

Terms of Reference GARCO

THE UNITED KINGDOM MUTUAL STEAM SHIP ASSURANCE ASSOCIATION LIMITED (“UKC”)

GROUP AUDIT & RISK COMMITTEE (“GARCO”)

These Terms of Reference of the UK Club Group Audit & Risk Committee are authorised by the Board of Directors of UK (C) (“the UKC Board”) and are subject to amendment by that Board. References to the Boards in this document are references to the Boards of UK (C), UK (Bermuda) and UK (London), (UKC, UKB and UKL being referred to as “the Club”).

1. Purpose

- 1.1 To provide a focus for the duties of the Boards as specified below and also to provide a clear channel of communication between internal and external auditors and the Boards.
- 1.2 To monitor the Club’s internal controls and risk management systems.
- 1.3 To provide the Boards with objective advice and assurance of the following:
 - 1.3.1 Satisfactory implementation of decisions taken by the Boards in respect of those matters within the remit of the Committee.
 - 1.3.2 Any other matters requested by the Boards from time to time, with the aim to minimise risk in a cost effective manner.

2. Relationship with the Boards

- 2.1 The Committee is a committee of the Boards but without executive powers except as specified below.
- 2.2 The Committee shall report to the Boards at such times and in such manner as the Boards may require.

3. Membership

- 3.1 The Committee shall be appointed by the Members’ Committee and shall consist of not less than three (3) Members who shall be either Directors of the UKC Board, the UKB Board, the UKL Board, the Members’ Committee, or suitably qualified persons independent of the Managers of the Club, their servants, agents and associated companies.
- 3.2 At least one Member of the Committee shall have extensive experience of audit, risk management and finance within the insurance industry (“the Internal Audit Representative”).

- 3.3 The UKC Board shall appoint one of the Members of the Committee to be Chairman and determine the period for which he shall hold office.
- 3.4 In the absence of the Committee Chairman or any appointed deputy, the remaining Members present shall elect one of their number to chair the meeting.

4. Meetings

- 4.1 The Committee shall meet formally whenever required, but a minimum of three (3) times a year.
- 4.2 Any Member of the Committee, the external auditors or the internal auditors may request a meeting.
- 4.3 Two (2) Members of the Committee shall constitute a quorum for the purposes of conducting the business of the Committee.
- 4.4 The external auditors and external consultants used to perform internal audit work may be invited to attend meetings as appropriate.
- 4.5 The Committee may conduct meetings by means of a conference telephone call or other communication equipment. Unless otherwise agreed the meetings shall be deemed to take place where the chairman for that meeting is participating.
- 4.6 Employees or representatives of the Managers shall attend and participate in meetings as appropriate. Specifically, the Group Head of Internal Assurance shall attend at least one meeting a year.

5. Authority

- 5.1 Reporting to the Boards, the Committee is authorised by the Boards to seek any information and to instruct the internal auditors to carry out such enquiries and to make such reports as they may reasonably require in order to carry out the purposes set out in Clause 1 hereof.
- 5.2 The Committee is also authorised to obtain and pay for such legal or other independent professional advice as it may consider appropriate from time to time.
- 5.3 The Committee is authorised to obtain payment of its reasonable costs and disbursements from the funds of the Club.

6. Duties

GARCO shall:

6.1 *General*

6.1.1 Report and make recommendations as appropriate to the Boards on the activities, reviews and evaluations set out in these Terms of Reference.

6.2 *General Governance*

6.2.1 Review policies on risk management, internal control, internal audit and outsourcing/the Managers as and when necessary.

6.2.2 Review and monitor the Club's contingency plans.

6.3 *Risk Management*

6.3.1 Review and monitor the effectiveness of the Club's risk management system.

6.3.2 Review and challenge the Club's risk appetite.

6.3.3 Review the Club's new and emerging risks and the effectiveness of the management and mitigation processes in place.

6.3.4 Review and challenge all inward reinsurance arrangements.

6.4 *Internal Control*

6.4.1 Review and monitor the effectiveness of the Club's internal control system.

6.4.2 Review and monitor the Club's compliance policy and plan.

6.4.3 Review the Managers' training report.

6.4.4 Review the Club's procedures for detecting money laundering and bribery.

6.5 *External Audit*

6.5.1 Advise the Boards in relation to the appointment of external auditors, and any questions of resignation or dismissal of external auditors.

6.5.2 Assess and advise the Boards on the independence and objectivity of the external auditors.

6.5.3 Advise the Boards on the remuneration for the services of the external auditors.

6.5.4 Discuss with the external auditors the nature and scope of their audit before the audit commences.

6.5.5 Discuss with the external auditors (without the Managers being present) any

problems and reservations arising from the audit and any matters that the external auditors wish to discuss.

6.5.6 Review the external auditors' management letter and management's responses.

6.6 *Internal audit*

6.6.1 Monitor and review the effectiveness of the Club's internal audit function.

6.6.2 Advise the Boards in relation to the appointment of internal auditors, and any questions of resignation or dismissal of internal auditors.

6.6.3 Assess and advise the Boards on the independence and objectivity of the internal auditors.

6.6.4 Advise the Boards on the remuneration for the services of the internal auditors.

6.6.5 Review and assess the internal audit plan.

6.6.6 Receive and consider reports of the internal auditors.

6.6.7 Monitor remedial action to be taken by the Managers following recommendations in internal audit reports.

6.6.8 Consider with the internal auditors the necessity to carry out additional audits where irregular or unidentified losses/problems have arisen in areas not covered by the audit plan.

6.6.9 Discuss with the internal auditors (without the Managers being present) any problems, reservations or other matters which the internal auditors may wish to discuss in relation to the Club.

6.7 *Actuarial Function*

6.7.1 Receive and consider the actuarial function annual report.

6.7.2 Discuss with the actuarial function any problems, reservations or other matters which the actuarial function may wish to discuss in relation to the Club.

6.8 *Financial reporting*

6.8.1 Monitor the integrity of the financial statements of the Club and its branches, including annual reports and regulatory returns, reviewing significant financial reporting issues and judgements which they contain.

6.8.2 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 Club's group;
- ii. the methods used to account for significant or unusual transactions where different approaches are possible;

- iii. whether the Club has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- iv. the clarity of disclosure in the Club's financial reports and the context in which statements are made; and
- v. all material information presented with the financial statements, such as the Directors' report.

6.9 *Capital adequacy:*

6.9.1 Monitor the continuing solvency of the Club including by reference to regulatory requirements.

6.9.2 Review the methodology, design, implementation, inputs and outputs of the Club's internal model.

6.9.3 Review the results of internal modelling, including the calculation of the SCR at least annually or more often as required by developments in the business.

6.9.4 Perform regular reviews of the ORSA to ensure that it accurately reflects the business risk profile and capital requirements.

6.9.5 Seek to ensure that the internal model is used in business decisions.

6.9.6 Review and challenge proposals to change to the Club's internal model.

6.9.7 Report to the Boards on the ORSA and the internal model assumptions, process, and output.

6.10 *Closing of policy years*

6.10.1 Review and challenge proposals to close policy years.

6.11 *Reserving/policy years' development*

6.11.1 Monitor the policy years' development.

6.11.2 Review and challenge where necessary:

- i. the consistency of, and any changes to, the Club's reserving policies both on an accounting year basis and a policy year basis; and

- ii. whether the Club has followed an appropriate reserving methodology.

6.12 *Outsourcing*

6.12.1 Monitor and supervise the Internal Audit and Risk functions of the Managers in terms of its terms of reference.

6.12.2 Assess and monitor the effectiveness of the Club's risk management system.

6.12.3 Monitor delivery of outsourced providers under their contracts.

6.12.4 Review contingency planning in respect of outsourced services.

6.12.5 Review the outsourcing policy at least annually and make recommendations for any changes to be approved by the Boards.

6.12.6 Report and make recommendations to the Boards on the activities, reviews and evaluations as set out above.

6.13 *Other duties*

6.13.1 Undertake all the duties of the Committee as set out in the Club's Solvency 2 Framework documents and policies.

7. Reporting Procedures

7.1 The Committee through its Chairman shall report to the Boards as often as each Board may require and in the form which the Boards may specify from time to time.

7.2 The minutes of the meetings of the Committee may be circulated to the Members of the UKC Board, the UKB Board, the UKL Board, and the Managers of the Club.

7.3 The proceedings of the Committee and reports made by the internal auditor and others for or on the instruction of the Committee are confidential to the Club, its Managers and their agents and to the internal and external auditors.

7.4 Nevertheless the Committee may authorise the release of its minutes and reports from time to time to the Thomas Miller Holdings Ltd Audit Committee. Wider publication of this material may be made, but only as the Committee may authorise in its sole discretion. A reciprocal arrangement exists whereby internal audit reports of Thomas Miller or extracts thereof will be made available to the Committee where they are relevant to the Club.

7.5 The Chairman of Thomas Miller Holdings Ltd Audit Committee and the Chairman of the Committee will maintain sufficient regular contact in order to ensure coordination of their activities on an annual basis.

8. Subsidiary Companies

8.1 The Committee shall support the Boards of subsidiary companies of the Club as necessary to enable those Boards to discharge their responsibilities.