



Tower Limited

Audit Committee Terms of Reference

September 2020

1. Introduction

- 1.1 The Board of Directors of Tower Limited (the “Board”) has established the Audit Committee (the “Committee”) to assist the Board in fulfilling its responsibilities in respect of financial reporting, and internal and external audit.
- 1.2 The Committee is a sub-committee of the Board. The Committee has no decision-making powers except where expressly provided by the Board; its role is to make recommendations to the Board, ensure that the Board is properly and regularly informed about significant financial matters relating to Tower.
- 1.3 These Terms of Reference govern the Committee and replace any prior terms of reference and similar governing documents.
- 1.4 Terms used in these Terms of Reference have the meaning given to them in the Board Charter unless the context indicates otherwise.

2. Constitution

- 2.1 Provisions of Tower Limited’s Constitution relating to meetings, proceedings and quorum of Directors shall, so far as not altered by these Terms of Reference, apply to the Committee.

3. Functions and objectives

- 3.1 The Committee shall assist the Board in relation to:
 - proper preparation of financial statements and external reporting of financial information, including solvency.
 - interpretation and understanding of Appointed Actuary reports, including the annual Financial Condition Reports, IPSA s 78 reports and Independent Liability Valuation Reports.
 - appropriateness, application and amendment of the accounting policies.
 - internal control systems and internal audit.
 - Statutory and regulatory including compliance with taxation laws and regulation and the Insurance (Prudential Supervision) Act 2010 (**IPSA**).
 - external auditor performance.
 - Appointed Actuary performance.
- 3.2 Other Committee functions and objectives are to:
 - 3.2.1 Oversee and appraise the effectiveness and quality of audits conducted by Tower’s auditors, and the performance of the auditors, and to ensure that the independence and ability of the external auditor to carry out their statutory duties is not impaired.
 - 3.2.2 Maintain open lines of communication between the Board, the internal audit function and the external auditors including the full and open exchange of views and information, as well as to confirm their respective roles, authorities and responsibilities.

The Committee Chair has a direct line of communication to internal and external audit.

The role of the internal audit function may be wholly or partially outsourced to an external service provider.

- 3.2.3** Serve as an independent and objective party to review periodic financial information, particularly as to accuracy and timeliness, presented by management to the Board, external auditors, the Appointed Actuary, regulators and the public.
- 3.2.4** Monitor the adequacy of surveillance measures within Tower in relation to:
 - internal controls
 - financial controls, including solvency matters
 - safeguarding and security of assets
 - economical and efficient use of resources
 - reliability and integrity of systems
 - fraudulent practice of any kind
- 3.2.5** Be satisfied that Tower is conforming to appropriate audit practices.
- 3.2.6** Review delegations from time to time and make recommendations to the Board.
- 3.2.7** Handle any other matter referred to it by the Board.

4. General scope and authority

- 4.1** The Committee has no executive powers with regard to its findings and recommendations, except where expressly provided by the Board.
- 4.2** The Committee has all necessary access and authority to seek information from management, internal audit and external audit to fulfil its objectives, duties and responsibilities.
- 4.3** The Committee also has the ability and is authorised to take such independent professional advice as it considers necessary. The Committee may arrange for external third parties with relevant experience and expertise to attend meetings, at the expense of Tower, as it considers necessary.

5. Membership

- 5.1** The Board will annually confirm the membership and chairmanship of the Committee.
- 5.2** The Committee will comprise solely of non-executive Directors of Tower.
- 5.3** The Committee will comprise of a minimum of three Non-Executive Directors, the majority of which are independent as assessed in accordance with the guidance issued by the Reserve Bank of New Zealand, NZX and other applicable guidance related to Tower from time to time.
- 5.4** The Chief Executive Officer will not be a member of the Committee.
- 5.5** At least one Committee Member will have an accounting or financial background.
- 5.6** New Committee members will undertake a robust orientation process to enable them to understand their role and responsibilities. Ongoing training will be provided as required.
- 5.7** Members of the Committee will be appointed for an initial term of two years, after which their appointment may be subject to annual rotation at the Board's discretion.

- 5.8** Election and removal of Committee members will be the responsibility of the Board and will occur by majority vote.
- 5.9** The Committee Chair will be appointed by the Board and will be an independent Non-Executive Director, who is not also the Chair of the Board.
- 5.10** Committee Members will be remunerated for their services. Such remuneration will be included in the shareholder approved remuneration cap.

6. Meetings

- 6.1** The Committee shall meet a minimum of 3 times per year. Meetings are scheduled to be held specifically to:
- review internal audit and external audit plans and budgets;
 - review progress against audit plans together with the results of audit activity;
 - review the draft half-yearly report and annual report and financial statements, together with the external audit report(s);
 - review the draft half year and annual solvency returns;
 - receive the annual Financial Condition Report and s 78 IPSA report;
 - review any other reports prepared by the Appointed Actuary, including Liability Valuation Reports.
- 6.2** In addition, the Committee Chair may call a meeting of the Committee at his/her discretion or if requested to do so by any Committee member, the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, internal audit or external audit.
- 6.3** Any director of the Board or Tower employee may attend a meeting, provided that their attendance is at the invitation of the Committee.
- 6.4** Representatives from management, internal audit and external audit will attend meetings at the invitation of the Committee Chair and provide such reports and information as the Committee requires. The Chief Executive Officer Chief Financial Officer and Head of Internal Audit will usually represent management.
- 6.5** Reasonable notice of meetings and the business to be conducted will be given to members, along with briefing materials.
- 6.6** The quorum for any Committee meeting is two Committee Members and normal Committee voting procedures apply.
- 6.7** An appropriately qualified and experienced person will act as Secretary to the Committee. The Secretary is responsible for circulating the meeting agenda and supporting material to all Committee members and any other person advised by the Chair. The Secretary will prepare minutes of each meeting. Normal Committee distribution requirements for minutes, agendas and supporting material will apply.
- 6.8** The Committee will hold one on one sessions with internal audit, external audit, the Appointed Actuary and management at least six monthly.
- 6.9** The external auditor will attend Tower's Annual Shareholder Meeting to answer questions from shareholders in relation to the audit.

7. Duties and responsibilities

7.1 The Committee's duties and responsibilities are to:

(a) General

Consider and respond to any matters:

- relating to its functions, objectives, duties and responsibilities.
- referred to it by the Board.
- referred to it by the Chief Executive Officer, Chief Financial Officer or Chief Risk Officer.
- relating to emerging issues within Tower Limited and the sector.

(b) Audits

- liaise with, and respond to matters raised by, internal and external auditors. Contact with external auditors will generally be managed through the Chief Financial Officer or Chief Risk Officer, however the Chair of the Committee will also have a direct line of communication with the external auditor and will make contact as necessary. All material communications will be reported to the Committee.
- make recommendations to the Board as to the appointment or removal of external auditors, including ensuring that the external auditor or lead audit partner is changed at least every 5 years to ensure that the ability of the external auditors to carry out their statutory audit role is not impaired, or could reasonably be perceived to be impaired. Tower Limited has a separate External Audit Independence Policy which governs the provision of services by Tower Limited's external auditor.
- oversee the internal audit framework, including the performance of the internal audit function and the delivery of internal audit services by outsourced providers.
- review and recommend the internal audit plan and budget to the Board on an annual basis.
- regularly review the internal audit charter.
- regularly (and at least annually) review the external audit scope, plans and fees.
- evaluate the overall effectiveness and quality of, and level of co-ordination between, internal and external audit.
- satisfy itself that management have not placed inappropriate restrictions on internal or external audit.
- confirm and assure the independence of both audit functions.

(c) Appointed Actuary

- appoint, review and liaise with, and respond to matters raised by, the Appointed Actuary.

(d) IPSA

- review draft half yearly and annual solvency returns.
- receive Financial Condition Reports, IPSA s 78 reports and Independent Liability Valuation Reports prepared by the Appointed Actuary.
- recommend allocation and distribution of retained profits.
- advise the Board in respect of IPSA solvency issues relating to Tower Limited.

(e) Internal Controls

- monitor the adequacy and effectiveness of Tower Limited's internal control systems and processes (including reviewing reports from internal and external audit,) in relation to internal financial controls, risks and exposures and compliance with Tower Limited's plans, policies and procedures.

- review annually the resourcing of internal and external audit, compliance and risk planning with the Chief Financial Officer and Chief Risk Officer.
- review the appropriateness of delegations of authority every two years.
- monitor and report to the Board on taxation risk management strategy and compliance matters.
- review any significant transactions that relate to Tower Limited that are not a normal part of Tower Limited's business.

(f) Statutory and Regulatory Compliance

- receiving reports and recommending actions to be taken by the Board where appropriate to ensure that Tower Limited is in compliance with all legislative and reporting requirements.
- receiving reports and recommending actions to be taken by the Board where appropriate to ensure that Tower Limited is in compliance with all taxation laws and regulation.

(g) Financial Reporting

- ensure processes are in place so that the Board is regularly informed about significant financial matters relating to Tower Limited.
- review Tower Limited's draft half yearly and annual financial statements and reports, together with the external audit report and submit recommendations for acceptance to the Board (including advising the Board whether the financial statements comply with the appropriate laws and regulations).
- review adequacy of accounting policies and actuarial methodologies, and review and recommend to the Board all significant changes in accounting policy.
- obtain reports from management, external audit, legal counsel or internal audit on any regulatory, accounting or financial reporting issues of significance.
- review releases of financial information to the public prior to their release.

(h) Special Investigations

- identify and recommend to the Board and/or Chief Executive Officer any special investigations deemed necessary to fulfil Committee functions, objectives, duties and responsibilities.

(i) Assessment

- conduct an annual self-assessment of its objectives, responsibilities and Terms of Reference, and of the performance of the Committee as a whole.

(j) Disclosure

- Tower Limited's Corporate Governance Counsel will ensure that the Committee's Terms of Reference appears on the Tower's website.

(k) Other Duties

- review other financial issues as delegated by the Board.
- undertake other duties as delegated from the Board from time to time.

8. Reporting

8.1 The Committee Chair will report material findings and recommendations to the Board after each Committee meeting. The minutes of all Committee meetings will be circulated by the Secretary of the meeting to Non-Executive Directors of the Board.

8.2 The Committee will maintain direct lines of communication with the external auditors, the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the internal audit function and with management

generally. The internal audit function reports to the Committee Chair. All parties are responsible for drawing to the Committee's immediate attention any material matter that relates to the financial condition or solvency of Tower Limited, any material breakdown in internal controls, any matters relating to breach of compliance requirements and any material event of fraud or malpractice.

8.3 The Committee Chair will submit an annual report to the Board summarising the Committee's activities, findings, recommendations and results for the past year. That annual report will include a report on the Committee's compliance with these Terms of Reference.

8.4 Tower Limited must identify the members of the Committee in its annual report to shareholders.

9. Review

9.1 The Committee will formally review these Terms of Reference every two years and confirm to the Board their appropriateness. Changes will be recommended to the Board for approval.