

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. It assists the Company in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation’s risk management, control and governance processes.

Scope

The scope of Internal Audit 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 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 the Chief Financial Officer 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.

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 by promoting effective and efficient controls and pursuing corrective action on significant issues.

Pursuant to its Charter, the Audit Committee will review annually the needs 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 (currently KPMG) 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.

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. The audit work schedule is to be developed based on a prioritisation of the audit universe using a risk-based methodology. Any significant deviation from the formally approved work schedule 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. A summary audit report will be forwarded to the Audit Committee. The audit reports will include the auditee's agreed actions to be taken in respect of each specific finding. 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's response should include 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.

Management will be responsible for appropriate follow-up on those audit findings and recommendations. All significant findings will remain in an open issues file until cleared by Internal Audit or the Audit Committee.

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. All employees are requested to assist Internal Audit in fulfilling their staff function. 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 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.

Professional Standards

The Internal Audit Staff shall govern themselves by adherence to The Institute of Internal Auditors' (IIA) "Code of Ethics". The Institute's "*International Standards for the Professional Practice of Internal Auditing*" (the "Standards") shall constitute the operating procedures for the department. These two documents constitute an addendum to their charter. The Institute of Internal Auditors' "Practice Advisories" will be adhered to as applicable.

In addition Lancashire Internal Audit shall comply, on a proportional basis, with the guidance issued by the IIA in July 2013 titled "Effective Internal Audit in the Financial Services Sector".

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.

Relationship with the External Auditors / 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.

Approval and periodic assessment

This Charter was adopted by the LHL Audit Committee on 3 November 2014. 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.