

Lancashire Insurance Group (The “Company”) – Internal Audit Charter

Purpose

The purpose of this Charter is to set out the mission, scope, responsibilities, authority, professional standards and the relationship with the External Auditors / Regulatory Bodies of the Internal Audit Function (“Internal Audit”) with the company and its subsidiaries.

Mission

Internal Audit has been established by the Board of Directors and its responsibilities are defined by the Audit Committee of the Board of Directors as part of their oversight function. Internal Audit is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the Company. Internal Audit’s primary role is to help the Board of Directors and Executive Management to protect the assets, reputation and sustainability of the organisation. Within the scope of planned audits we assess whether significant risks are identified and appropriately reported, by Management and the Risk function, to the Board and Executive Management; we assess whether these risks are adequately controlled; and we challenge Executive Management to improve the effectiveness of governance, risk management and internal controls.

Scope

The scope of Internal Audit is unrestricted and encompasses the examinations and evaluation of the adequacy and effectiveness of the organisation’s governance, risk management processes, systems of internal control and the quality of performance in carrying out assigned responsibilities to achieve the organisations stated goals and objectives. It includes:

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports and whether the organisation is in compliance;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Reviewing the adherence to Lancashire group’s values, ethics, risk appetite, policies and culture
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations of programs are being carried out as planned;
- Reviewing specific operations at the request of the Audit Committee or management, as appropriate; and

- Completing other special projects at the direction of Senior Management or Audit Committee to include transactional and operation reviews and providing assistance with the documentation of policies and procedures across the Company.

Opportunities for improving internal controls, profitability and the organisation's image may be identified during the performance of the above procedures. If and when these opportunities for improvements are identified they will be communicated to the appropriate level of management.

Internal audit can be requested to provide consulting services to management. These services are advisory in nature and are generally performed at the specific request of management. The nature and scope of the consulting engagement are subject to agreement with management. These engagements are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility.

Responsibilities of Internal Audit

The Head of Internal Audit will oversee Internal Audit and assist Executive Management and the Audit Committee of the Board of Directors in discharging their responsibilities by furnishing them with analyses, advice and recommendations concerning activities reviewed and also by promoting effective and efficient controls and pursuing corrective action on significant issues.

Pursuant to its Charter, the Audit Committee will review annually the skills and resources of the Internal Audit function and make a recommendation to the Board. This will include, where applicable, consideration of whether or not this function should be performed in-house, be outsourced or be a combination thereof, based on a recommendation from management and in consideration of the needs of the business. The Audit Committee will ensure the implementation of the Annual Internal Audit Plan, ensuring its smooth efficient running and appropriate standing within the Company.

Where a recommendation for either outsourcing or co-sourcing is adopted, Internal Audit is charged with overseeing the activities of the Company's internal audit outsourcing partner(s) and other external consultants who may be engaged from time-to-time to assist in the completion of Internal Audit projects.

The Internal Audit function shall have no direct operational responsibility or authority over any of the activities it audits. If the objectivity of the Internal Audit function is impaired in fact or appearance, this is fully disclosed to the appropriate parties.

Annually, Internal Audit shall submit to the Audit Committee a detailed audit plan outlining the proposed audit methodology, work schedule and budget for the following fiscal year, which the Audit Committee will consider and determine if it should be approved. The audit work schedule is to be developed based on a prioritisation of the audit universe using a risk-based methodology. Internal Audit will also form its own view on the audit universe, as well as undertaking its own risk assessment to determine which areas should or need not be covered in the regular audit plan. The Internal Audit plan will also consider any new and/or emerging risks. Any significant deviation from the formally approved work schedule (i.e. due to unplanned events and changes in risk profile) shall be communicated to senior management and the Audit Committee through periodic activity reports.

A written report will be prepared and issued by Internal Audit following the conclusion of each audit and will be distributed as appropriate. The audit reports will include the auditee's agreed actions to be taken in respect of each specific finding. The reports will include a focus on significant control weaknesses or control breakdowns and assessment of the root-causes.

Management's response should include the name of the designated person responsible for implementing the action, a timetable for anticipated completion of action to be taken; and an explanation for any recommendations not addressed. In cases where a response is not included within the audit report, management of the audited area should respond, in writing, within thirty days of publication to Internal Audit and those on the distribution list.

Reports must outline clearly any instances where Internal Audit and the auditee are unable to formulate satisfactory agreed actions and the Audit Committee will make appropriate recommendations.

Management will be responsible for appropriate follow-up on those audit findings and recommendations. All significant findings will remain open in Internal Audit's issue tracking software until cleared by Internal Audit or the Audit Committee.

Documents and information given to Internal Audit during a periodic review will be handled in the same prudent and confidential manner as those by employees normally accountable for them.

A quarterly summary of all audit reports is prepared and forwarded to the Audit Committee. This will include details of any thematic issues identified across the organisation.

Internal Audit will report annually to the Audit Committee on its conclusions on whether the risk and control framework is being adhered to. Additionally, for any significant adverse event, Internal Audit is required to review and report on any post-mortem and 'lessons learned' analysis undertaken, including the roles played by all lines of defence in the event.

Independence and Authority

Authority is granted for full, free and unrestricted access to any and all of the Company records, physical properties, and personnel relevant to any function under review. The Head of Internal Audit also has the right to attend and observe all or part of Executive Committee meetings and any other key management decision making fora (as may be required from time to time). Internal Audit shall also have free and unrestricted access to the Chairman of the Board of Directors, and the Audit Committee of the Board of Directors. All employees are requested to assist Internal Audit in fulfilling their staff function.

All internal audit activities shall remain free of influence by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in rendering reports.

Internal Audit shall report administratively to the LHL Chief Executive Officer and functionally to the Chairman of the Audit Committee of the LHL Board of Directors.

If the Head of Internal Audit exceeds seven years' tenure, then an annual assessment of their independence and objectivity by the Chair of the Audit Committee must be discussed and minuted by the Audit Committee each year thereafter.

Professional Standards

The Internal Audit team shall govern themselves by adherence to The Institute of Internal Auditors' (IIA) International Professional Practice Framework (IPPF). The IPPF comprises the "Code of Ethics" (the "Ethics") and the "International Standards for the Professional Practice of Internal Auditing" (the "Standards") and both shall constitute the operating procedures for the Department. These two documents constitute an addendum to this Charter. The IIA' "Practice Advisories" will be adhered to as applicable.

Every 3 to 5 years, Internal Audit is subject to an External Quality Assurance and improvement review by an appropriately qualified and independent third party. The results will conclude on the conformance with the ethics and standards. These scope, results and corrective action plans will be reported to Senior Management and the Board.

Relationship with the External Auditors, review functions and other regulatory bodies

Internal Audit will coordinate their work with the external auditors and other regulatory bodies as directed by management. The external auditors will be notified of the activities of Internal Audit in order to minimise duplication of audit effort. This will be accomplished by:

- Periodic meetings to discuss the audit plan and activities;
- Access by the external auditors to Internal Audit documentation;
- Exchange of management letters; and
- Access to systems and process documentation.

Internal audit is not however relieved of its responsibilities in areas of Lancashire group's businesses which are subject to review by other assurance functions (including but not limited to External Auditors, Compliance and Risk). Internal Audit must assess the extent to which it can take account of the work of these bodies and co-ordinate its work with them.

Approval and Periodic Assessment

This Charter was adopted by the LHL Audit Committee on October 27, 2017. The Charter should be periodically assessed to determine whether the purpose, authority, and responsibility, as defined in this charter, continue to be adequate to enable the internal audit activity to accomplish its objectives.