
LANCASHIRE HOLDINGS LIMITED

**TERMS OF REFERENCE OF
REMUNERATION COMMITTEE**

EFFECTIVE FROM 6TH AUGUST 2008

Lancashire Holdings Limited
(the “Company”)

Remuneration Committee

Terms of Reference

On 9 December 2005 the Board of Directors of the Company (the “**Board**”) resolved to establish a Remuneration Committee of the Board (the “**Committee**”). These Terms of Reference were also adopted by the Board on 9 December 2005 and subsequently amended by the Board on 9 March 2006, on 28 February 2007 and on 6 August 2008.

1. Membership

- 1.1 The Committee shall be appointed by the Board and shall consist of the Chairman and not less than one non-executive director. A quorum shall be two members. The Chairman of the Company may be appointed as an additional member of the Committee. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 1.2 The Chairman of the Committee shall be appointed by the Board and shall be a non-executive Director. The Chairman of the Company may not be appointed as Chairman of the Committee.
- 1.3 The Committee may invite other Directors to attend its meetings as it considers necessary for its effective operation. In this regard, the Chief Executive Officer will report to the Committee on significant Company-wide changes in salary structure and terms and conditions affecting employees at senior executive level.
- 1.4 The Company Secretary shall be the secretary of the Committee.

2. Authority

- 2.1 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee of the Company and its subsidiary undertakings (the “**Group**”) and all such employees are directed to co-operate with any request made by the Committee.
- 2.2 The Committee is authorised by the Board to involve itself in, and be informed about, any matters relating to the appointment, remuneration, terms and conditions of employment of the executive board and senior management of the Group including any executive Directors, the Chief Executive Officer and the individual senior executives that report directly to the Chief Executive Officer of the Company, together with such other individuals as determined in writing by the Committee from time to time (such individuals are collectively referred to as the “Senior Executives” of the Group).

2.3 The Committee is authorised by the Board (subject first to informing the Board of its intention to do so) to obtain outside legal or other independent professional advice at the Company's expense and to secure the attendance of outsiders with relevant experience if it considers this necessary.

3. Duties

3.1 The Chairman of the Committee shall report to shareholders in compliance with relevant regulatory and legal requirements.

3.2 The duties of the Committee shall be to:

3.2.1 determine and agree with the Board the Company's framework of executive director remuneration and its cost;

3.2.2 determine the remuneration in all its forms (including, where appropriate, bonuses, incentive payments and share options) of the individual Senior Executives. The Committee may draw on outside advice as necessary in fulfilment of its duties under this paragraph;

3.2.3 take into account all factors which it deems necessary to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced individual and corporate performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company;

3.2.4 ensure that no Director, manager or other officer shall be involved in any decisions as to their own remuneration;

3.2.5 determine targets for, advise on, and monitor, any performance related bonus or other incentive schemes;

3.2.6 see that awards under the Group's share option schemes and incentive plans, if any, while complying with the statutory and other requirements, are consistent with the Group's overall performance and the performance of individuals and provide an additional incentive to management;

3.2.7 ensure that there are appropriate pension arrangements (if any) for the executive directors entitled to such arrangements;

3.2.8 administer the Group's share option schemes and incentive plans, if any;

3.2.9 be aware of and advise on any major changes in employee benefit structures throughout the Group;

3.2.10 approve contracts of employment or related contracts and material amendments thereto with Senior Executives on behalf of the Company;

3.2.11 determine terms of any compensation package in the event of the early termination of the contract of any Senior Executive and ensure that such terms and any payments made, are fair to the individual and the Company, that

failure is not rewarded and that the duty to mitigate loss is fully recognised;

- 3.2.12 in determining such packages and arrangements as above, have appropriate regard to the contents of the Combined Code of Corporate Governance published in July 2003 by the Financial Reporting Council and the Rules of the London Stock Exchange plc and any associated guidance;
 - 3.2.13 agree the policy for authorising claims for expenses from the Chief Executive Officer and the Chairman of the Company;
 - 3.2.14 be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee;
 - 3.2.15 co-ordinate closely with the Board's Nomination Committee in relation to the remuneration to be offered to any new executive Director;
 - 3.2.16 make recommendations to the Board regarding the contents of the Board's annual report to shareholders on Directors' remuneration (including pensions);
 - 3.2.17 make available the Committee's terms of reference which should set out the Committee's delegated responsibilities and be reviewed and, where necessary, updated annually.
- 3.3 In undertaking the above duties the Committee should bear in mind the size, profitability and market capitalisation of the Group, its reputation and its performance relative to other similar companies, the performance of individuals and the best interests of shareholders.

4. Reporting Procedures

- 4.1 The Committee shall meet as and when requested by either its Chairman or the Chairman of the Company, and its Chairman will ensure that such meetings are held sufficiently frequently for the Committee to fulfil its duties.
- 4.2 Notwithstanding 4.1 above, Committee meetings shall be held at least twice a year.
- 4.3 At the request of its Chairman, other Directors of the Company may be invited to attend but, in the event of a vote, shall not be entitled to vote.
- 4.4 No Director may participate in any decision regarding his or her own remuneration or be present during discussions of matters relating to him or her individually.
- 4.5 Notice in writing of the meetings of the Committee shall be given to each member of the Committee at least 3 business days before any meeting. For the purposes of this clause, notice in writing shall include notice sent by electronic means as deemed appropriate by the members of the Committee.
- 4.6 The secretary of the Committee shall minute the proceedings of all meetings of the Committee including a record of the names of those present. The minutes, but not necessarily all the related background papers, shall be made available by the secretary

of the Committee for inspection by any member of the Board.

- 4.7 The Chairman of the Committee will report to the Board on significant matters considered, recommended or decided by the Committee. The minutes, but not necessarily all the related background papers, shall be made available by the Secretary for inspection by any Director.
- 4.8 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 4.9 The Committee shall produce an annual report of the Company's remuneration policy and practices which may form part of the Company's annual report.
- 4.10 The Committee shall make these terms of reference available on request, explaining its work and the authority delegated to it by the Board.
- 4.11 Where remuneration consultants are appointed, the Committee shall make a statement available on request of whether such consultants have any other connection with the Company.

5. Annual General Meeting

The Chairman of the Committee shall attend the Annual General Meeting of the Company and be prepared to respond to any shareholder questions on the Committee's activities.

Adopted on 6 August 2008