

# **INSURANCE AUSTRALIA GROUP LIMITED**

## **AUDIT, RISK MANAGEMENT & COMPLIANCE COMMITTEE CHARTER**

### **1. PURPOSE**

The purpose of the Audit, Risk Management & Compliance Committee (“the Committee”) is to assist the Board in discharging its responsibilities in relation to ensuring

- The integrity of Insurance Australia Group Limited (“IAG”) and subsidiary external and internal financial reporting, including compliance with applicable laws, regulations and other requirements in relation to external financial reporting;
- That the directors and management are provided with high quality financial and non-financial information that can be relied upon by them to make informed judgements;
- That appropriate and effective systems of internal, accounting and financial controls are in place and maintained to safeguard IAG’s financial and physical resources;
- That sound risk management and compliance frameworks are in place to identify, assess and manage risks within the Group’s risk appetite determined by the Board; and
- That the independence of the Auditor, the Internal Auditor, the Chief Actuary and Group General Manager Risk and Governance is safeguarded.

### **2. STRUCTURE**

- a) The Committee was established by resolution of the IAG Board. The Committee is also empowered as the audit, risk management & compliance committee of other subsidiaries of IAG. References to ‘Company’, ‘Board’ or ‘Boards’ in this charter apply equally to each of those companies.
- b) The Committee will comprise a minimum of four members, who must be non-executive independent directors of IAG and have sufficient technical expertise so that overall the Committee comprises people with an appropriate understanding of the Company’s industry, financial, accounting and risk requirements.
- c) The IAG Board will appoint the Committee and its Chair. The Chair of IAG is not to be the Chair of the Committee.
- d) The Committee will have free and unfettered access to IAG executives and senior management. The Group Chief Financial Officer, and Group General Manager Risk and Governance, the Internal Auditor, the Chief Actuary and the Auditor will have free and unfettered access to the Committee.
- e) Committee members will be available to meet with APRA as required.

### **3. ROLE**

The role of the Committee includes the following:

- a) Assisting the directors to discharge their responsibility to exercise due care, diligence and skill in relation to the integrity of the Company’s financial reporting and each Company’s:
  - Reporting of half-year and full year financial information, as required;
  - Regulatory annual statutory accounts and declarations; and
  - Application of accounting and actuarial standards, policies and practices;
- b) Provide a formal forum for communication between the Boards and the Group’s senior financial, actuarial, internal audit, risk and compliance management;

- c) Assisting the Boards to discharge their responsibility to exercise due care, diligence and skill regarding the Companies:
  - Effective management of risks to which the Companies are exposed, and monitor that risk management and internal control systems are adequate and functioning effectively and to monitor that the Companies comply with the Group Risk Management Strategy (“Group RMS”) and Group Reinsurance Risk Management Strategy (“Group REMS”);
  - Effective operation and management of compliance systems and compliance with all legal and regulatory requirements, and recommend to the Boards appropriate systems and procedures to ensure compliance with the requirements of applicable laws, regulations, industry codes, listing authorities’ rules and organisational policies and standards; and
  - Business continuity management and support processes;
- d) Monitor communications between the Boards and the Auditor, Chief Actuary and the Internal Auditor;
- e) Monitoring the independence of the Internal Auditor, and Group General Manager Risk and Governance and the Chief Actuary;
- f) Review the Company’s and senior management relationships with the Auditor and the Global External Peer Review Actuary; and
- g) The Committee may consult independent experts where it considers such consultation necessary to carry out its duties.

#### 4. RESPONSIBILITIES

The Committee’s main responsibilities cover the following areas:

##### a) External Financial Reporting

- Review the appropriateness of the Company’s accounting policies and principles (as amended) and the methods of applying them, ensuring that they are in accordance with the stated financial reporting including where relevant, regulatory statutory reporting frameworks. Obtain reports from management and the Auditor regarding:
  - Whether the methods applied, the material estimates and judgements used are consistent with Australian Accounting Standards (including Australian Interpretations);
  - Any changes in significant accounting policies or their application during the reporting period;
  - The methods used to account for significant and/or unusual transactions or transactions in emerging areas for which there may be no specific accounting standard, including management’s reasoning in determining the appropriateness of those methods;
- Review and recommend the half year and annual financial reports;
- Review and provide oversight of audit reports issued by the Auditor on the Company’s financial reports, APRA prudential supervision engagements and other activities;
- Review the Actuary’s Insurance Liabilities Valuation Report (ILVR) and Quarterly Monitoring reports and recommend, where appropriate, the adoption by the Board of the outstanding claims liabilities and insurance liabilities set out in the ILVR;

- Review the Group Financial Condition Report and Global External Peer Review Actuary Report for Group insurers and reinsurers;
- Review processes for monitoring compliance with laws, regulations and other requirements relating to the external reporting by the Company of financial and regulatory statutory information;
- Review the Chief Executive Officer's and Group Chief Financial Officer's declarations provided for Australian reporting purposes;
- Assess information from the Auditor and the Internal Auditor that affects the quality of both external and internal financial reports;
- Receive reports from subsidiary company Audit, Risk Management & Compliance Committees regarding issues affecting external financial reporting;
- Review and approve regulatory annual APRA statutory accounts and declarations;

**b) Risk Management**

- Review and monitor the effectiveness of the Group RMS and Group REMS. Review updates of these documents and recommend their approval to the Board;
- Receive reports on the Group's Risk Management Framework as set out in the Group RMS and Group REMS to assess its effectiveness to identify, assess and monitor all material Group risks;
- Receive reports from management on the results of benchmarking of the Group's risk management systems, practices and procedures as articulated through the Group RMS and the Group REMS;
- Review and monitor the effectiveness of the key risk management governance frameworks including subsidiary audit, risk & compliance committees and the Group ALCo committee;
- Monitor the effectiveness of the risk function and its organisational structure such that it has:
  - the authority, standing and resources to effectively execute its mandate;
  - when necessary, the ability to directly report to the Committee;
  - the ability to directly engage senior executive management;
  - independence from risk-taking operations and freedom from any other conflicts of interest; and
  - responsibility for the development and maintenance of the Group's Risk Management Framework.
- Regularly receive and consider risk management reports prepared by the risk function and management; and
- Review and monitor the effectiveness of the Business Continuity Management Framework and its compliance with regulatory requirements.

**c) Compliance**

- Monitor that a properly resourced, documented and continuously updated compliance framework and structure exists throughout the Group and that appropriate compliance reporting and monitoring systems are in place;
- Monitor that the compliance system and reporting are consistent with the agreed compliance framework;

- Review periodically the effectiveness of the system for monitoring compliance with standards, applicable laws, regulations, listing authorities' listing rules, and internal policies;
- Review the management and the effectiveness of regulator relationships;
- Review the adequacy and appropriateness of the Group's financial and human resources devoted to the implementation, operation and maintenance of an effective compliance framework; and
- Monitor the standard of corporate conduct in areas such as arm's-length dealings, related party transactions and conflicts of interest.

**d) External Audit and the Auditor**

- Make recommendations to the IAG Board on the appointment, reappointment and remuneration of the Auditor;
- Review and assess total fees paid to the Auditor, in accordance with the agreed Audit Firm framework;
- Review the audit plan, discuss audit results with the Auditor, monitor and critique management's responsiveness to the Auditor's recommendations and consider the implications of the external audit findings for the control environment; and
- Oversee the Auditor's independence in accordance with the requirements of corporations and insurance laws, regulations and standards.

**e) Internal Audit**

- Review the effectiveness of the Group's internal control systems with management, the Chief Actuary, the Internal Auditor and the Auditor;
- Evaluate Group processes for assessing and continuously improving internal controls, particularly those related to areas of significant risk;
- Review and approve the Internal Audit Charter and review the adequacy of resources allocated to and the independence and effectiveness of the Internal Audit function;
- Assess the adequacy and approve internal audit plan, monitor progress against the plan and critique the appropriateness and timeliness of management's response to internal audit recommendations;
- The CEO will consult with the Committee's Chair prior to any change of personnel or restructuring of the Internal Audit role, including its reporting lines;

**f) Global External Peer Review (EPR) Actuary**

- Review the terms of the appointment, reappointment, remuneration and the effectiveness and independence of the EPR Actuary;

**g) Other responsibilities**

- Review the scope, cover and cost of the Group corporate insurance program;
- Assess the effectiveness of policies and procedures for Company employees to confidentially raise concerns in relation to accounting, internal control, compliance, audit and any other matter, including inappropriate behaviour.

## 5. MEETINGS

- a) The Committee will meet as often as required to undertake its role effectively, but not less than four times per calendar year.
- b) A quorum will be a number equal to:
  - i) Where the number of Committee members is an even number, half that number, plus one; and
  - ii) Where the number of Committee members is an odd number, half that number rounded up to the next whole number.
- c) Any issues requiring resolution arising at any meeting of the Committee will be decided by a majority of votes.
- d) The Committee will be responsible for the conduct of its proceedings and will ensure that its meetings are minuted and reported to the Board.
- e) The Company Secretary, or such other person as the Board of IAG may nominate, will act as Secretary to the Committee.
- f) The Chair will be required to call a meeting of the Committee if requested to do so by any Committee member, the Chief Executive Officer, the Group Chief Financial Officer, the Auditor, the Chief Actuary, and Group General Manager Risk and Governance or the Internal Auditor.
- g) At least annually if required, Committee members are to meet with the Internal Auditor, the Auditor, the and Group General Manager Risk and Governance, the Chief Actuary, the Group General Counsel and the Global External Peer Review Actuary without other management personnel being present;

**APPENDIX A TO INSURANCE AUSTRALIA GROUP LIMITED  
AUDIT, RISK MANAGEMENT & COMPLIANCE COMMITTEE CHARTER**

**STANDING ITEMS FOR ARMCC COMMITTEE MEETINGS**

	Feb	May	Aug	Oct	Nov
<b><u>Business Division CEO Risk Presentations</u></b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b><u>Financial Reporting</u></b>					
Draft half year and full year financial statements	<b>X</b>		<b>X</b>		
APRA statutory accounts and declarations				<b>X</b>	
CEO and CFO Declarations	<b>X</b>		<b>X</b>		
Statement to Board in relation to provision of non-audit services by the Auditor			<b>X</b>		
Financial Reporting matters	<b>X</b>	<b>X</b>	<b>X</b>		<b>X</b>
Review of year end processes		<b>X</b>			<b>X</b>
Fees paid to external auditors	<b>X</b>		<b>X</b>		
Liquidity, market & credit risks update	<b>X</b>	<b>X</b>	<b>X</b>		<b>X</b>
<b><u>Reinsurance</u></b>					
REMS Review					<b>X</b>
Corporate insurances Renewal		<b>X</b>			
<b><u>Internal Audit</u></b>					
Internal Audit Plan		<b>X</b>			
Review Internal Audit Charter		<b>X</b>			
Internal Audit report	<b>X</b>	<b>X</b>	<b>X</b>		<b>X</b>
GPS 220 Review of Adequacy of Group Risk Frameworks				<b>X</b>	
Meeting without management	<b>X</b>		<b>X</b>		
"Business Continuity Management GPS 221 Sign off"				<b>X</b>	
<b><u>Risk</u></b>					
Risk & Governance Report	<b>X</b>	<b>X</b>	<b>X</b>		<b>X</b>
Report on Directors' Questionnaire to Management Results	<b>X</b>		<b>X</b>		
Crisis management, Business continuity, Disaster Recovery Annual Plan		<b>X</b>			
Corporate Governance Framework Update		<b>X</b>			<b>X</b>
RMS Review		<b>X</b>			
Risk Management Declarations				<b>X</b>	
Meeting without management	<b>X</b>		<b>X</b>		
<b><u>Auditor</u></b>					
Audit plan, engagement and annual remuneration					<b>X</b>
Report to the ARMCC	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Written independence declaration	<b>X</b>		<b>X</b>		
Meeting without management	<b>X</b>		<b>X</b>		
Audit clearance letters for insurer subsidiaries			<b>X</b>		

## STANDING ITEMS FOR ARMCC COMMITTEE MEETINGS (cont'd)

	Feb	May	Aug	Oct	Nov
<b><u>Chief Actuary</u></b>					
Actuarial & Financial Risks Dashboard	X		X		X
Insurance Liabilities and Quarterly Monitoring Reports	X	X	X		X
Insurance Liabilities Valuation Report			X	X	
External peer review actuary reports			X	X	
Group Financial Condition Report				X	
Review of changes in actuarial policies		X			X
Meeting without management	X		X		
<b><u>External Peer Review Actuary</u></b>					
Report to Committee			X	X	
Meeting without management	X		X		
<b><u>Group General Counsel</u></b>					
Meeting without management	X		X		
Charter Review					
Committee to review Charter and fulfilment of Charter responsibilities	X				