

**LANCASHIRE GROUP NON-AUDIT SERVICES POLICY**

POLICY TITLE	<b>LANCASHIRE GROUP NON-AUDIT SERVICES POLICY</b>
EFFECTIVE DATE	Date initially approved: 17 February 2011 (latest amended version reviewed and approved by the Audit Committee on 28 April 2020 to reflect the Financial Reporting Council's ("FRC") Revised Ethical Standard (2019))
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 (together the Lancashire Group) does not impair the external auditors' 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 is reviewed annually and was approved for issue by the Audit Committee on 28 April 2020
SCOPE	All Lancashire Group companies are subject to this policy when commissioning non-audit services from the external auditors of the Lancashire Group.
POLICY	<p><b>1. Objective</b></p> <p>1.1 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 auditors 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 auditors are excluded.</p> <p><b>2. Audit related services (pre-approved as a matter of policy)</b></p> <p>2.1 Audit related services are those non-audit services specified as such in the FRC's Revised Ethical Standard (2019) for Auditors. The use of the external auditors may be considered as pre-approved as a matter of policy by the Audit Committee where the threat posed to auditor independence by the external auditors 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 6 of this policy. For example, if the engagement is routine in nature and the fee is not significant in the context of the audit fee (non-significant being less than £50,000 for any one individual engagement up to a maximum annual accumulation of £150,000).</p> <p>(i) Audit related services include:</p> <ul style="list-style-type: none"> <li>• Reporting required by law or regulation to be provided by the auditor;</li> <li>• Reviews of interim financial information;</li> </ul>

- Reporting on regulatory returns;
- Reporting to a regulator on client assets;
- Reporting on government grants;
- Reporting on internal financial controls when required by law or regulation; and
- Extended audit work that is authorised by those charged with governance performed on financial information and/or financial controls where this work is integrated with the audit work and is performed on the same principal terms and conditions.

(ii) Audit related services provided to public interest entities, other than those required by national legislation, are subject to a service fee cap (see Section 4 of this policy) and require approval by the Audit Committee.

### **3. Permitted non-audit services (specific Audit Committee approval required for public interest entities)**

3.1 Permitted non-audit services include:

(i) Permitted non-audit services required by law or regulation, where the external auditors are considered an appropriate provider of services, and which are exempt from the non-audit services cap. These include:

- Reporting required by a competent authority or regulator under law or regulation, for example:
  - Reporting to a regulator on client assets;
  - Reporting under s166 and s340 of the Financial Services and Markets Act 2000;
  - Reporting on regulatory financial statements; and
  - Reporting on a Solvency and Financial Condition Report under Solvency II.
- Reporting required in a jurisdiction where the external auditors are permitted to undertake the engagement;
- Reporting on internal financial controls when required by law or regulation;
- Reporting on the iXBRL tagging of financial statements in accordance with the European Single Electronic Format for annual financial reports;
- Reports where the authority/regulator has either specified the external auditors to provide the service or identified the external auditors as an appropriate choice for service provider; and
- Provision of time critical, price sensitive services required by law or regulation where the provision of the services, due to their nature, would not compromise the external auditors' independence.

(ii) Services not otherwise required by law or regulation and which are subject to a service fee cap (see Section 4 of this policy). These include:

- Reviews of interim financial information;
- Services where the external auditors', or reporting accountants', understanding of the Lancashire Group entity concerned is relevant and the nature of the service would not compromise their independence;

- Extended audit or assurance work in an entity relevant to the audit engagement or a third-party service provider, where the work is closely linked to the audit engagement;
- Additional assurance work or agreed upon procedures on material included within or referenced in the annual report of an entity relevant to the audit engagement;
- Reporting on government grants;
- Services which have been the subject of an application to the Competent Authority in accordance with Regulation 79 of the Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019;
- Reporting on covenant or loan agreements that require independent verification; and
- Subscription services providing factual updates of changes to applicable law, regulation, accounting or auditing standards.

#### **4. Service fee cap**

4.1 Services provided to public interest entities and not otherwise required by law and regulation are subject to a service fee cap. In this regard, see Sections 2.1(ii) and 3.1(ii) of this policy. The total fees for these services is limited to no more than 70% of the average audit fees paid to the external auditors over the previous three years. This service fee cap has been voluntarily applied to Lancashire Holdings Limited.

#### **5. Specific approval required**

5.1 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) or because of the status of the Lancashire Group entity to which they are to be provided (i.e. a public interest entity), are thought to give rise to threats to the external auditors' 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 auditors 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 auditors or the Lancashire Group.

5.2 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.

#### **6. Excluded services**

6.1 The external auditors will not provide any of the following non-audit services to the Lancashire Group:

(i) **Accounting Services.** The external auditors are prohibited from maintaining or preparing the Lancashire Group's accounting records, preparing the financial statements or the information that forms the basis of the financial statements and preparing or originating source data underlying the Lancashire Group's financial statements.

(ii) **Information Technology Services.** The external auditors are prohibited from designing, providing or implementing information technology systems. 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) **Valuation Services.** The external auditors are prohibited from providing a valuation service in which the external auditors make assumptions and apply appropriate methodologies and techniques to compute a valuation for an asset, liability or business as a whole.

(iv) **Actuarial Valuation Services.** The external auditors are prohibited from providing any actuarially-oriented advisory service involving the determination of amounts recorded in the financial statements and related accounts for the Lancashire Group. This prohibition does not preclude the external auditors from performing work to understand the methods, models, assumptions and inputs used in computing the actuarial reserves during the audit and making recommendations for improvements to the Lancashire Group's internal controls.

(v) **Tax Services.** The external auditors are prohibited from providing tax advice, promoting tax structures or products, performing tax services to prepare current or deferred tax calculations or acting on behalf of the Lancashire Group in dealings with tax authorities.

(vi) **Legal Services.** The external auditors are prohibited from providing legal services that would involve acting as the General Counsel or representing the Lancashire Group in the resolution of a dispute or litigation.

(vii) **Recruitment and Remuneration Services.** The external auditors are prohibited from providing recruitment services or advising on the appointment of any director or employee. The external auditors are also prohibited from providing advice on the remuneration package, or measurement criteria on which the remuneration is calculated, for any director or employee.

(viii) **Restructuring Services.** The external auditors are prohibited from providing restructuring services where the external auditors undertake a management role or act as advocates on behalf of the Lancashire Group on material restructuring matters.

(ix) **Internal Audit Services.** The external auditors are prohibited from providing internal audit services relating to the internal accounting controls, financial systems or financial statements of the Lancashire Group. This prohibition does not preclude the external auditors from providing attest services related to internal controls and the operation of the internal audit function, 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.

(x) **Management Function Services.** 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.

(xi) **Corporate Finance and Transaction Related Services.** The external auditors are prohibited from dealing in, underwriting or promoting shares, 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.

(xii) **Litigation Support Services.** This precludes engagements that are intended to result in the external auditors providing litigation support services involving the estimation of the likely outcome of a pending legal matter, expert opinions, specialised knowledge, experience and expertise for the purpose of advocating the Lancashire Group’s interests in litigation, regulatory or administrative investigations or adversarial proceedings. This rule does not 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.

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

6.2 The external auditors may provide the non-audit services listed above if all of the following criteria are met:

- the Audit Committee considers that there are exceptional circumstances which may make the provision of such services permissible;
- the external auditors generate information that is not significant to the financial statements taken as a whole or does not require a significant degree of subjective judgement;
- it is reasonable to conclude that the results of these services will not be subject to audit procedures during the audit of LHL and its subsidiaries’ financial statements; and
- the work will be performed by partners and staff having no involvement in the audit engagement.

6.3 The external auditors may provide the non-audit services listed above if they are designated by legislation or regulation as being required to carry out the non-audit services.

6.4 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.

	<p><b>7. Guidance</b></p> <p>7.1 When determining whether a non-audit service may be pre-approved or require Audit Committee approval, reference may be made to the guidance above. 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.</p>
FORMS	No forms required.
TRAINING	No training needed.
COMMUNICATION & DISTRIBUTION PLAN	This policy shall be published on the Lancashire website, intranet and shall be e-mailed to all managers who may be responsible for the commission of non-audit services from the external auditors.
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 Audit Committee.</p> <p>The scope and cost of non-audit services provided by the Lancashire Group's external auditors is to be reported by the external auditors to the 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)	<p><b>SCHEDULED (PERIODIC) REVIEW DATE:</b> The Group Chief Financial Officer shall instigate an annual review of this policy to determine if it is current, needs revisions, or is no longer needed.</p> <p>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.</p>