

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

This Charter sets out the purpose, mission, authority, independence, scope, responsibilities, professional standards and the relationship with the External Auditors / Regulatory Bodies of the Internal Audit Function (“Internal Audit”) of the Group and its subsidiaries.

Purpose

The purpose of the Group’s Internal Audit function is to provide independent, objective assurance and consulting activities that are guided by a philosophy of adding value to improve the operations of the Group. 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.

Mission

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, by providing risk-based and objective assurance, advice and insight. The Internal Audit function helps the Group Board of Directors and Executive Management to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and internal control processes.

Authority

The Head of Internal Audit reports functionally to the Chair of the Audit Committee and administratively to the Group Chief Executive Officer.

Authority is granted to Internal Audit 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 forums (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, including private meetings without management present. All employees are required to assist Internal Audit in fulfilling their function.

Independence and Objectivity

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.

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.

The Head of Internal Audit will confirm to the Audit Committee, at least annually, the organizational independence of the Internal Audit function.

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.

Scope

The scope of Internal Audit is unrestricted and encompasses the objective examinations and evaluation of the adequacy and effectiveness of the Group's governance, risk management processes, and systems of internal control. Internal Audit assessments include:

- Evaluating whether significant risks relating to the achievement of the Group strategic objectives are appropriately identified and managed;
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- Evaluating whether the actions of Group's officers, directors, employees, and contractors are in compliance with Group's policies, procedures, and applicable laws, regulations, and governance standards;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on the Group;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Reviewing the adherence to the Group's values, ethics, risk appetite, policies and culture.

Opportunities for improving governance, risk management and internal controls may be identified during engagements. If and when these opportunities for improvements are identified they will be communicated to the appropriate level of management.

Internal Audit can also be requested to:

- Review specific operations at the request of the Audit Committee or Senior Management as appropriate;
- Complete other special projects at the direction of the Audit Committee or Senior Management, this may include transactional and operation reviews; and
- Provide consulting services to Senior Management. These activities are advisory in nature and the scope of such engagements is subject to agreement with Management. These engagements are intended to add value and improve the organisation's governance, risk management, and control processes without the Internal Auditor assuming management responsibility.

Responsibilities

The Head of Internal Audit will oversee the Internal Audit function and assist Executive Management and the Audit Committees 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.

Annually, Internal Audit shall submit to Senior Management and 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 clearly outline 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.

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.

Pursuant to its Charter, the Audit Committee will review annually the skills and resources of the Internal Audit function. 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 Group.

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.

Internal Audit will report annually to the Audit Committee on its conclusions on whether the risk and control framework is being adhered to.

Professional Standards

The Internal Audit team shall govern themselves by adherence to mandatory elements of the Institute of Internal Auditors' (IIA) International Professional Practice Framework (IPPF). This includes the Core Principles for the Professional Practice of Internal Auditing, the "Code of Ethics" (the "Ethics"), the "International Standards for the Professional Practice of Internal Auditing" (the "Standards"), and the Definition of Internal Auditing. The mandatory elements of the IPPF shall constitute the operating procedures for the Internal Audit function. These documents constitute an addendum to this Charter. The IIA's "Implementation Guides" will be adhered to as applicable.

Quality Assurance and Improvement Program

The Internal Audit function maintains a quality assurance and improvement program that covers all aspects of the Internal Audit activity. The program will include both internal and external assessments. The external assessments will be conducted at least once every five years by a qualified, independent third party. The results will conclude on conformance with the Ethics and Standards and will be reported to Executive Management and the Audit Committee.

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 through:

- 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

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.