



CHAUCER HOLDINGS PLC

AUDIT COMMITTEE

TERMS OF REFERENCE

Adopted by the CHP Board on 18th February 2011

1. REMIT

- 1.1. The CHP Board has established the Committee to ensure that the Group's financial reporting, internal control framework and audit functions are assessed and monitored.
- 1.2. The Committee shall act as set out in these Terms of Reference.

2. MEMBERSHIP

- 2.1. The Committee shall consist of at least two members.
- 2.2. All Committee members shall be independent non-executive directors and at least one member shall have significant, recent and relevant financial experience.
- 2.3. Members of the Committee shall be appointed by the CHP Board on the recommendation of the Nomination Committee. Appointments shall be made which are appropriate based on the roles and responsibilities of the individual members and the duties of the Committee under these Terms of Reference.
- 2.4. The Committee chairman shall be appointed by the CHP Board from among the members of the Committee. In the absence of the Committee chairman, the members present shall elect one of themselves to chair the meeting.
- 2.5. Members of the Committee shall avoid a situation in which he/she has, or can have, a direct or indirect interest that conflicts, or possibly conflicts, with the interests of the Group. Where a conflict is unavoidable and the conflict relates to a matter which is, or could be, considered by the Committee, the conflict shall be referred to the CHP Board to determine how the conflict will be addressed; pending such determination, the member shall absent him/herself from any meeting while the matter subject to the conflict is considered.

3. ATTENDANCE AT MEETINGS

- 3.1. Only Committee members shall have the right to be present at Committee meetings.
- 3.2. Other individuals, including external advisers, may be invited:
 - 3.2.1. by the Committee chairman, to attend for all or part of a specific meeting as and when appropriate, and
 - 3.2.2. by the Committee, to regularly attend meetingsbut the Committee may choose to meet without such person(s) being present for all or part of any meeting.

- 3.3. The Company Secretary or his/her nominee shall act as the Committee secretary.

4. QUORUM

- 4.1. The quorum necessary for the transaction of business shall be two. The majority of members present shall be CHP directors.
- 4.2. Any Committee member may participate in a Committee meeting by means of conference telephone or similar communications equipment. All persons participating in the meeting in this manner shall be deemed to be present at the meeting and the meeting shall be deemed to take place at the location where the most Committee members are assembled or, if there is no such location, where the chairman of the meeting is located.
- 4.3. A resolution in writing signed by all the Committee members shall be as effective for all purposes as a resolution of those members passed at a meeting duly convened and held. The resolution may consist of several documents each signed by one or more of the members and may be in the form of e-mail.

5. FREQUENCY AND NOTICE

- 5.1. The Committee shall meet not less than three times each year.
- 5.2. The Committee shall meet the external auditor, the Head of Internal Audit and the Group Actuary separately at least once each year without other Group executives being present to discuss any issues arising out of their respective duties.
- 5.3. Committee meetings shall be convened by the Committee secretary at the request of any Committee member or when the Committee secretary considers it necessary in order for the Committee to carry out its duties under these Terms of Reference.
- 5.4. Unless otherwise agreed by the Committee chairman in respect of a specific meeting, notice of each Committee meeting confirming the venue, time and date, together with an agenda and information on the items to be discussed, shall be distributed to each Committee member no fewer than five working days before the date of the meeting.
- 5.5. The notice, agenda and papers considered at each Committee meeting shall be sent electronically by the Committee secretary to cosec@chaucerplc.com within two working days of the meeting taking place; Company Secretariat shall retain this copy of the meeting documentation in a central database.

6. DELEGATED AUTHORITIES

- 6.1. The delegated authorities of the Committee are set out in the Schedule of Delegated Authorities attached to these Terms of Reference.
- 6.2. Any matter in excess of any limit placed on the delegated authorities shall be referred to the CHP Board for consideration; the Committee may, but need not, make a recommendation to the CHP Board on such matter when referring it.
- 6.3. Other than changes to the type, duty and limit of the delegated authorities (being matters reserved for approval by the CHP Board) and without compromising the needs of the business or its duties as set out in these

Terms of Reference, the Committee may amend the other elements in the Schedule of Delegated Authorities. Where such an amendment is made, details of the amendment shall be:

- 6.3.1. reported to the CHP Board by the Committee chairman; and
 - 6.3.2. sent electronically by the Committee secretary to cosec@chaucerplc.com within two working days of the amendment being agreed; Company Secretariat shall amend the Schedule of Delegated Authorities held on a central database.
- 6.4. In addition to its delegated authorities, the CHP Board and the CSL Board may instruct the Committee to undertake ad-hoc tasks which the Committee will perform in accordance with those instructions.

7. MINUTES

- 7.1. The Committee secretary shall minute the proceedings and resolutions of each Committee meeting; the minutes shall include a record of the names of those present and in attendance.
- 7.2. Draft minutes of each Committee meeting shall be circulated by the Committee secretary to all Committee members as soon as practicable after the meeting but in any event before the next meeting.
- 7.3. At each Committee meeting, the minutes of the previous Committee meeting shall be considered and approved; they shall then be signed by the chairman of the meeting at which the minutes are approved.
- 7.4. The signed minutes of each Committee meeting shall be sent electronically by the Committee secretary to cosec@chaucerplc.com within two working days of the minutes being signed; Company Secretariat shall retain this copy of the minutes in a central database.

8. REPORTING RESPONSIBILITIES

- 8.1. The Committee chairman shall provide to the CHP Board and CSL Board:
 - 8.1.1. a general report of the material proceedings of the Committee since the previous respective Board meeting as they relate to the responsibilities of the relevant Board;
 - 8.1.2. the information required to be provided to the respective Boards under these Terms of Reference; and
 - 8.1.3. details of any matters requiring consideration and/or approval by the respective Board, including, if appropriate, any recommendation to the relevant Board agreed by the Committee.
- 8.2. The Committee shall prepare a report on its roles and responsibilities and the actions it has taken to discharge those responsibilities for inclusion in CHP's annual report to shareholders. If applicable, the report shall include:
 - 8.2.1. information on any unresolved disagreement between the Committee and the CHP Board; and
 - 8.2.2. in the event the CHP Board not accepting the Committee's recommendation regarding the appointment, reappointment or removal of the external auditor, a statement explaining its recommendation and the reasons given as to why the CHP Board had taken a different stance.

- 8.3. The Committee chairman shall attend the annual general meeting of CHP shareholders and be prepared to respond to any shareholder question on the activities of the Committee.

9. POWERS

- 9.1. The Committee is authorised to seek any information it requires from any Group employee or other committee in order to perform its duties under these Terms of Reference.
- 9.2. The Committee is authorised to obtain, at CHP's reasonable expense, outside legal or other professional advice on any matter within these Terms of Reference.
- 9.3. 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 under these Terms of Reference.
- 9.4. The Committee may delegate the final decision on any matter it has considered under these Terms of Reference.
- 9.5. The Committee may authorise any CHP director or the CHP Company Secretary to execute and deliver any agreement, document, or instrument and to do any act or thing for or in connection with any transaction, arrangement or other matter entered into under these Terms of Reference, including, but not limited to, a power of attorney or other document under which the execution and delivery of any agreement, document or instrument constituting or evidencing any of the transactions, arrangements or other matters referred to above will be effected.
- 9.6. Any Committee member or the CHP Company Secretary shall have the power to authenticate any decision of the Committee and to confirm that the decision has been made in accordance with these Terms of Reference.

10. EVALUATION

- 10.1. At least once a year, the Committee shall undertake an evaluation to ensure that the Committee and each Committee member are operating effectively and that any inadequacies and/or issues are identified and addressed.
- 10.2. Following the evaluation, the Committee chairman shall prepare a report comprising:
 - 10.2.1. a summary of the results of the evaluation;
 - 10.2.2. a summary of the actions agreed by the Committee to address any inadequacies and/or issues; and
 - 10.2.3. if appropriate, any recommendation to alter these Terms of Reference and/or membership of the Committee (both being matters reserved for approval by the CHP Board).
- 10.3. The report shall be sent electronically by the Committee chairman to cosec@chaucerplc.com; Company Secretariat shall:
 - 10.3.1. retain a copy in a central database; and
 - 10.3.2. circulate copies to the CHP Board for consideration.

AUDIT COMMITTEE

SCHEDULE OF DELEGATED AUTHORITIES

Version 1.0 dated 18th February 2011

AU	Type*	Duty	Limit	Frequency	Timing	Input		Output	
Policies									
1.	Monitor	Appropriateness and relevance of the Internal Audit Charter operational policy	-	Annually	August	Internal Audit Charter operational policy		Confirmed fit for purpose	
2.	Monitor	Appropriateness and relevance of the Internal Control operational policy	-	Annually	August	Internal Control operational policy		Confirmed fit for purpose	
3.	Monitor	Appropriateness and relevance of the Model Change operational policy	-	Annually	August	Model Change operational policy		Confirmed fit for purpose	
Financial reporting									
4.	Recommend	The Group's financial statements for the financial year	-	Annually	March	Report on financial statements, reserving and reinsurance to close (RITC)	External auditor	Recommendation to approve: the Group's financial statements for the financial year; the preliminary announcement; and the Director's disclosure statement	CHP Board
						Financial statements	CFO		
						Preliminary announcement	CFO		
						Reserving policy	Group Actuary		
						Directors' disclosure statement	Company Secretariat		
Recommendation to approve preliminary announcement and reserving policy	Finance Committee								

AU	Type*	Duty	Limit	Frequency	Timing	Input		Output	
5.	Recommend	The Group's half-year financial statement	-	Annually	August	Report on financial statement	External auditor	Recommendation to approve the Group's half-year financial statement announcement	CHP Board
						Financial statement	CFO		
						Half-year announcement	CFO		
						Recommendation to approve financial statement	Finance Committee		
6.	Recommend	Q1 and Q3 interim management statements	-	Biannually	May November	Interim management statement	Marketing Department	Recommendation to approve the Group's interim management statement announcements	CHP Board
						Recommendation	Finance Committee		
7.	Recommend	Other statements on the Group's financial performance	-	Ad hoc	-	Draft announcement	Marketing Department	Recommendation to approve the statement	CHP Board
8.	Recommend	CSL financial statements	-	Annually	May	Draft CSL accounts	Finance Director	Recommendation to approve the accounts	CSL Board
						Recommendation	Finance Committee		
9.	Recommend	Syndicate report and accounts	-	Annually	March	Draft syndicate accounts	Finance Director	Recommendation to approve the accounts	CSL Board
						Recommendation	Finance Committee		
Internal control									
10.	Recommend	Disclosures relating to internal control in the CHP's annual report to shareholders	-	Annually	March	Draft section of corporate governance report	Company Secretariat	Recommendation that disclosures be incorporated into annual report	CHP Board
11.	Monitor	Systems of internal control	-	Annually	March	Report on effectiveness of internal controls and risk management procedures	Risk Officer	Report by exception breaches / concerns	CHP/CSL Boards
12.	Monitor	Procedures for detecting fraud and whistle-blowing	-	Annually	March	Policy on whistle-blowing and report on usage	Compliance	Confirm procedure remains fit for purpose	

AU	Type*	Duty	Limit	Frequency	Timing	Input		Output	
13.	Monitor	Controls around underwriting risks	-	On going	Each meeting	Underwriting risk review (URR) report including the independent review	URR	Concerns raised	CEO / CUO
Internal audit									
14.	Approve	Internal audit plan	-	Annually	November	Proposed audit plan	Internal Audit	Approved audit plan communicated	Internal Audit team
15.	Monitor	Resources, co-operation with and independence of internal audit	-	Annually	November	Meeting with internal auditor without other Group executives being present		Any concerns taken up with CEO	Committee Chairman
16.	Monitor	Internal audit reports and management's response to the findings and recommendations including outstanding action points managed to resolution	-	On going	Each meeting	Internal audit report	Internal Audit	Issues raised with CEO / CFO as appropriate	Committee Chairman
17.	Monitor	Effectiveness of internal audit	-	Annually	May	Evaluation report	Committee Chairman	Issues raised with CEO / CFO as appropriate	Committee Chairman
External audit									
18.	Recommend	Management representation letter	-	Biannually	March August	Draft management representation letter	CFO	Recommendation to approve letter	CHP Board
19.	Recommend	Appointment, re-appointment or removal of the external auditor	-	Annually	May	Recommendation	CFO	Recommendation	CHP Board
20.	Advice	Reasons for the resignation of the external auditor	-	Ad hoc	-	Explanatory letter	External Auditors	Recommendation on response	CHP Board
21.	Approve	External auditor's engagement terms and remuneration	-	Annually	November	Draft engagement letter	External Auditors	Authorised to sign engagement letter	CFO
22.	Approve	External audit plan	-	Annually	November	Proposed Audit plan	External Auditors	Plan approved	External Auditor

AU	Type*	Duty	Limit	Frequency	Timing	Input		Output	
23.	Approve	Non-audit services performed by the external auditor	-	Annually	March	Policy on provision of non-audit services	CFO	Policy communicated to Finance team and other staff as appropriate	CFO
24.	Monitor	The relationship between management and the external auditor	-	Biannually	March September	Meeting with external auditor without executives present		Issues raised with CEO / CFO as appropriate	Committee Chairman
25.	Monitor	Independence of the external audit partner and senior manager	-	Annually	November	Declaration	External Auditor	Independence accepted	
26.	Monitor	Management letter and management's response to the findings and recommendations	-	On going	May September	Management letter	CFO	Agreement that management's responses are reasonable and that appropriate actions have been taken	
						Management's response	Internal Auditor		
27.	Monitor	Effectiveness of the external auditors	-	Annually	May	Report	CFO	Concerns raised with external auditors during meeting where Group executives are not present	
Actuarial									
28.	Recommend	Booked reserves	-	Quarterly	February May August November	Report on reasonableness of proposed loadings	Signing Actuary	Recommendation of best estimate and risk margins	CSL Board
						Recommendation of risk loadings	Finance Committee		
29.	Approve	Reserving policy	-	Annually	November	Reserving policy	CFO	Policy incorporated into financial reporting	Finance Department
						Recommendation	Finance Committee		
30.	Monitor	Reserving issues for accounts	-	Biannual	January July	Group Actuary's report	Group Actuary	Concerns raised with CFO	Committee Chairman
31.	Monitor	Actuarial methodology	-	Annually	September	Actuarial methodology	Group Actuary	Concerns raised with CFO	Committee Chairman

AU	Type*	Duty	Limit	Frequency	Timing	Input		Output	
32.	Monitor	Resources and operation of actuarial function	-	Biannually	May November	Meeting with group actuary without other executives present		Concerns raised with CFO	Committee Chairman
Disclosure									
33.	Recommend	Disclosures relating to the Committee's role and responsibilities and the actions it has taken to discharge those responsibilities in the Company's annual report to shareholders	-	Annually	March	Draft Audit Committee section of corporate governance report	Company Secretariat	Recommendation that the disclosure be included in the annual report	CHP Board
Evaluation									
34.	Advice	Evaluation of the effectiveness of the Committee and of its members	-	Annually	September	Appraisal summary	Company Secretariat	Evaluation report	CHP Board

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- * Advice – advice and reports for consideration by the Board
 Approve – review, challenge and approve up to the limit
 Monitor – review and challenge
 Recommend – review, challenge and recommend to the Board for approval