

**BLUE CROSS AND BLUE SHIELD OF ARIZONA, INC.  
BOARD OF DIRECTORS  
AUDIT AND COMPLIANCE COMMITTEE CHARTER**

**Purpose of Committee**

The Audit and Compliance Committee (Committee) is a Committee of the Board of Directors (Board) of Blue Cross and Blue Shield of Arizona, Inc. (Company). Its primary purpose is to assist Board oversight of (1) the integrity of the entity's financial statements, (2) the Company's compliance with legal and regulatory requirements, (3) the independent auditor's qualifications and independence, and (4) the performance of the independent auditors and the Company's internal audit function.

**Committee Membership**

1. General

The Committee shall consist of at least three (3) but no more than five (5) independent members of the Board, as defined by the Board's Corporate Governance Guidelines (Guidelines).

2. Financial Expert

The Board shall annually designate at least one member of the Committee to be an "Audit and Compliance Committee financial expert", defined as possessing the following attributes:

- a. An understanding of generally accepted accounting principles or statutory accounting principles and financial statements;
- b. The ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- c. Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the entity's financial statements, or experience actively supervising one or more persons engaged in such activities;
- d. An understanding of internal controls and procedures for financial reporting; and
- e. An understanding of Audit and Compliance Committee functions.

A person may acquire the attributes listed above through the following methods:

- a. Education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;
- b. Experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;
- c. Experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or
- d. Other relevant experience.

*Note:* The designation of a person as an Audit and Compliance Committee financial expert does not impose on such person any duties or obligations or liability greater than the duties obligations and liability imposed on any other member of the Audit and Compliance Committee or Board. Additionally, the designation of a person as an Audit and Compliance Committee financial expert does not affect the duties, obligations or liability of any other member. The Chairperson of the Committee shall be designated the Financial Expert unless otherwise indicated by the Board.

### 3. Service on Other Audit Committees

No Committee member may simultaneously serve on the Audit Committee of more than three public companies.

### **Committee Structure and Operations**

The Chairman of the Audit and Compliance Committee and its members shall be nominated by the Nominating and Governance Committee and elected by the Board for one-year terms. The Committee will meet at least quarterly. Additional meetings may be held as deemed necessary by the Committee, Chairman of the Board, Chairman of the Committee, Vice President of Internal Audit, Compliance Officer or Chief Executive Officer (CEO).

The Committee shall meet without staff, at least annually, with the internal auditor, the independent auditor and the Compliance Officer in separate meetings.

## **Audit and Compliance Committee Duties and Responsibilities**

### General

1. The Committee shall have the sole authority to appoint or replace the independent auditor. The Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Audit and Compliance Committee.
2. The Committee shall preapprove all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditor.
3. The following non-audit services may not be obtained from the Company's independent auditor:
  - a. Bookkeeping or other services related to the accounting records or financial statement of the Company;
  - b. Financial information systems design and implementation;
  - c. Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
  - d. Actuarially-oriented advisory services involving the determination of amounts recorded in the financial statements, except for issuance of an independent opinion on the Company's reserves;
  - e. Internal audit outsourcing services;
  - f. Management functions or human resources;
  - g. Broker or dealer, investment adviser, or investment banking services;
  - h. Legal services and expert services unrelated to the audit; and
  - i. Any other service that the Committee, through review of law and regulation, determines is impermissible.

### **Oversight of the Company's Relationship With the Independent Auditor**

The Committee shall:

1. Review and evaluate the lead partner of the independent auditor team.
2. Discuss with the independent auditor at least annually:

- a. The independent auditor's internal quality-control procedures;
- b. Any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm;
- c. Any steps taken to deal with any such issues; and
- d. All relationships between the independent auditor and the Company. In addition to discussing the foregoing matters with the independent auditor, the Committee shall take other appropriate actions as it may deem necessary to satisfy itself of the independent auditor's independence.

The Committee shall present its conclusions with respect to the independent auditor to the Board.

3. Ensure the rotation of the audit partners at least every five (5) years.
4. Recommend to the Board policies for the Company's hiring of employees or former employees of the independent auditor who participated in any capacity in the audit of the Company.
5. Discuss with the independent auditor any issues on which the Company's audit team consulted the independent auditor's national accounting office on auditing or accounting issues presented by the engagement and, if the Committee deems it necessary or appropriate, discuss such issues directly with the national accounting office.
6. Conduct pre- and post-audit meetings with the Independent Auditors to set parameters for the audit and review the findings.

### **Oversight of the Company's Internal Audit Function**

The Committee shall:

1. Review and concur in the appointment, replacement or dismissal of the Vice President of Internal Audit.
2. Approve compensation changes for the Vice President of Internal Audit recommended by the Human Resources and Compensation Committee. This duty may be performed by the Audit and Compliance Committee Chairman as specified in the Human Resources and Compensation Committee Charter.
3. Review the significant reports to management prepared by the internal auditing department and management's responses.

4. Discuss with the independent auditor and the Vice President of Internal Audit the responsibilities, budget, and staffing and any recommended changes in the planned scope of the internal audit plan.
5. Review and approve Internal Audit's audit plan at least annually and approve all substantial revisions to the plan during the annual period.

## **Financial Statement and Disclosure Matters**

The Committee shall:

1. Review and discuss with management the following as related to the filing of the Company's Annual Statement to the Arizona Department of Insurance:
  - a. The annual audited financial statements contained in the Annual Statement; and
  - b. The "Management's Discussion and Analysis of Financial Condition and Results of Operations."
2. Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies.
3. Review and discuss with the independent auditors:
  - a. All critical accounting policies and practices to be used;
  - b. All alternative treatments of financial information within generally accepted or statutory accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
  - c. Other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
4. Discuss with management the Company's press releases relating to increases to reserves, surplus or income, if any, as well as financial information provided to rating agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).
5. Discuss with management and the independent auditor the effect on the Company's financial statements of regulatory and accounting initiatives.

6. Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.
7. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.
8. Review findings that are reportable to any governmental agencies by the Company's CEO or CFO or any executive about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.

### **Compliance Oversight Responsibilities**

The Committee shall:

1. Obtain from the independent auditor, the Vice President of Internal Audit and the Compliance Officer assurance that if they detect or become aware of any Company material weakness or condition reportable to government agencies, regardless of the dollar amount involved, the Committee is promptly and directly informed.
2. Review management's monitoring of the Company's compliance with the Company's Code of Conduct and Compliance Program.
3. Review and concur in the appointment, replacement or dismissal of the Company's Compliance Officer.
4. Approve compensation changes for the Company's Compliance Officer recommended by the Human Resources and Compensation Committee. This duty may be performed by the Audit and Compliance Committee Chairman as specified in the Human Resources and Compensation Committee Charter.
5. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any published reports that raise material issues regarding the Company's financial statements or accounting policies.
6. Discuss with the Company's General Counsel legal matters that may have a material impact on the financial statements or the Company's compliance policies.
7. Review this Audit and Compliance Committee Charter at least annually and, if appropriate, recommend changes to the Board of Directors.

## **Audit and Compliance Committee's Role – General**

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted or statutory accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Committee to conduct investigations, to certify to government agencies or to assure compliance with applicable state and federal laws and regulations and the Company's Code of Conduct and Compliance Program.

This Audit and Compliance Committee Charter is not intended to change or augment the obligations of the Company or its Directors or management under any federal or state laws, or to create new standards for determining whether Directors or management have fulfilled their duties, including fiduciary duties, under applicable state law.

## **Performance Evaluation**

The Committee shall produce and provide to the Board an annual performance evaluation of the Committee, which evaluation shall compare the performance of the Committee with the requirements of this Charter. The performance evaluation shall also recommend any improvements to the Committee's Charter deemed necessary or desirable by the Committee. The performance evaluation by the Committee shall be conducted in such manner, as the Committee deems appropriate.

## **Management Responsibilities and Obtaining Consultants**

It is management's responsibility to provide the Committee with the necessary resources to discharge the Committee's duties and responsibilities, as reflected in this Charter and as assigned to the Committee by the Board of Directors. It is the Committee's responsibility to hire and terminate consultants including, but not limited to, legal counsel needed to assist the Committee in the performance of its duties.