



## **Board of Directors Charter for Audit Committee**

### **Purpose**

The purpose of the Committee is to represent and assist the Board in fulfilling its oversight responsibility to the policyholders and others relating to the integrity of the Company's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the internal audit function, the annual independent audit of the Company's financial statements, the Company's compliance with legal and regulatory requirements, and its ethics programs as established by management and the Board. The Committee shall also oversee the independent auditors' qualifications and independence. The Committee will evaluate the performance of the Company's internal audit function (responsibilities, budget and staffing) and the Company's independent auditors. In so doing, it is the responsibility of the Committee to maintain free and open communication between the Committee, independent auditors, the internal auditors and management of the Company.

### **Committee Membership**

The members of the committee shall be appointed by the Board of Directors and shall number at least three Directors, all of whom shall be independent and meet such experience and expertise requirements as may be mandated by applicable insurance regulatory authorities. The Board of Directors shall also designate a Committee Chairperson.

### **Meetings**

The committee will meet at least 3 times in each calendar year, or as often as may be deemed necessary or appropriate in its judgment, at least quarterly each year, and at such times and places as the Committee shall determine. The majority of the members of the Committee shall constitute a quorum. The Committee will meet separately with the internal auditors, the independent auditors, and at least annually with outside counsel and senior management to discuss any matters that they wish to bring to the Committee's attention or that the Committee wishes to bring to their attention.

The Committee shall report to the Board with respect to its meetings, including any significant issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditors, or the performance of the internal audit function.

### **Powers/Responsibilities**

The primary responsibility of the Committee is to oversee the Company's financial controls and reporting processes on behalf of the Board and report the results of its activities to the Board. Management is responsible for preparing the Company's financial statements, and the

independent auditors are responsible for auditing those financial statements. The Committee in carrying out its responsibilities believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The Committee should take the appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behavior.

The following shall be the principal recurring processes of the Committee in carrying out its oversight responsibilities. The Committee may perform such other duties and responsibilities as are consistent with its purpose and as the Board or the committee deems appropriate.

- 1. Independent Auditors.** The Committee shall have a clear understanding with management and the independent auditors that the independent auditors are ultimately accountable to the Committee and the Board, as representatives of the Company's policyholders. The Committee shall have the sole authority and responsibility to hire (subject to policyholder ratification), evaluate and, where appropriate, replace the independent auditors and, in its capacity as a committee of the Board, shall be directly responsible for the appointment, compensation and general oversight of the work of the independent auditors. The Committee shall discuss the auditors' qualifications and independence from management and the Company, including whether the auditors' performance of permissible non-audit services is compatible with their independence. This process will include, at least annually, the Committee's review of the independent auditors' internal control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditors, 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 independent auditors, and any steps taken to deal with any such issues; and (to assess the auditors' independence) all relationships between the independent auditors and the Company.
- 2. Audit Services.** The Committee shall discuss with the internal auditors and the independent auditors the overall scope and plans for their respective audits including their respective responsibilities and the adequacy of staffing and compensation. The Committee shall approve in advance all audit engagement fees and the terms of all audit services to be provided by the independent auditors.
- 3. Permissible Non-audit Services.** The Committee shall establish policies and procedures for the engagement of the independent auditors to provide permissible non-audit services, which shall include pre-approval of any permissible non-audit services to be provided by the independent auditors. No non-audit services shall be provided by the independent auditors, except as approved in advance by the Committee.
- 4. Review of Annual Audited Financial Statements.** The Committee shall review with management and the independent auditors the financial statements included in the Company's annual filing with insurance regulatory authorities as well as any other financial statements of the Company, its subsidiaries and employee benefit plans, including (a) their judgment about the quality, not just acceptability, of the Company's accounting principles, including significant financial reporting issues and judgments made in connection with the preparation of the financial statements; (b) the clarity of the disclosures in the financial statements; and (c) the Company's disclosures of critical accounting policies.

The Committee will also review with management and the independent auditors (a) major issues regarding accounting principles and financial statement presentations, including significant changes in the selection or application of accounting principles; (b) major issues

regarding the adequacy of internal controls and steps taken in light of material deficiencies; and, (c) the effects of regulatory and accounting initiatives on the financial statements.

The Committee will discuss the results of the annual audit and any difficulties the independent auditors encountered in the course of their audit work, including any restrictions on the scope of the auditors' activities or on access to requested information, and any significant disagreements with management. The Committee will also discuss any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards.

5. **Risk Assessment and Risk Management.** The Committee will review and discuss with management, the internal auditors, and the independent auditors the Company's policies and procedures with respect to risk assessment and risk management.
6. **Internal Controls.** The Committee will discuss with management, the internal auditors, and the independent auditors the Company's internal controls (with particular emphasis on the scope and performance of the internal audit function), and review and discuss with the internal auditors the results of the internal audit program.
7. **Complaint Procedures.** The Committee shall establish procedures for handling complaints regarding accounting, internal accounting controls, and auditing matters, including procedures for confidential, anonymous submission of concerns by employees regarding accounting and auditing matters.
8. **Review of Legal and Regulatory Compliance.** The Committee shall periodically review with management, outside counsel and the independent auditors any correspondence with, or other action by, regulators or governmental agencies and any employee complaints or published reports that raise concerns regarding the Company's financial statements, accounting or auditing matters or compliance with the Company's Code of Conduct. The Committee shall also meet periodically, and may request to meet separately, with outside counsel to review material legal affairs of the Company and the Company's compliance with applicable law and regulatory standards.
9. **Director & Related Party Transactions.** The Committee shall review periodically, but no less frequently than annually, a summary of the Company's transactions with Directors and executive officers of the Company and with firms that employ Directors, as well as any other material related party transactions, for the purpose of recommending to the disinterested members of the Board of Directors that the transactions are fair, reasonable and within Company policy, and should be ratified and approved.
10. **Hiring of Auditor Personnel.** The Committee shall set hiring policies with regard to employees and former employees of the independent auditors.
11. **Charter.** The Committee shall periodically review and reassess the adequacy of this Charter and recommend any proposed changes to the Board for approval.
12. Annually, the committee will review each charter component and assess actions taken to comply with them.
13. **Investigative Authority.** In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company.

14. At least once per year, conduct an executive session without the CEO for all non-director members of management who routinely attend committee meetings.

#### **Outside Advisors**

The Committee shall have the authority to retain such outside counsel, accountants, experts and other advisors as it deems appropriate to assist the Committee in the performance of its functions. The Committee shall be provided with appropriate funding, as determined by the Committee, for payment of compensation to such outside counsel, accountants, experts and other advisors.

***Revised: November 2009***