

North of England Protecting & Indemnity Association Limited (“North”)

Directors – Terms of Reference

1. Constitution

- 1.1. At a general meeting held on 16 January 2014 the Members of North have prescribed, pursuant to Article 72 of North’s Articles of Association, that the business of North, its Group and all of its Classes shall be managed by the Directors subject to and in accordance with the regulations contained within these terms of reference with effect from 28 February 2014.
- 1.2. Unless the context otherwise requires, words or expressions contained in these Terms of Reference shall bear the same meaning as in North’s Articles of Association, as amended from time to time.

2. Role of the Directors

- 2.1. The Directors are collectively responsible for the long-term success of North and its Group and shall ensure that they provide effective, entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed.
- 2.2. In particular, the Directors shall, in consultation with the Members Board:
 - 2.2.1. oversee the Group’s affairs and direct North’s affairs;
 - 2.2.2. set the Group’s values and standards;
 - 2.2.3. set the strategic aims of North and its Group;
 - 2.2.4. set key performance indicators in respect of North and agree key performance indicators in respect of SMMI with the SMMI Board, giving effect to the objectives set out in paragraph 2.1 and 2.3 and the strategic aims of North and the Group;
 - 2.2.5. monitor and review the performance of the Group and each entity within the Group against its respective key performance indicators;
 - 2.2.6. set the risk appetite for the Group and disaggregate that risk appetite as between each entity within the Group, giving effect to all applicable legal, regulatory and capital requirements;
 - 2.2.7. ensure that the risk profile of the Group and each entity within the Group is adequately and effectively managed and communicated;
 - 2.2.8. oversee the performance of the Group and each entity within the Group in meeting its respective obligations to Members and policyholders;
 - 2.2.9. ensure that the necessary financial and human resources are in place for the Group and each Group entity to meet its strategic, legal and regulatory objectives and ensure that those resources are appropriately distributed across the Group;

- 2.2.10. oversee the Group's investment strategy, reinsurance strategy and management;
 - 2.2.11. review management performance across the Group;
 - 2.2.12. review the performance of the directors of each entity within the Group;
 - 2.2.13. oversee Group compliance, and the compliance of each Group entity, with all applicable legal and regulatory requirements;
 - 2.2.14. determine any matters referred to North by the SMMI Board as a result of the directors of SMMI having reached a deadlock on that matter, pursuant to SMMI's articles of association; and
 - 2.2.15. determine any matters which SMMI refers to North for the decision of North, due to such matters being reserved for the decision of North pursuant to SMMI's articles of association or for any other reason.
- 2.3. All Directors must act in the way they consider to be for the benefit of North's members as a whole, consistent with their statutory duties.
- 2.4. In carrying out its duties, the Directors shall have regard to all applicable laws and regulations.

3. Directors meetings

The Directors shall ensure that regular Directors meetings are held each year in accordance with the timetable and standing agenda requirements set out in the Appendix to these Terms of Reference and shall hold such further meetings as may be required from time to time to discharge their duties effectively.

4. Number and composition of Directors

- 4.1. Subject to Article 62 of North's Articles of Association, unless resolved otherwise by the Members or the Members Board, the number of Directors shall be not more than 16 and such Directors shall be comprised of:
- 4.1.1. a maximum of 2 Executive Directors;
 - 4.1.2. 7 to 9 Member Directors; and
 - 4.1.3. a maximum of 5 Independent Directors.

5. Chairman and Vice Chairman

- 5.1. The Chairman and Vice Chairman of North shall each be a Member Director elected to the relevant post pursuant to Article 82 of North's Articles of Association from amongst candidates who are eligible for appointment under that Article and have been recommended by the Group Nominations Committee.
- 5.2. The Chairman and Vice Chairman shall be subject to the provisions of Article 82 of North's Articles of Association in respect of tenure and re-election.

- 5.3. The responsibilities of the Chairman shall include:
- 5.3.1. providing leadership to the Directors and ensuring their effectiveness on all aspects of their roles;
 - 5.3.2. setting the agenda for Directors meetings and ensuring that adequate time is available for discussion at Directors meetings of all agenda items, in particular strategic issues;
 - 5.3.3. ensuring that the Directors receive accurate, timely and clear information;
 - 5.3.4. ensuring effective communication by the Directors with Members and the Members Board;
 - 5.3.5. ensuring effective communication and co-ordination between the Directors of North and SMMI; and
 - 5.3.6. ensuring effective engagement and communication with the SMMI Policyholder Committee.
- 5.4. The Chairman shall promote a culture of openness and debate by facilitating the effective contribution of Directors and ensuring constructive relations between Directors.

6. Executive Directors

- 6.1. The Executive Directors shall be appointed from amongst candidates who are eligible for appointment to that position under Article 90.1 of North's Articles of Association and have been recommended by the Group Nominations Committee.
- 6.2. At least one of the Executive Directors shall be appointed by the Directors to the position of Managing Director and shall have prime responsibility for the day to day management of all aspects of the business and operations of North and its Group.

7. Member Directors

- 7.1. The Member Directors shall be appointed from amongst candidates who are eligible for appointment to that position under Article 63 of North's Articles of Association and have been recommended by the Group Nominations Committee.
- 7.2. Member Directors shall be subject to the provisions of Article 70.8 of North's Articles of Association in respect of tenure and re-election.

8. Independent Directors

- 8.1. Independent Directors shall be appointed from amongst candidates who are eligible for appointment to that position under Article 90.3 of North's Articles of Association and have been recommended by the Group Nominations Committee.
- 8.2. Independent Directors shall be subject to the provisions of Article 70.8 of North's Articles of Association in respect of tenure and re-election.

8.3. Each Independent Director shall be independent in character and judgement and should not be subject to any relationships or circumstances which are likely to affect, or could appear to affect, their judgement. In determining the independence of any Independent Director, the Directors may have regard to whether or not that person:

8.3.1. has recently been an employee of North or a company within its Group;

8.3.2. has a material business relationship with North or is a member, shareholder, director or senior employee of a body that has such a relationship with North;

8.3.3. receives additional remuneration from North apart from a Director's fee;

8.3.4. has close family ties with any of North's advisers, Directors or senior employees;

8.3.5. holds cross-directorships or has significant links with other Directors through involvement in other companies or bodies;

8.3.6. represents a significant Member of North; or

8.3.7. has already served as a Director for an extended period of time;

the above criteria are provided for guidance purposes only and in each case it will be a matter for the Directors, in consultation with the Members Board, to determine if the Director is sufficiently independent.

9. Responsibilities of Member Directors and Independent Directors

9.1. The responsibilities of the Member Directors and Independent Directors shall include:

9.1.1. constructively challenging and helping develop proposals on strategy;

9.1.2. scrutinising the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance;

9.1.3. satisfying themselves on the integrity of the Group's financial information and that the Group's financial controls and systems of risk management are robust and defensible; and

9.1.4. having a prime role in appointing and, where necessary, removing Executive Directors, and in succession planning for Executive Directors.

10. Directors Committees and Members Board

10.1. Certain functions of the Directors shall be delegated to the following committees, which shall operate subject to and in accordance with separate terms of reference:

- 10.1.1. Group Audit Committee;
- 10.1.2. Group Risk Committee;
- 10.1.3. North Risk Committee;
- 10.1.4. Group Nominations Committee;
- 10.1.5. Group Remuneration Committee; and
- 10.1.6. Group Investment Committee.

10.2. The Members of North have also established a Members Board to oversee the Directors' management of North and to provide guidance to the Directors. Separate terms of reference have also been adopted for the Members Board.

11. Appointments

11.1. The Directors shall ensure that there is a formal, rigorous and transparent procedure for:-

- 11.1.1. the appointment of North's directors, committee members and senior management; and
- 11.1.2. recommending candidates to the SMMI Board for appointment as SMMI directors and committee members.

11.2. Removal of committee members, including the chairman of any committee, shall (in circumstances other than the resignation of committee members as a consequence of termination of their North directorship or otherwise) be effected by resolution of the North Directors.

11.3. The Group Nominations Committee shall lead the process for the appointments referred to in paragraph 11.1 above. In particular, the Group Nominations Committee shall:

- 11.3.1. make recommendations to the Directors subject to and in accordance with its terms of reference; and
- 11.3.2. ensure that the search for candidates is conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity.

11.4. The Directors shall satisfy themselves that plans are in place for orderly succession of the following:

- 11.4.1. North's directors, committee members and senior management; and
- 11.4.2. SMMI's directors and committee members;

so as to maintain an appropriate balance of skills and experience and to ensure progressive refreshing of appointments.

12. Commitment and Development

- 12.1. Directors shall ensure that they are able to allocate sufficient time to discharge their responsibilities effectively. In particular, Directors must ensure that they are able to commit a minimum of between 15 to 20 days per annum to the business of the Group (inclusive of any additional time commitments arising from membership of a committee but excluding time spent travelling).
- 12.2. All Directors shall receive an appropriate induction on appointment and shall, where appropriate, update and refresh their skills and knowledge.
- 12.3. Directors shall also ensure that, where appropriate, they update their skills and the knowledge and familiarity with North required to fulfil their role as a Director and, where applicable, as a committee member.
- 12.4. The Directors shall ensure that, where appropriate, necessary resources are available for developing and updating their knowledge and capabilities.
- 12.5. To function effectively, all Directors need appropriate knowledge of North and its Group and access to its Group operations and staff. As part of this, Directors should avail themselves of opportunities to meet Members wherever possible.

13. Information and Support

- 13.1. Directors should be supplied in a timely manner with information in a form and of a quality appropriate to enable them to discharge their duties.
- 13.2. The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information. Management has an obligation to provide such information but Directors should seek clarification or amplification of information where necessary.
- 13.3. Under the direction of the Chairman, the Company Secretary's responsibilities include ensuring good information flows amongst the Directors and their committees and between senior management and both the Member Directors and the Independent Directors, as well as facilitating induction and assisting with professional development as required.
- 13.4. Directors are entitled to have reasonable access to independent professional advice at North's expense where they judge it necessary to discharge their responsibilities as Directors. The scope and costs of such advice shall be subject to the prior approval of the Chairman.
- 13.5. The Directors shall ensure that all Group, North and SMMI committees, the SMMI Policyholder Committee, the SMMI Board and the Members Board are provided with sufficient resources to undertake their duties.
- 13.6. All Directors shall have access to the advice and services of the Company Secretary, who is responsible for ensuring that procedures are complied with. Both the appointment and removal of the Company Secretary shall be a matter for the Directors as a whole in consultation with the Members Board.

14. **Evaluation**

- 14.1. Directors shall undertake a formal and rigorous annual evaluation of their collective and individual performance and the performance of their committees.
- 14.2. The Chairman shall act on the results of the performance evaluation by recognising the strengths and addressing the collective and/or individual weaknesses of the Directors and, where appropriate, proposing that new Directors be appointed or seeking the resignation of Directors.
- 14.3. Individual evaluations of Directors shall aim to show whether each Director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for meetings and any other duties).
- 14.4. The Member Directors and the Independent Directors shall be responsible for the performance evaluation of the Chairman, taking into account the views of the Executive Directors.

15. **Reserved matters**

- 15.1. The Directors shall procure that neither North nor any other company in its Group shall do any of the following without prior consultation with the Members Board in accordance with paragraph 15.3:
- 15.1.1. enter into or agree to enter into any joint venture, partnership or strategic alliance with any third party which could reasonably be considered to have a material effect upon its or North's business; or
 - 15.1.2. sell or otherwise dispose of the whole or a substantial part of its business to any third party or agree to do any of the foregoing; or
 - 15.1.3. purchase or otherwise acquire the whole or any part of the business of any third party or agree to do any of the foregoing; or
 - 15.1.4. acquire or become subject to the control (as determined pursuant to Section 181 of Financial Services and Markets Act 2000) of any third party or agree to any of the foregoing.
- 15.2. Furthermore, the Directors shall also procure that North shall not do any of the following without the prior consultation with the Members Board in accordance with paragraph 15.3:
- 15.2.1. cease to operate its business substantially on a mutual basis; or
 - 15.2.2. agree to certify liabilities under any legislation or convention in force from time to time; or
 - 15.2.3. agree to any material change to its or North's reinsurance arrangements including, without limitation, any material change to North's retention under the International Group Pooling Agreement; or

- 15.2.4. agree the General Increase in respect of any policy year for any Class of North; or
- 15.2.5. levy an Additional Call upon the Members of any Class of North; or
- 15.2.6. make a decision regarding any matters referred for the consideration of Club boards by the International Group which could reasonably be considered to have a material effect upon North's business;

provided always that, subject to any applicable legal or regulatory requirement, a failure by the Directors to comply with paragraphs 15.1 or 15.2 shall not invalidate any act, decision or agreement of North or any company in its Group nor shall paragraphs 15.1 or 15.2 invalidate any act, decision or agreement prior to the date of its adoption which would otherwise have been valid if paragraphs 15.1 or 15.2 had not been adopted and any breach by the Directors of paragraphs 15.1 or 15.2 shall be a matter of internal discipline only.

- 15.3. For the purposes of compliance with paragraphs 15.1 or 15.2 it shall be sufficient for the relevant matter to be raised for discussion at a meeting of the Members Board and, subject to the provisions of Paragraph 4.11 of the Terms of Reference of the Members Board, the minutes of a meeting of the Members Board confirming that this has been done shall be evidence that the Directors have duly complied with the requirements of paragraphs 15.1 or 15.2 (as appropriate).

Appendix

Timetable & Standing Agenda for Directors Meetings

Frequency of Meetings

Regular meetings shall normally be held in or around January, May, August and October of each year.

Further meetings shall be held as and when required in order to enable the Directors to discharge their duties effectively.

Standing Agenda

Items for every Meeting

Apologies

Minutes of the Previous Meeting

Matters arising from the Previous Meeting

Group Nominations Committee Report

Group Risk Committee Report

Group Investment Committee Report

SMMI Board Report

Membership Report

Bank Balances

Bad Debts

Reinsurance

Date & Venue of Forthcoming Meetings

Any other Business

Items for January Meeting

Group Audit Committee Report

Standard and Poor's Rating

Annual Budget and Business Plan

Members Board Meeting

Items for May Meeting

Renewal Report

Renewal of Directors and Officers Insurance

Renewal of Errors and Omissions Insurance

Group Audit Committee Report

Directors Report and Accounts

Annual Claims Report

Group Remuneration Committee Report

Members Board Meeting

Items for August Meeting

Branch Office Reports

Items for October Meeting

Report on Bermuda Reinsurance

Mutual Premium

Election of Chairman

Policy Year Accounts

Rule Amendments

Pooling Agreement Amendments

Annual Strategy Paper

Annual Review of Terms of Reference

Annual Report on Directors' Performance

Members Board Meeting