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**TERMS OF REFERENCE OF THE  
AUDIT COMMITTEE  
OF  
PHOENIX GROUP HOLDINGS**

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Adopted by the Board on 27 August 2009

## PHOENIX GROUP HOLDINGS

(the "Company")

### TERMS OF REFERENCE OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

(the "Committee")

#### 1. CONSTITUTION

The Committee has been established by resolution of the board of directors of the Company (the "**Board**") and is to be known as the Audit Committee. Its terms of reference replace the terms of reference of any pre-existing audit committee.

#### 2. ROLE

The role of the Committee is to monitor the overall integrity of the financial reporting by the Company and its subsidiaries (the "**Group**"), to review the Group's internal control and risk management systems, to monitor the overall effectiveness of the Group's internal audit function and to oversee the relationship with the Group's external auditors. The duties of the Committee are more fully described in paragraph 9.

#### 3. MEMBERSHIP

3.1 The Committee shall comprise not less than three members, all of whom are appointed by the Board from amongst the non-executive directors of the Company with one member being nominated by the Group's financing banks under the terms of their lending arrangements. The Committee Chairman shall be appointed by the Board. In the absence of the Committee Chairman, the members attending shall elect one of them to be chairman for that meeting. The quorum for meetings of the Committee shall be two.

3.2 Appointments to the Committee shall be for a period of up to three years which may be extended by two further three-year periods.

3.3 At least one member of the Committee shall have been determined by the Board to have recent and relevant financial experience.

3.4 The Chairman of the Board, executive directors and other members of management of the Company shall not be members of the Committee.

3.5 No person shall be permitted to attend Committee meetings unless he or she is:

- (a) a member or secretary of the Committee;
- (b) the Group Company Secretary;
- (c) invited by the Committee Chairman to attend the meeting in question (including but not limited to any expert person(s), representative(s) of the external auditors and/or the Group Finance Director (the "**Finance Director**").

3.6 Appointments to the Committee shall be made by the Board on the recommendation of the Company's nomination committee.

3.7 Members of the Committee shall be named in the annual report and accounts of the Company.

#### **4. SECRETARY**

The Group Company Secretary or his or her nominee shall act as the secretary of the Committee.

#### **5. MEETINGS**

5.1 The Committee shall meet at least four times a year at appropriate times in the reporting cycle or more frequently as circumstances require. At least once a year, without the presence of executive management, the Committee shall meet separately with each of the external auditors and the Finance Director to discuss matters relating to its remit and any issues arising from the audit. In addition, the Finance Director shall be given the right of direct access to the Committee Chairman.

5.2 Meetings of the Committee shall be conducted in accordance with the provisions of the Company's articles of association (the “**Articles**”) governing the proceedings of directors.

5.3 In accordance with the Articles, a majority of members attending each meeting, of which one shall be the Committee Chairman, must be physically situated outside the UK for the duration of the meeting.

#### **6. NOTICE OF MEETINGS**

6.1 Meetings of the Committee shall be summoned by the secretary of the Committee at the request of any of its members or at the request of the Company's external or internal auditors if they consider it necessary.

6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of the items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than two working days before the date of the meeting.

6.3 Subject to the terms of the relationship agreement dated 27 June 2009 between the Company and the Lenders (as defined therein), no person other than permitted attendees and members of the Company Secretariat shall be entitled to receive any papers relating to the Committee unless expressly authorised in writing by the Committee Chairman.

6.4 Notwithstanding paragraph 6.3 above, the Board may request copies of the minutes of any meeting of this Committee (provided that no conflict of interest with the business of the meeting exists).

#### **7. REPORTING RESPONSIBILITIES**

7.1 The secretary shall minute the proceedings and the resolutions of all Committee meetings, including the names of those present and in attendance. The secretary shall ascertain, at the beginning of each meeting, the existence of any conflict of interest and minute it accordingly. Minutes of Committee meetings shall be circulated promptly to all members of the Committee.

7.2 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

7.3 The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report.

7.4 The Committee Chairman shall be invited to attend the annual general meeting of the Company and shall be prepared to respond to any shareholder questions on the Committee's activities raised at that meeting.

7.5 The Committee shall ensure that any reporting complies with all applicable laws and regulations and with the rules and regulations of any market on which the Company's securities are listed from time to time (see Appendix 1 for a summary of the reporting obligations set out in the Dutch Financial Supervision Act).

## **8. AUTHORITY**

8.1 The Committee is authorised by the Board to:

- (a) investigate and undertake any activity within its terms of reference;
- (b) seek any information that it properly requires from any employee of any member of the Group in order to perform its duties (and all employees are directed by the Board to co-operate with any request made by the Committee); and
- (c) call any employee to be questioned at a meeting of the Committee as and when required.

8.2 If the Committee considers it necessary so to do, it is authorised to obtain appropriate external advice to assist it in the performance of its duties and to secure the services of outsiders with relevant experience and expertise and to invite those persons to attend meetings of the Committee. The cost of obtaining any advice or services shall be paid by the Company within the limits authorised by the Board.

## **9. DUTIES**

### *External Audit*

9.1 The duties of the Committee shall be to:

- (a) consider the appointment, resignation or dismissal of the external auditor;
- (b) investigate the issues leading to any resignation of an auditor and decide whether action is required;
- (c) discuss with the external auditor the nature and scope of the audit (including any significant ventures, investments or operations which are not subject to audit) and be satisfied with the effectiveness of the audit processes, including the degree of the interaction with management and, in particular, internal audit, risk management and compliance functions;

- (d) make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, removal and reselection of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- (e) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, satisfying itself that there are no relationships (such as family, employment, investment, finance or business) between the external auditor and the Company which could prejudice the auditor's independence and objectivity, taking into consideration relevant professional and regulatory requirements;
- (f) develop and implement the Company's policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external auditor;
- (g) review and consider the results of the external audit, its cost effectiveness and the audit fee;
- (h) assess annually the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own quality procedures;
- (i) seek to ensure co-ordination with the activities of the internal audit function;
- (j) meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit;
- (k) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- (l) consider communications from the external auditor on statutory and regulatory audit planning and findings and on any material weaknesses in accounting and internal control systems that come to the external auditor's attention;
- (m) review and discuss with management and the auditor the preliminary results, interim information and annual financial statements before submission to the Board, focusing in particular on:
  - (i) the quality and acceptability of the accounting policies and practices and financial reporting disclosures, and any changes required to be made thereto;
  - (ii) areas involving significant judgement, estimation or uncertainty;
  - (iii) the detecting of material misstatements by the auditor that individually or in aggregate have not been corrected, and management's explanations as to why they have not been adjusted;
  - (iv) the basis for the going-concern assumption; and
  - (v) their compliance with financial reporting standards and relevant financial and governance reporting requirements;

- (n) discuss any difficulties, reservations or other matters arising from the external auditor's audits (in the absence of management where necessary), including:
  - (i) any major issues that arise during the course of the audit;
  - (ii) key accounting and audit judgements;
  - (iii) levels of error identified during the audit; and
  - (iv) obtaining explanations from managements and the external auditors, if certain errors remain unadjusted;
- (o) review, prior to its consideration by the Board, the external auditor's report to the directors, and management's response;
- (p) review the audit representation letters before consideration by the Board, giving particular consideration to matters that relate to non-standard issues; and
- (q) review and monitor the content of the external auditor's management letter, in order to assess whether it is based on a good understanding of the business and establish whether recommendations have been addressed.

#### *Internal Audit*

9.2 The duties of the Committee shall be to:

- (a) consider and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure that the function has adequate standing and is free from management interference or other restrictions;
- (b) review and concur in the appointment, replacement or dismissal of the Head of Internal Audit function;
- (c) review the Company's internal financial controls, the Company's internal control and risk management systems and the Company's annual statement on internal control systems, and in particular, where requested by the Board, review:
  - (i) the policies and overall process for identifying and assessing business risks and managing their impact on the Company;
  - (ii) regular assurance reports from management, finance, the external auditor and others on matters related to risk and control; and
  - (iii) the timeliness and effectiveness of corrective action taken by management;
- (d) consider the major findings of any relevant internal investigations into control weaknesses, fraud or misconduct, and management's response (in the absence of management, where necessary); and
- (e) meet the Head of Internal Audit at least once a year, without management being present, to discuss his or her remit and any issues arising from the internal audits

carried out. In addition, the head of internal audit shall be given the right of direct access to the Chairman of the Board and to the Committee.

### *Financial Reporting*

9.3 The duties of the Committee shall be to:

- (a) monitor and review the effectiveness of the Company's finance function;
- (b) approve the appointment and removal of the Finance Director;
- (c) monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results announcements and any other formal announcement relating to its financial performance;
- (d) review significant financial reporting issues and any judgements which they contain;
- (e) review summary financial statements, significant financial returns to regulators and tax authorities and any financial information contained in other material documents (such as announcements likely to have a significant effect on the price of the Company's securities), provided that such monitoring and review is not inconsistent with any requirement for prompt reporting under the rules and regulations of any market on which the Company's securities are listed from time to time;
- (f) review and challenge where necessary:
  - (i) the consistency of, and any changes to, accounting policies, both on a year on year basis and across the Group;
  - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (iii) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - (iv) the clarity of disclosures and the context in which statements are made;
  - (v) compliance with any stock exchange and other reporting requirements applicable to any member of the Group, accounting standards and other legal requirements; and
  - (vi) all material information presented with the financial statements, such as any operating and financial review and any corporate governance statement (insofar as it relates to the audit and risk management);
- (g) be satisfied that there are processes in place to produce externally communicated financial information that is accurate and reliable and compliant with all relevant regulations and legislation;
- (h) review the annual financial statements of the Group's pension funds where not reviewed by the Board as a whole;

- (i) monitor systematically and obtain assurance that the executive limitations relating to financial matters (which require certain expenditure and commitments to be approved by the Board) are being observed; and
- (j) review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The objective shall be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

*Internal Control, Risk Management and Compliance*

9.4 The duties of the Committee shall be to:

- (a) consider other topics, as defined by the Board, such as the Group's policies for preventing or detecting fraud, its code of corporate conduct/business ethics;
- (b) keep under review the Group's strategy with regard to risk and the effectiveness of the Group's internal financial reporting, internal controls and risk management systems;
- (c) be satisfied that there is an effective business and risk management framework in place, including, but not limited to:
  - (i) management of operational events that could prevent the business from achieving its objectives or realising opportunities;
  - (ii) compliance with legal and regulatory obligations, including with-profit governance for the Life Companies; and
  - (iii) accuracy of financial records and reporting;
- (d) be satisfied that the business is effectively monitoring and acting upon its business and financial risks (including compliance and internal controls) to ensure:
  - (i) the effective and efficient operation of all significant business and financial processes;
  - (ii) that current and emerging key risks are identified and effectively managed; and
  - (iii) that significant breaches of legal compliance and internal control matters are being reported and acted on;
- (e) be satisfied with the management of key operational and financial risks facing the business, including the effectiveness of internal controls, and monitor the implementation of key recommendations and management action plans;
- (f) review any findings and recommendations of the external auditors, internal auditors and/or other relevant parties in relation to internal controls and risk management, and monitor progress in implementing any such findings and recommendations;
- (g) review reports of significant breaches of the risk management system and all frauds (both potential and actual), including the evaluation of the effectiveness of the response in investigating any loss and preventing future occurrences;

- (h) review the Group's insurance arrangements;
- (i) implement internal procedures to uphold the Group's corporate governance arrangements and to give due consideration to all applicable laws and regulations, the provisions of the Combined Code and the rules and regulations of any market on which the Company's securities are listed from time to time;
- (j) be satisfied with the terms of reference of, and receive and review regular reports on the activities of, the audit committees of the boards of Phoenix Life Holdings Limited, the Life Companies, the Asset Management Companies and Opal Re;
- (k) receive from Opal Re and the Life Companies and review:
  - (i) regular updates on the investment criteria for assets held in the collateral accounts pursuant to the Opal Re reassurances; and
  - (ii) copies of valuation reports and regular updates in respect of the assets held in such collateral accounts, the liabilities of the Life Companies reassured by Opal Re and the reserves held against such liabilities;
- (l) review and be satisfied with the Group's investment policies;
- (m) delegate any of its powers to one or more of its members or the secretary of the Committee;
- (n) consider any other matters as may be requested by the Board; and
- (o) review other disclosures or documents as determined by the Board.

## **10. OTHER MATTERS**

### **10.1 The Committee shall:**

- (a) have access to the services of the Company Secretariat function on all Committee matters, including assisting the Committee Chairman in planning the Committee's work, drawing up meeting agendas, maintenance of minutes, drafting of material about its activities for the annual report, collection and distribution of information and provision of any necessary practical support;
- (b) give due consideration to laws and regulations, the provisions of the Combined Code and the rules and regulations of any market on which the Company's securities are listed from time to time;
- (c) be responsible for co-ordination of the internal and external auditors;
- (d) oversee any investigation of activities which are within its terms of reference and act as a court of the last resort; and
- (e) at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## **APPENDIX 1 – Financial Reporting Obligations (Dutch Financial Supervision Act)**

The Dutch Financial Supervision Act requires the Board to produce:

- an annual financial report within four months after the Company's financial year end (and which must be generally available for at least 5 years);
- a half-yearly financial report within two months after the end of the first six months of the financial year (and which must generally available for at least 5 years); and
- an interim management statement during the first six month period of the financial year and another statement by its management during the second six-month period of the financial year. Such statement must be made in a period between ten weeks after the beginning and six weeks before the end of, the relevant six-month period.

At least once a year the Company is required to make generally available an information document, which must comprise or refer to the following:

- information which the Company has made generally available in the preceding 12 months as a result of the periodic disclosure requirements as set out above; and
- any other information which the Company has made generally available in the preceding twelve months as a result of the supervision on securities transactions of any state.

The annual report must include:

- the audited annual accounts;
- the annual report; and
- a so-called responsibility statement prepared by the persons responsible within the Company (whose names and functions must be clearly indicated) to the effect that (to the best of their knowledge):
  - a) the annual accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole; and
  - b) the annual report gives a true and fair view of the state of affairs on the balance sheet date, the course of events during the financial year of the Company and of the affiliated undertakings of which the financial data have been included in the Company's financial statements, and that the annual report contains a description of the principal risks that the Company faces.