



TEXAS LIFE & HEALTH
INSURANCE GUARANTY ASSOCIATION

Board of Directors
Charter of the Audit Committee
Amended and Restated April 18, 2017

I. Purpose

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities in respect of audits and internal controls. This Charter does not alter the provisions of the Association's Act, Bylaws, Plan of Operation, Policies and Procedures, the Texas Open Meetings Act, or the Texas Public Information Act. The Audit Committee's primary responsibilities are to:

- Monitor the integrity of the Guaranty Association's financial reporting/accounting process and its financial statements, the effectiveness and efficiency of the internal controls designed to protect the Association's assets, and the Association's compliance with applicable laws, regulations, and internal policies and procedures.
- Monitor the independence and performance of the Guaranty Association's independent financial auditors.
- Make recommendations to the Board of Directors whether to undertake performance or operational audits or reviews in addition to an annual financial audit.
- Provide an avenue of communication among the independent auditors, internal controls consultants, management, and the Board of Directors.

II. Committee Composition and Meetings

The Audit Committee members shall be comprised of three or more directors, each of whom shall be free from any relationship that would interfere with the exercise of his/her independent judgment. All members of the Committee shall have a basic understanding of finance and accounting and shall be able to read and understand fundamental financial statements, and at least one member of the Committee should have accounting or related financial management experience.

The chair and members of the Audit Committee shall be appointed by the Board of Directors. If the chair or a committee member is absent from a committee meeting, the Board Chair may appoint a temporary, substitute chair or member in accordance with the Bylaws.

The Committee shall meet at least once annually, or more frequently as circumstances dictate. The Audit Committee Chair shall prepare and/or approve an agenda in advance of each meeting. Written materials shall be received from management, auditors and others, if appropriate, in advance of meeting dates. Audit Committee members are responsible for reviewing written materials in sufficient depth before a meeting in order to meaningfully participate in Committee dialogue.

The Audit Committee shall have the authority to retain special legal, accounting, or other consultants to advise the Committee. Unless other arrangements are made, the Audit Committee requires Association management, the Association's counsel, and Board Counsel to attend all meetings of the Committee. The Committee may request the independent auditors or other professionals to attend a Committee meeting or to meet with any members of, or consultants to, the Committee. The Audit Committee shall report to the Board of Directors after each meeting and shall make recommendations as necessary to the Board of Directors. The Audit Committee only has the power to act on behalf of the Board of Directors with specific prior approval granted in a resolution of the Board.

III. Responsibilities and Duties

Review Procedures

1. Review and reassess the adequacy of this charter at least annually and recommend any proposed changes to the Board for approval.
2. Review the Association's annual audited financial statements prior to distribution. The review should include discussion with management and independent auditors of significant issues regarding accounting principles, practices and judgments.
3. In consultation with management and the independent auditors, consider the integrity of the Association's financial reporting and accounting processes and internal controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the independent auditors together with management's responses.
4. Review systems of internal controls regarding financial risks and legal compliance.

5. Follow-up with the Association's counsel on any legal matters that may have a material impact on the financial statements, the Association's compliance policies and any material reports or inquiries received from regulators or governmental agencies.
6. Consistent with the Rules and Regulations of the Texas Department of Insurance, develop an audit plan annually and file such plan with the Commissioner.
7. In addition to the required annual financial audit, consider each year undertaking a compliance audit or review, economy and efficiency audit or review, an effectiveness audit or review, or an internal controls review or audit.
8. On an annual basis, the Committee will review the commercial insurance program of the Association ("the insurance program of the Association") with a view to confirming such program's adequacy to mitigate anticipatable risks efficiently and cost effectively. To perform this review, the Committee will require the Executive Director, in consultation with the Association's insurance broker, each year to summarize in writing the existing insurance program of the Association and to provide recommendations with respect to such program. After reviewing the Executive Director's annual insurance program report, the Committee shall make any necessary or appropriate recommendations regarding the insurance program of the Association to the Board.
9. At the March or April meeting each year the Committee will review the Association's actual expenses for the prior year, including the comparison with budgeted expenses, segregation of expenses between fixed and variable expenses, and allocation of expenses to insolvent member companies.
10. At the October meeting each year, the Committee will review the information and assumptions used by management to develop the operating and capital expenditure budgets for the next calendar year.

Independent Auditors

11. Independent auditors are ultimately responsible to the Board of Directors. The Audit Committee shall review the independence and performance of auditors and annually recommend to the Board of Directors the appointment or discharge of the independent auditors.
12. Approve the fees and other significant compensation to be paid to independent auditors.
13. On an annual basis, the Committee should review and discuss with the independent auditors all significant relationships they have with the Association that could impair the auditors' independence.

14. Review the independent auditors' audit plan. Discuss and establish the scope, staffing, locations, reliance upon management and general audit approach, along with the interface between the Audit Committee and auditors during the audit.
15. Consider the independent auditors' judgment about the quality and appropriateness of the Association's accounting principles as applied in its financial reporting.
15. Review with the independent auditors any problems or difficulties the auditors may have encountered in the course of the audit work, including any restrictions on scope of activities, restrictions to access to required information, disagreements with management, if any, and any significant changes in the audit plan.
17. Review and approve requests for any consulting services to be performed by the independent auditors or other consulting firms and be advised of any other study undertaken at the request of management that is beyond the scope of the audit engagement letter.
18. Issue a Request for Proposal ("RFP") for new independent auditors at least every seven years. Work with Association management to review, score and recommend new auditors to the Board of Directors for selection. The Committee understands that a "new" audit firm can include the incumbent auditor provided the audit firm can and will designate a different audit partner-in-charge.

Other Responsibilities

19. Perform any other activities consistent with this Charter, the Association's bylaws, Plan of Operation and governing law, as the Audit Committee and Board of Directors deem necessary or appropriate.
20. Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Association's financial statements are complete and accurate and are in accordance with generally accepted accounting principles or that reporting is in accordance with applicable GASB (Governmental Accounting Standards Board) pronouncements and FASB (Financial Accounting Standards Board) statements and interpretations. This is the responsibility of management and the independent auditors. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and independent auditors or to assure compliance with laws and regulations and the Association's Plan of Operation.