

## LANCASHIRE GROUP NON AUDIT SERVICES POLICY

POLICY TITLE	<b>LANCASHIRE GROUP NON AUDIT SERVICES POLICY</b>
EFFECTIVE DATE	17 February 2011 (Reviewed and approved by the Audit Committee on 31 October 2014)
BACKGROUND, PURPOSE & AUTHORITY	The objective of this policy is to ensure that the provision of non-audit services by the external auditors appointed by Lancashire Holdings Limited ("LHL") and any of its subsidiary companies (the Lancashire Group) does not impair the external auditor's independence or objectivity. This policy shall be kept under review by the Audit Committee.
FUNCTIONAL OWNER	Group Chief Financial Officer
APPROVING PERSON & EVIDENCE OF APPROVAL	This policy was approved for issue by the LHL Audit Committee.  Date approved: 17 February 2011
SCOPE	All Lancashire companies are subject to this policy when commissioning non-audit services from the Lancashire external auditors.
POLICY	<p><b>1 Objective</b></p> <p>1.1 The objective of this policy is to ensure that the provision of non-audit services by the external auditors appointed by Lancashire Holdings Limited ("LHL") and any of its subsidiary companies (the Lancashire Group) does not impair the external auditor's independence or objectivity. This policy shall be kept under review by the Audit Committee.</p> <p>1.2 This policy is intended to specify the types of non-audit services which may be provided by the external auditors of the Lancashire Group:</p> <p>(i) for which the use of the external auditor is pre-approved (i.e. approval has been given in advance as a matter of policy, rather than the specific approval of an engagement being sought before it is contracted);</p> <p>(ii) for which specific approval from the Audit Committee is required before they are contracted; and</p> <p>(iii) from which the external auditor is excluded.</p> <p><b>2 Pre-approval</b></p>

2.1 The use of the external auditor may be considered as pre-approved by the Audit Committee where the threat posed to auditor independence by the external auditor carrying out the service is considered low, and where the service in question does not fall within the category of excluded services listed in Section 4 of this policy, for example if the engagement is:

(i) routine in nature and the fee is not significant in the context of the audit fee; or

(ii) for an audit related service.

Audit related services are those non-audit services specified as such in APB Ethical Standards for Auditors as including:

(a) Reporting required by law or regulation to be provided by the auditor;

(b) Reviews of interim financial information;

(c) Reporting on regulatory returns;

(d) Reporting to a regulator on client assets;

(e) Reporting on government grants;

(f) Reporting on internal financial controls when required by law or regulation; and

(g) Extended work that is authorised by those charged with governance on financial information and/or financial controls performed where this work is integrated with the audit work and is performed on the same principal terms and conditions;

(iii) for non-statutory audit, review and attestation opinions on:

(a) elements of Reports and Accounts;

(a) analysts presentations;

(c) completion accounts for vendors;

(d) actuarial opinions;

(e) joint ventures;

(f) employee benefit plan audits;

(g) contract compliance attestation;

(h) capital models;

(iv) For work on non-recurring internal controls, process and risk management control reports and advice including:

(a) business continuity planning;

(b) IT recovery plans;

(c) outsourcing agreements and processes;

(d) capital adequacy and Solvency II readiness;

(e) enterprise risk management;

(f) corporate governance;

(g) internal audit effectiveness;

(h) IT security;

(i) IT controls;

(j) accounting processes, controls and governance;

(v) For work on employee tax services (except in relation to employees in financial reporting and oversight roles);

(vi) For project specific and general cost and efficiency assurance and advice;

(vii) For services relating to capital raising;

(viii) For advice on accounting, auditing, financial reporting and regulatory matters;

(ix) For transactional due diligence support work covering actuarial, tax, accounting and regulatory matters;

(x) For income and indirect tax compliance and/or consulting advice;

(xi) For assistance with and/or delivery of publications, seminars and training.

### **3 Specific approval required**

3.1 The non-audit services for which specific approval of the Audit Committee will be required are those which, because of their size or nature or because of special terms and conditions (for example, contingent fee arrangements), are thought to give rise to threats to the external auditor's independence. The Group Chief Financial Officer should consider whether there is a case for the external auditors to perform such non-audit services, and should discuss with the General Counsel and /or Head of Corporate Affairs and the Chairman of the Audit Committee whether specific Audit Committee approval should be sought, and the reasons why the instruction to the external auditor may be desirable. Careful consideration will be given by the Audit Committee when determining whether it is in the interests of the Lancashire Group that services falling into this category should be purchased from the external audit firm (rather than another supplier) and, if so, whether any appropriate and effective safeguards should be put in place by the external auditor or the Lancashire Group.

3.2 Where there is an urgent need to instruct external auditors to supply non-audit related services, for which Audit Committee approval should be sought, in circumstances in which an Audit Committee meeting may not conveniently be called, the Group Chief Financial Officer may seek agreement with the Chairman of the Audit Committee to commission such services on the basis that the contract shall be subject to consideration and ratification by the full Audit Committee at the next meeting.

### **4 Excluded services**

4.1 The external auditor will not provide any of the following non-audit services to LHL unless the Audit Committee considers that there are

exceptional circumstances which may make the provision of such services permissible:

(i) ***Book keeping or other services related to the accounting records or financial statements*** of the Lancashire Group. The prohibited services are:

(a) maintaining or preparing the Lancashire Group's accounting records;

(b) preparing the financial statements or the information that forms the basis of the financial statements and;

(c) preparing or originating source data underlying the Lancashire Group's financial statements.

(ii) ***Design and implementation of financial information systems*** that aggregate source data or generate information that is significant to the financial statements taken as a whole, unless it is reasonable to conclude that the results of these services will not be subject to audit procedures during the audit of the Lancashire Group's financial statements. This rule does not preclude the external auditors from working on hardware or software systems that are unrelated to the Lancashire Group's financial statements or accounting records.

(iii) ***Appraisal or valuation services, fairness opinions or contribution-in-kind reports*** or other opinions or reports in which the external auditors provide an opinion on the adequacy of consideration in a transaction, unless it is reasonable to conclude that the results of these services will not be subject to audit procedures during the audit of the Lancashire Group's financial statements. This rule does not prohibit the external auditors firm from providing such services for non-financial reporting purposes (e.g., transfer pricing studies, cost-segregation studies and other tax-only valuations).

(iv) ***Actuarial services*** involving amounts recorded in the financial statements and related accounts for the Lancashire Group where it is reasonably likely that the results of these services will be subject to audit procedures during an audit of the Lancashire Group's financial statements. This prohibition extends to providing the company with any actuarially-oriented advisory service involving the determination of amounts recorded in the financial statements and related accounts for the Lancashire Group other than assisting the Lancashire Group in understanding the methods, models, assumptions and inputs used in computing an amount.

(v) ***Internal audit outsourcing services*** relating to the internal accounting controls, financial systems or financial statements of the Lancashire Group. This prohibition on outsourcing does not preclude the external auditors from providing attest services related to internal controls, evaluating the Lancashire Group's internal controls during the audit or making recommendations for improvements to the controls, or management from engaging the external auditors to perform "agreed-upon procedures" engagements related to the Lancashire Group's internal controls.

(vi) ***Management functions***. This rule prohibits the external auditors from acting, temporarily or permanently, as a director, officer or employee of the Lancashire Group or performing any decision making, supervisory or monitoring function for the Lancashire Group. However,

the external auditors may assess the effectiveness of the Lancashire Group's internal controls and recommend improvements in the design and implementation of internal controls and risk management controls.

(vii) **Human resources functions.** The external auditors may not seek out prospective candidates for managerial, executive or director positions, act as negotiator on the Lancashire Group's behalf such as determining position, compensation or fringe benefits or other conditions of employment or undertake reference checks of prospective candidates. The external auditors may also not engage in psychological testing or other formal testing or evaluation or recommend or advise the Lancashire Group to hire a specific candidate for a specific job.

(viii) **Broker or dealer, investment adviser, or investment banking services.** The external auditors are prohibited from serving as promoter or underwriter, making investment decisions on behalf of the Lancashire Group or otherwise having discretionary authority over the Lancashire Group's investments, or executing a transaction to buy or sell an investment of the Lancashire Group, or having custody of assets of the Lancashire Group.

(ix) **Legal services** that could be provided only by someone licensed, admitted or otherwise qualified to practice law in the jurisdiction in which the service is provided.

(x) **Expert services in an advocacy capacity unrelated to the audit.** This precludes engagements that are intended to result in the external audit firm's specialised knowledge, experience and expertise being used to support the audit client's positions in adversarial proceedings. This prohibits the external auditors from providing expert opinions or other services to the Lancashire Group or a legal representative of the company for the purpose of advocating the Lancashire Group's interests in litigation, or regulatory or administrative investigations or proceedings. This rule does not however preclude the Lancashire Group from engaging the external auditors to perform internal investigations or fact-finding engagements including forensic work and using the results of this work in subsequently initiated proceedings or investigations.

(xi) Any other service that the Audit Committee determines is impermissible.

4.2 The external auditors should not provide any non-audit services to any member company of the Lancashire Group where to do so would be in breach of their own internal rules or policy, or contrary to the professional guidance or ethical standards of the FRC or any other relevant professional, ethical or regulatory body.

## 5 Guidance

When determining whether a non-audit service may be pre-approved or require Audit Committee approval, reference may be made to the "Lancashire: Client Needs Fan" attached at Schedule A. In case of doubt the Group Chief Financial Officer should initiate a discussion with the General Counsel or Head of Corporate Affairs, and in the event of any remaining doubt with the Chairman of the Audit Committee, to determine whether any particular instruction to external auditors to perform non-audit services requires full Audit Committee approval.

FORMS	No Forms required.
TRAINING	No training needed.
COMMUNICATION & DISTRIBUTION PLAN	This policy shall be published on the Lancashire intranet and shall be e-mailed to all managers who may be responsible for the commission of non-audit services from the external auditor.
COMPLIANCE MEASUREMENT AND MONITORING PLAN	<p>The Group Chief Financial Officer shall instigate a review of effectiveness of this policy on an annual basis for consideration by the LHL Audit Committee.</p> <p>The scope and cost of non-audit services provided by the group external auditors is to be reported by the external auditors to the LHL Audit Committee from time to time as part of the regular business of the Audit Committee.</p>
REVIEW TIMETABLE & PLAN (INCLUDING PROCEDURE FOR REVISIONS & ADDITIONS)	SCHEDULED (PERIODIC) REVIEW DATE: The Group Chief Financial Officer shall instigate a periodic review of this policy to determine if it is current, needs revisions, or is no longer needed on or about the 30 September 2015 (and every year thereafter) . Any recommended changes shall be discussed with the General Counsel and/or the Head of Corporate Affairs and brought before the Audit Committee for consideration and approval.
Supporting Processes/Procedures	Schedule A Lancashire: Client Needs Fan (see attached)

# Lancashire: Non-audit services “Fan”

EXAMPLES OF RECENT EY WORK

*Reporting accountant work for Placing in respect of Cathedral acquisition*

*Working Capital services for Placing in respect of Cathedral acquisition*

*Cathedral – proposed members’ voluntary liquidation*

*Transfer Pricing Review – LUK and Cathedral*

*Cathedral FAL extraction*

*Review of LUK Standard Formula process*

*Reporting on Directors Remuneration Report*

## Services not prohibited but requiring pre-approval

## Pre-approved and potential synergies in using EY

- Non-recurring internal controls, process and risk management control reports and advice including:
- Business Cont. Planning
  - IT recovery plans
  - Outsourced agreements & processes
  - Capital & Solvency II Readiness
  - Enterprise Risk Management
  - Corporate Governance
  - Internal audit effectiveness
  - IT security
  - IT controls
  - Accounting processes, controls & governance

Employee tax services – except to FRORs

Project and cost & efficiency assurance/ advice

Services relating to capital raising

Advice on accounting, auditing, financial reporting and regulatory matters

Due diligence - transaction support, actuarial, tax, accounting, regulatory, synergies

Income & indirect tax compliance

Income & indirect tax consulting

Publications & seminars

## Pre-approved and EY should be used unless Audit Committee approval for another firm

Non statutory audit, review and attestation opinions on:

- elements of Report & Accounts
- analyst presentations
- completion accounts for vendor
- actuarial opinions
- joint ventures
- employee benefit plan audits
- contract compliance attestation
- capital models

Including agreed upon procedures in relation to external reporting

SERVICE DESCRIPTIONS

## Prohibited Services

Other services not listed. Case by case approval can be sought from the Group Audit Committee, via Group Finance

Performing Management functions

Investment advisor or investment banking services

“Expert” service in litigation, investigation proceedings

Legal services

Bookkeeping services

If significant doubt on accounting treatment: tax & transaction advisory services

The following are prohibited unless not subject to approval and approved by the Group Audit Committee:

- Appraisal or valuation services
- Internal Audit outsourcing services
- Financial info. systems design & implementation

This guide is intended to assist Lancashire and EY to understand the types of services for which the use of EY can be pre-approved. Before proceeding with a service, reference must be made to the **‘External Auditor Policy’** to ensure the proposed service falls with the detailed definition contained therein.