

**HISCOX LTD (the "Company")  
AUDIT COMMITTEE TERMS OF REFERENCE**

**1. Purpose**

The purpose of the Hiscox Ltd Audit Committee (the "Committee") is to perform the following:

- a) assist the Board<sup>1</sup> on matters of financial reporting, reserving and internal control, including monitoring the financial reporting process and submit recommendations and proposals to ensure its integrity;
- b) oversee and ensure the independence and effectiveness of both the internal and external audit functions of the Group<sup>2</sup>;
- c) review and liaise with the Board on the effectiveness of the Whistleblowing Policy which allows employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. As further detailed in the Whistleblowing Policy, the Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action; and
- d) monitor compliance with the UK Financial Conduct Authority's Listing Rules, Prospectus Regulation Rules and Disclosure Guidance and Transparency Rules, Bermuda company law, the UK Corporate Governance Code<sup>3</sup> and any other applicable rules and guidance, as appropriate.

**2. Membership**

- a) Only independent Non-Executive Directors of the Company are eligible to be appointed to the Committee.
- b) The Committee shall comprise at least three members. The quorum for meetings shall be two Directors.
- c) The Board shall satisfy itself that at least one member of the Committee shall have relevant and recent financial experience and competence in accounting and/or auditing. The Committee as a whole shall have competence relevant to the sectors in which the Company operates.
- d) The Chair and other members of the Committee shall be appointed by the Board, on the recommendation of the Nominations & Governance Committee.
- e) The Board may remove any member of the Committee.

**3. Constitution and meetings of the Committee**

- a) *Chair* – The Chair shall set the agenda for meetings of the Committee. The Chair may arrange for another member to chair a future meeting if he or she will be absent from that meeting. In the absence of any such prior arrangement by the Chair of the Committee, the remaining members present shall elect one of themselves to chair the meeting. In the absence of the appointed

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<sup>1</sup> Means the board of directors of the Company as defined in the Bye-Laws of the Company.

<sup>2</sup> Means the Company and its direct and indirect subsidiaries.

<sup>3</sup> Means the UK Corporate Governance Code published from time to time by the Financial Reporting Council and applicable to the Company at the relevant time.

Secretary<sup>4</sup> the chair of the meeting shall require some other person to perform the role of Secretary for that meeting.

- b) *Frequency and timing of meetings* - The Committee shall meet at least three times each calendar year. Outside of the formal meeting programme, the Chair and other Committee members, where relevant, will maintain a dialogue with key individuals involved in the Company's governance, including the Executive Directors, the external auditor's lead partner, Chief Actuary, and the Head of Group Internal Audit.
- c) *Location of meetings* - Meetings shall typically be held in Bermuda or another location subject to the discretion of the Group Company Secretary. Meetings shall not be held in the UK or the USA.
- d) *Committee Packs*<sup>5</sup> - The Secretary shall ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.
- e) *Voting* - Decisions of the Committee shall be made by majority vote. In the case of an equality of votes the chair of the meeting has a second casting vote.
- f) *Notice of meetings* - All members are entitled to receive notice of meetings no later than five working days before the date of the meeting, unless otherwise agreed, which shall state the date, time and location of each meeting. Notice may be given in writing, verbally or by any electronic means. All members are entitled to attend and vote at meetings of the Committee. A member at any time may, and the Secretary at the request of a member shall, summon a Committee meeting. A member may waive the requirement that notice be given to him/her of any Committee meeting, either prospectively or retrospectively.
- g) *Minutes of meetings* - Minutes of meetings of the Committee shall be produced by the Secretary. The minutes shall detail the proceedings and decisions of the meeting setting out the date, time, and place of the meeting, together with a list of those present and in attendance. Minutes of the preceding meeting shall be approved by the Committee at each meeting.
- h) *Meetings held by electronic means* - Any member may participate in a meeting of the Committee by way of telephone, computer or any other electronic means of communication provided that each person participating in the meeting is able to hear and speak. A person participating in this way is deemed to be present in person although their actual location shall be noted in the minutes and is counted in a quorum and entitled to vote. However, no member shall participate in any meeting while located in the UK or USA. The meeting is deemed to take place where the largest group of those participating is assembled or, if there is no such group, where the chair of the meeting is located.
- i) *Authority to inspect the minutes of meetings* - The following individuals are entitled to inspect the minutes of meetings:
  - all Directors of the Company;
  - all members of the Committee;
  - Head of Group Internal Audit;
  - external auditors;
  - employees of the Bermuda Monetary Authority;
  - Committee Secretary; and
  - any other person the Chair may from time to time permit.

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<sup>4</sup> Means Secretary of the Committee and includes any Assistant or Deputy Secretary or a person appointed by the Committee to perform the duties of the Secretary, who shall not be a member of the Committee.

<sup>5</sup> Means the meeting agenda, together with such other documents as the Chair may from time to time determine.

- j) *Attendance at meetings* - Only the members of the Committee have the right to attend Committee meetings. However, the following will be expected to attend Committee meetings on a regular basis:

- The external auditors
- Chief Financial Officer
- Chief Actuary
- Head of Group Internal Audit

The Chief Executive Officer and any other relevant member of senior management of the Group or any external advisors may attend all or part of any meeting of the Committee at the invitation of the Chair. The Committee shall meet with the external auditors at least once a year without management being present.

#### 4. Duties

The Committee shall carry out the duties below for the Company and the Group as appropriate.

##### *External auditors*

The Committee shall oversee the Group's relationship with the external auditors and assess the effectiveness and independence of the external audit process. In particular:

- a) monitor the audit of the consolidated financial statements and reserves;
- b) assess annually the effectiveness of the external auditor taking into account law, regulation and other professional requirements;
- c) oversee the timing and process for tendering for and selecting the external auditor, in accordance with applicable law and regulation (including ensuring all tendering firms have access to all necessary information and individuals during the tender process) and make appropriate recommendations in relation to appointment, re-appointment and removal through the Board to the shareholders to consider at the AGM;
- d) oversee the relationship with the external auditor including reviewing and approving the audit fee to ensure it is appropriate to enable an effective and high quality audit to be conducted;
- e) review and monitor the independence and objectivity of the external auditor;
- f) to the extent that such services are authorised, develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the external auditor (including approval of non-audit services by the Committee, specifying the types of non-audit service to be pre-approved and approving any non-audit services provided by the external auditor above £50,000), assess of whether non-audit services have a direct or material effect on the audited financial statements, and ensure that the Group's relationship including provision of non-audit services does not impair the external auditors' independence or objectivity;
- g) meet the external auditors regularly. This will include meetings without executive management and will include assessing annually: their compliance with relevant ethical and professional guidance on the rotation of the audit partner, their qualifications, expertise and resources, their independence, and the effectiveness of the external audit process (which shall include a report from the external auditor on their own internal quality procedures);
- h) agree with the external auditors the nature and scope of the audit including timetable, audit partners and staff and the nature and quality of audit to be undertaken in advance of the audit commencing;

- i) review the external auditor's management letter and management's response;
- j) if the external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- k) evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee;
- l) discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- m) review the findings of the audit with the external auditor including a discussion of any major issues which arose during the audit and how they have been resolved, explanation of how the risks to audit quality were addressed, key accounting and audit judgements, the external auditor's view of interactions with senior management and levels of errors identified during the audit, and the effectiveness of the audit; and
- n) review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the external auditor, and the response to questions from the Committee.

#### *Internal Audit*

The Committee shall monitor and review the effectiveness, independence and objectivity of the Internal Audit function. In particular:

- a) approve the appointment or termination of appointment of the Head of Group Internal Audit;
- b) ensure that the Internal Audit function is adequately resourced and has appropriate standing within the Group, ensure Internal Audit has unrestricted scope, access to information to enable it to fulfil its mandate, there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan, and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;
- c) ensure the Head of Group Internal Audit has direct access to the Committee and Chair of the Board providing independence from the executive and accountability to the Committee;
- d) review and approve the role and mandate of internal audit, monitor the effectiveness of the Group's Internal Audit function including an annual assessment and ensuring it is appropriate for the needs of the Group and notify the Board if it believes the Internal Audit function to be insufficiently effective;
- e) monitor the effectiveness of the Group's internal control and risk management, including reviewing management's and the Internal Audit function's reports on the effectiveness of systems of internal control, making appropriate recommendations to the Board on them, and approving the statements to be included in the annual report concerning internal control and risk management;
- f) consider and report to the Board on management's response to any major internal audit recommendations;
- g) review arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;

- h) consider reports on whistleblowing, to determine and recommend a resulting course of action, to monitor its implementation, and to report to the Head of Group Internal Audit, the Board, or any relevant third party deemed by the Committee to be appropriate;
- i) meet the Head of Group Internal Audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out; and
- j) hold the Chair of the Committee accountable for setting the objectives of the Head of Group Internal Audit, appraising their performance and, taking account of the views of the Chief Financial Officer, recommending their remuneration to the Remuneration Committee.

#### *Financial and Narrative Reporting*

The Committee shall monitor the integrity of the financial statements of the Company, and review any formal announcements relating to the Company's financial performance, and review significant financial reporting judgements contained in them. In particular, the Committee shall review the appropriateness of the financial and reserving reports including:

- a) the application and consistency of, and any changes to, accounting policies both on a year on year basis and across the Group;
- b) the extent to which the financial statements are affected by significant or unusual transactions in the year and how they are disclosed;
- c) whether the Company has adopted and followed appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the external auditor;
- d) the clarity and completeness of disclosures and whether such disclosures are properly set in context;
- e) significant adjustments resulting from the audit;
- f) all material information presented with the financial statements including the strategic report and corporate governance statements relating to the audit and risk management;
- g) compliance with statutory and regulatory rules; and
- h) the actions and judgements of management in relation to the interim and annual financial statements of the Company before submission to the Board, paying particular attention to:
  - decisions requiring a major element of judgement;
  - the going concern assumption;
  - the Company's statement on internal control systems;
  - the Company's viability statement, prior to the endorsement of the accounts by the Board.

The Committee shall provide advice to the Board on whether the Company's annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Committee shall also inform the Board of the outcome of the external audit and explain how the external audit has contributed to the integrity of financial reporting. The Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern and the inputs to the Board's viability statement.

#### *Internal controls and risk management systems*

The Committee shall review the Group's internal controls. In particular:

- a) keep under review the Company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems;
- b) consider any findings of major investigations of internal control over financial reporting matters and management's response to these;
- c) seek assurance from management that they have performed their duty in ensuring an effective system of internal control is in place and reviewing any approvals for deviations from the Group-wide minimum requirements of the framework; and
- d) review and approve the statements to be included in the annual report concerning internal control, risk management and the viability statement.

#### *Compliance and fraud*

The Committee shall:

- a) review the adequacy and security of the Company's arrangements for its employees, contractors and external third parties to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and shall ensure that these matters allow proportionate and independent investigation of such matters and appropriate follow-up action; and
- b) review the Company's systems, procedures and controls for detecting fraud, preventing bribery, identifying money laundering and ensuring compliance with relevant legal and regulatory requirements.

### **5. Reporting**

- a) The Chair of the Committee shall make a verbal summary report on the nature and content of the Committee's discussion at each Board meeting immediately following each Committee meeting.
- b) The Committee shall compile a report on its activities during the year to be included as a statement in the annual report, including all other information requirements set out in the UK Corporate Governance Code. The report should include (without limitation) an explanation of how the Committee has addressed the independence and effectiveness of the external audit process; when the external auditor was appointed and the next planned retendering; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the external auditor.

### **6. Engagement with Shareholders**

The Chair shall be available at the Annual General Meeting to answer questions on the Committee's activities. In addition, the Chair should seek engagement with shareholders on significant matters related to the Committee's areas of responsibility.

### **7. Other Matters**

The Committee shall:

- a) have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;

- b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;
- c) give due consideration to relevant laws and regulations, the provisions of the UK Corporate Governance Code and related guidance, the requirements of the UK Financial Conduct Authority's Listing Rules, Prospectus Regulation Rules and Disclosure Guidance and Transparency Rules and any other applicable rules, as appropriate;
- d) oversee any investigation of activities which are within its Terms of Reference;
- e) work and liaise as necessary with all other Board Committees, taking particular account of the impact of risk management and internal controls being delegated to different Committees; and
- f) arrange for periodic evaluations of its own performance and, at least annually, review its constitution and Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## **8. Authorities**

Subject to these Terms of Reference taking precedence, the Committee is authorised by the Board to:

- a) prevent Executive Directors from attending all or part of any meeting;
- b) approve the internal audit programme;
- c) approve the appointment or dismissal of the Head of Group Internal Audit;
- d) take any actions the Committee deems reasonable to ensure proportionate and independent investigation of any concerns employees raise under the Company's Whistleblowing Policy;
- e) obtain, at the Company's expense, outside legal or other professional advice on any matter within its Terms of Reference; and
- f) seek any information it requires from, or call to a meeting of the Committee, any employee of the Group as and when required, provided reasonable notice is given to that employee.

## **9. Amendment of Terms of Reference**

These Terms of Reference are subject to Bye-Law 77 of the Company's Bye-Laws and may only be amended by the Board.