
**LANCASHIRE HOLDINGS LIMITED
SCHEDULE OF RESERVED MATTERS
EFFECTIVE FROM 29 JULY 2009**

Schedule of Matters Reserved for Decision by the Board of Directors of Lancashire Holdings Limited (the "Company")

An effective Board controls the business but delegates day to day responsibility to the executive management. That said there are a number of matters which are required to be, or in the interests of the Company should only be, decided by the Board of Directors as a whole. It is incumbent upon the Board to make it clear what these **Matters Reserved for Decision by the Board** are.

Delegation

Certain of the matters may be delegated to or be the subject of recommendation from the:

1. Audit Committee;
2. Remuneration Committee; or
3. Nomination and Corporate Governance Committee.

Items marked * are not considered suitable for delegation to a committee of the Board because of company law requirements or because under the recommendations of the Combined Code on Corporate Governance published in June 2008 by the Financial Reporting Council (the "Combined Code"), they are the responsibility of an audit, nomination or remuneration committee, with the final decision required to be taken by the Board as a whole.

Urgent matters (to be read as being subject to the Company's Bye-laws)

The Board has established a Special Purposes Committee for dealing with matters which have to be dealt with urgently, often between regular Board meetings. A telephone or video conference meeting should be held for such urgent matters, in which as many directors as possible participate. This allows directors the opportunity to discuss the matter and ask questions. Any director who cannot attend will still be sent the relevant papers and have the opportunity to give their views to the Chairman, Senior Independent Director and another director or the company secretary before the meeting. If the matter is routine and discussion is not necessary, the approval of all the directors may be obtained by means of a written resolution. In all cases however the process - whether written resolution, Special Purposes Committee or Board meeting - should balance the need for urgency with the overriding principle that each director should be given as much information as possible, the time to consider it properly and an opportunity to discuss the matter prior to the commitment of the Company. **In all cases, the procedures recommended above shall be subject to the provisions of the Company's Bye-laws.**

1. Strategy and Management

- 1.1 Responsibility for the oversight of the management of the Group.
- 1.2 Approval of the group's long term objectives and commercial strategy.
- 1.3 Approval of the annual operating and capital expenditure budgets and any material changes to them.
- 1.4 Approval of the group's investment strategy.
- 1.5 Review of performance in the light of the group's strategy, objectives, business plans and budgets and ensuring that any necessary corrective action is taken.
- 1.6 Any change in the Company's registered office, domicile or status.
- 1.7 Extension of the group's activities into new business or geographic areas for consideration, or commitments or other value exceeding US\$10 million.

2. Structure and capital

- 2.1 Changes relating to the group's capital structure including raising new capital, reduction of capital, share issues (except under employee share plans), share buy-backs including the use (if any) of treasury shares and allotments, calls or forfeitures of shares.
- 2.2 Major changes to the group's corporate structure.
- 2.3 Changes to the group's management structure and control structure.
- 2.4 Any material change to the listing of the Company's shares on the Main Market of the London Stock Exchange including establishing an additional listing of the Company's shares on any stock exchange or any de-listing of the Company's shares from any stock exchange listing or its status as a listed company.
- 2.5 * Approval of the dividend policy.

3. Financial reporting and controls

- 3.1 * Approval of preliminary announcements of interim and final results.
- 3.2 * Review of management accounts and reports from any compliance officer of the Company.
- 3.3 * Approval of the annual report and accounts, including the corporate governance statement and remuneration report¹.
- 3.4 * Approval of the half-yearly accounts and interim management statements.
- 3.5 * Discussion of any proposed qualification to the accounts.
- 3.6 * Declaration of the interim dividend and recommendation of the final dividend.
- 3.7 * Approval of any significant changes in accounting policies or practices.

4. ERM and Internal controls

¹ This item is often considered by the whole Board but with the final formal decision being delegated to a committee (set up solely for that purpose). This allows time for any changes requested at the Board meeting to be incorporated into the final document before publication

4.1 Maintaining oversight of the quality, effectiveness, resources and utility of the Company's arrangements concerning ERM.

4.2 Ensuring maintenance of a sound system of internal controls.

5. Contracts & Transactions

5.1 Approval of substantial transactions in accordance with Listing Rule 10 of the Listing Rules made by the Financial Services Authority in its capacity as the UK Listing Authority ("Listing Rules").

5.2 Approval of transactions with directors or other related parties in accordance with Listing Rule 11.

5.3 Approval of transactions constituting a reverse take-over in accordance with Listing Rule 10.6 such as an acquisition by the Company of a business, an unlisted company or assets which would:

- exceed 100% in any of the class tests (as set out in Annex 1 to Listing Rule 10); or
- result in a fundamental change in its business, Board or voting control of the Company.

5.4 Capital projects, not explicitly approved within the Group Annual Budget, which (taken together with any associated cost or prospective cost) involve expenditure exceeding US\$10 million.

5.5 Contracts (other than insurance and reinsurance contracts entered into in the ordinary course of the Group's insurance and reinsurance business) which are material strategically (including contracts in excess of one year's duration) or by reason of size, entered into by the Company or any subsidiary in the ordinary course of business, for example acquisitions or disposals of fixed assets above US\$10 million.

5.6 Contracts of the Company or any subsidiary not in the ordinary course of the Group's insurance and reinsurance business, for example loans and repayments above US\$10 million; foreign currency transactions above US\$10 million (excluding foreign currency hedging undertaken in the ordinary course of the Group's insurance and reinsurance business); major acquisitions or disposals where the capital value is above US\$10 million; joint ventures involving assets of more than US\$10 million or gross revenue per annum of more than US\$10 million.

5.7 Major investments including the acquisition or disposal of interests of more than 5% in the voting shares of any company or the making of any takeover offer or the making of any offer for capacity exceeding US\$10 million.

5.8 Consideration of any transaction, proposal or investment which is specifically referred to the Board by a director.

6. Borrowings

6.1 Confirmation of major financing facilities, approval of any credit arrangements or similar financial facilities to be entered into by the Company or its subsidiary undertakings and giving of security over significant group assets (including mortgages and charges over the group's property).

7. Communication

- 7.1** Approval of resolutions and corresponding documentation to be put forward to shareholders at a general meeting.
- 7.2** * Approval of all circulars and prospectuses or listing particulars.
- 7.3** * Approval of announcements concerning matters decided by the Board or required to be released under the Listing Rules of the Disclosure and Transparency Rules made by the UK Financial Services Authority in its capacity as the UK Listing Authority, Listing Rule 10 (Significant transactions) and Listing Rule 11 (Related party transactions). However, approval of announcements under Disclosure and Transparency Rule 2 (Disclosure and control of inside information by issuers) or under Disclosure and Transparency Rule 3 of any deals by persons discharging managerial responsibilities or under Disclosure and Transparency Rule 5 of a change in significant shareholdings (when a shareholder's voting rights reach, exceed or fall below thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%) could be delegated to a committee for administrative convenience.

8. Board membership and other appointments

- 8.1** * Changes to the structure, size and composition of the Board, following recommendations from the Nomination and Corporate Governance Committee.
- 8.2** * Ensuring adequate succession planning, training, development and appraisal for the Board and senior management.
- 8.3** * Appointments to the Board, following recommendations by the nomination committee.
- 8.4** * Selection of the Chairman of the Board and the Chief Executive Officer.
- 8.5** * Appointment of the Senior Independent Director as recommended in the Combined Code.
- 8.6** * Membership and Chairmanship of Board committees.
- 8.7** * Continuation in office of directors at the end of their term of office, when they are due to be re-elected by shareholders at the AGM and otherwise as appropriate.
- 8.8** * Continuation in office of any director at any time, including the suspension or termination of service of an executive director as an employee of the Company, subject to the law and their service contract.
- 8.9** * Appointment or removal of the company secretary.
- 8.10** * Appointment, reappointment or removal of the external auditor to be put to shareholders for approval, following the recommendation of the audit committee.
- 8.11** Appointment or removal of any internal auditor.
- 8.12** Appointments to and removals from boards of subsidiaries and senior management appointments and removals that require public disclosure.

9. Remuneration

- 9.1 * Determining the remuneration policy for the directors, company secretary and other senior executives.
- 9.2 Determining the remuneration of the non-executive directors, subject to the Company's Bye-laws and shareholder approval as appropriate.
- 9.3 * The introduction of new share incentive plans or major changes to existing plans, to be put to shareholders for approval.
- 10. Delegation of Authority**
- 10.1 * The division of responsibilities between the Chairman, the Chief Executive Officer and other executive directors, which should be in writing.
- 10.2 * Approval of terms of reference of Board committees.
- 10.3 * Receiving reports from Board committees on their activities.
- 11. Corporate governance matters**
- 11.1 * Undertaking a formal and rigorous review annually of its own performance, that of its committees and that of individual directors.
- 11.2 * Determining the independence of directors.
- 11.3 * Considering the balance of interests between shareholders, employees, customers and the community.
- 11.4 Review of the group's overall corporate governance arrangements.
- 11.5 * Receiving reports on the views of the Company's shareholders.
- 12. Other**
- 12.1 Approval of the appointment of the group's principal professional advisers.
- 12.2 Approval of any executive Director's employment contract with a notice period in excess of one year.
- 12.3 Approval of the overall levels of insurance for the group including Directors' & Officers' liability insurance and indemnification of directors.
- 12.4 Approval of the Company's charitable and political donations beyond amounts explicitly set out in the approved budgets.
- 12.5 This schedule of matters reserved for Board decisions.
- 13. Matters to be reported to the Board. Certain matters, as follows, should be reported to the Board at the next Board meeting or immediately if the Chairman considers it appropriate.**
- 13.1 Any actual or likely litigation where the exposure of the Company or any subsidiary could exceed US\$10 million.
- 13.2 Any material fine, prosecution, disciplinary action or censure proposed to be taken or imposed against the Company or any subsidiary by any government or regulatory body, or any material regulatory breaches.
- 13.3 Any matter of significance which is likely to receive extensive publicity or which, due to its unusual nature, is one which in the opinion of any director, the Board should be made aware of.