

AR6.3 Other duties

- (a) To review other disclosures or documents, as determined by the Board.

- (b) To review and update its terms of reference annually, requesting approval from the Board for all proposed changes.
- (c) To review the effectiveness of the Audit and Risk Committee annually.
- (d) To review the training needs of the Committee and its members to ensure the Committee maintains the requisite skills and experience and to instruct the Executive to implement, or to engage other parties to provide, training for the Committee to meet these needs.
- (e) To review corporate governance statements.

7. Secretarial and reporting procedures

The Secretary and Chairman of the Committee shall prepare an agenda for each meeting, to be circulated to members prior to the meeting. Where appropriate, any other papers due to be considered at the Committee meeting shall be circulated with the agenda.

The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board. The Committee shall be responsible for agreeing the accuracy and completeness of those minutes.

Appendix I

Guidance on Audit Committees

(previously known as the Smith Guidance)

The objectives of the Audit and Risk Committee include ensuring that the Society meets the Guidance on Audit Committees except where the Board does not consider that the guidance is appropriate or relevant to the Society.

The Board does not consider the following sections to be appropriate or relevant to the Society:

- (a) Section 2.3 – to the extent that the Board considers that the Audit and Risk Committee as a whole should be considered as having the requisite skills and experience.
- (b) Section 2.7 – all Directors have right of attendance at Audit and Risk Committee meetings not just members of the Audit and Risk Committee

In addition

- (a) In section 1.4 “shareholders” is to read “members and other stakeholders”
- (b) In section 2.2 “shareholders” is to read “members”
- (c) In section 3.5 “shareholders” is to read “members”
- (d) In section 4.23 “shareholders” is to read “members”
- (e) In section 4.36 “shareholders” is to read “members”
- (f) In section 4.37 “shareholders” is to read “members”
- (g) In section 5 “shareholders” is to read “members”