
LANCASHIRE HOLDINGS LIMITED

TERMS OF REFERENCE OF THE

REMUNERATION COMMITTEE

**Adopted on 12 February 2014
(replacing earlier versions) and further revised 4
November 2014**

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 amended, restated and adopted by the Board on 12 February 2014, replacing those previously approved on 17 February 2011.

1. Membership

- 1.1 The Committee shall comprise at least three members, all of whom shall be independent non-executive directors. The chairman of the Board may also serve on the Committee as an additional member if he or she was considered independent on appointment as chairman. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination and Corporate Governance Committee and in consultation with the chairman of the Remuneration Committee.
- 1.2 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the chief executive, the head of human resources and external advisers may be invited to attend for all or part of any meeting, as and when appropriate and necessary.
- 1.3 Appointments to the Committee are made by the Board and shall be for a period of up to three years, extendable by no more than two additional three-year periods, so long as members (other than the chairman of the Board, if he or she is a member of the Committee) continue to be independent.
- 1.4 The Board shall appoint the Committee chairman who shall be an independent non-executive director. In the absence of the Committee chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting who would qualify under these terms of reference to be appointed to that position by the Board. The chairman of the Board shall not be chairman of the Committee.

2. Secretary

- 2.1 The Company secretary or his or her nominee shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

3. Quorum

3.1 The quorum necessary for the transaction of business shall be two members.

4. Frequency of meetings

4.1 The Committee shall meet at least twice a year and otherwise as required.

5. Notice of meetings

5.1 Meetings of the Committee shall be called by the secretary of the Committee at the request of the Committee chairman.

5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.

6. Minutes of meetings

6.1 The secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.

6.2 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board unless in the opinion of the Committee chairman it would be inappropriate to do so.

7. Annual General Meeting

The Committee chairman should attend the annual general meeting to answer any shareholder questions on the Committee's activities.

8. Duties

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

The Committee shall

8.1 determine and agree with the Board the framework or broad policy for the remuneration including pension rights and any compensation payments of the Company's chairman, chief executive, the executive directors, the Company secretary and such other members of the executive management as it is designated to consider. The remuneration of non-executive directors shall be a matter for the chairman and the executive members of the Board. No director or manager shall be involved in any decisions as to their own remuneration.

- 8.2 in determining such policy, take into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code (the “**Code**”) and associated guidance. The objective of such policy shall be to attract, retain and motivate executive management of the quality required to run the Company successfully without paying more than is necessary, having regard to views of shareholders. The remuneration policy should have regard to the risk appetite of the Company and alignment to the Company’s long-term strategic goals. A significant proportion of remuneration should be structured so as to link rewards to corporate and individual performance and designed to promote the long-term success of the Company;
- 8.3 when setting remuneration policy for directors, review and have regard to pay and employment conditions across the Company and the Group, especially when determining salary increases;
- 8.4 review the ongoing appropriateness and relevance of the remuneration policy; approve contracts of employment or related contracts and material amendments thereto with senior executives on behalf of the Company;
- 8.5 within the terms of the agreed policy and in consultation with the chairman and/or chief executive, as appropriate, determine the total individual remuneration package of the chairman, each executive director, Company secretary and other designated senior executives including bonuses, incentive payments and share options or other share awards;
- 8.6 within the terms of the agreed policy and in consultation with the Company’s chairman and (as appropriate) the chief executive to agree personal objectives for each executive director and the related performance and pay-out metrics for the performance element of the annual bonus;
- 8.7 obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity. To help it fulfil its obligations the Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary at the expense of the Company but within any budgetary restraints imposed by the Board;
- 8.8 be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee;
- 8.9 approve the design of, and determine targets for, any performance related pay schemes operated by the Company and approve the total annual payments made under such schemes (in accordance with the provisions in Schedule A of the Code);
- 8.10 review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to executive directors, Company secretary and other designated senior executives and the performance targets to be used;
- 8.11 determine the policy for, and scope of, pension arrangements for each executive

director and other designated senior executives;

- 8.12 ensure that contractual terms on termination, 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;
- 8.13 oversee any major changes in employee benefits structures throughout the Group;
- 8.14 agree the policy for authorising claims for expenses from the directors;
- 8.15 work and liaise as necessary with all other Board committees
- 8.16 take into account, including on recruitment or termination, that remuneration to be paid to a director should be in accordance with the shareholder approved policy in place at the time the payment is made or separate shareholder approval would be required; and
- 8.17 review annually the shareholdings of the executive directors in the context of share ownership guidelines.

9. Reporting responsibilities

- 9.1 The Committee chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

- 9.3 The Committee shall ensure that compliance with the UK provisions regarding disclosure of information, including pensions, (which do not apply to LHL as a matter of law) as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Code, are monitored and, to the extent that the Board wished to comply with such requirements, this should be covered in a three part annual report of the Company's remuneration policy and practices for directors and of the activities of the Committee which will form part of the Company's Annual Report. The committee's annual directors' remuneration report shall ordinarily comprise:
- 9.3.1 A statement from the chairman of the committee
 - 9.3.2 A section on future remuneration policy for board directors (Directors' Remuneration Policy) albeit this section may be excluded in the years that shareholder approval is not being sought; and
 - 9.3.3 A section on how board directors' remuneration has been implemented in the preceding year, how it will be implemented for the next year. If the Committee has appointed remuneration consultants, this section should identify such consultants and state whether they have any other connection with the Company.

Unless otherwise determined by the Board the Directors' Remuneration Policy shall be put to a binding vote at least every three years and the remainder of the Remuneration Report to an advisory shareholder vote each year at the AGM.

10. Other matters

The Committee shall:

- 10.1 have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- 10.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 10.3 give due consideration to laws, regulations and any published guidelines or recommendations regarding the remuneration of directors of listed companies and formation and operation of share schemes including but not limited to the provisions of the Code, the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules and guidelines issued by shareholder advisory bodies, as appropriate; and
- 10.4 arrange for periodic reviews 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, make these terms of reference available, explaining its role and the authority delegated to it by the Board.
- 10.5 The chairman of the Committee, liaising as necessary with the Chairman of the Board, shall engage with the Company's principal shareholders as necessary from

time to time and report to the Committee their views on remuneration matters and voting policies.

11. Authority

- 11.1 The Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference.

Adopted on 12 February 2014 (and amended on 4 November 2014)