

North of England Protecting & Indemnity Association Limited ("North")
Group Audit Committee (the "Committee") – Terms of Reference

1. Constitution

- 1.1. The Committee was established by the North Directors upon and subject to these terms of reference.
- 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.
- 1.3. The Committee shall give effect to any changes required to be made to its constitution and/or terms of reference as and when directed by the North Directors.

2. Membership & Chairman

- 2.1. The Committee shall consist of a minimum of three North Directors. All Committee members must be non-executive directors and the majority must be independent non-executive directors.
- 2.2. At least one Committee member must have competence in accounting or auditing.
- 2.3. The Committee members as a whole must have competence relevant to the sectors in which North and Sunderland Marine operate.
- 2.4. Committee members shall be appointed by the North Directors from amongst candidates recommended by the Group Nominations Committee.
- 2.5. Removal of Committee members, including the chairman of the Committee, shall (in circumstances other than those set out in paragraphs 2.6 and 2.7 below) be effected by resolution of the North Directors.
- 2.6. A Committee member may terminate their membership of the Committee at any time by giving written notice to the chairman of the Committee.
- 2.7. The appointment of a Committee member shall immediately terminate upon that Committee member ceasing to be a North Director.
- 2.8. The chairman of the Committee shall be an independent non-executive director and shall be appointed by the Committee members, subject to regulatory approval.
- 2.9. The Company Secretary shall be the secretary of the Committee.

3. Committee Meetings

- 3.1. The quorum necessary for the transaction of business at a Committee meeting shall be two Committee members of whom at least one shall be a Member Director. The following persons shall normally attend Committee meetings:
 - 3.1.1. the Executive Directors;

- 3.1.2 the Global Director (Finance);
- 3.1.3 the Director (Risk and Compliance);
- 3.1.4 the Internal Auditor (PwC) for relevant items;

but other Group employees and external advisors may be invited to attend all or part of any meetings as and when appropriate.

- 3.2 At least once a year the Non-Executive Committee members and the Chairman of the Committee shall meet with the Group's external auditors without the Joint Managing Directors, Executive Directors, Management, Company Secretary or the Internal Auditor present.
- 3.3 The Committee shall ensure that regular Committee 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 its duties effectively.
- 3.4 The external auditors of North (or any other Group Company) may request a meeting with the Committee if they consider that one is necessary.
- 3.5 Meetings of the Committee shall be called by the Secretary at the request of any of its members on not less than 10 working days' notice provided always that the Committee may, by unanimous agreement, meet upon shorter notice.
- 3.6 Each member of the Committee shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a meeting of the Committee.
- 3.7 If a matter to be considered by the Committee is one where a member of the Committee, either directly or indirectly has a personal interest, that member shall not be permitted to vote at the meeting.
- 3.8 Except on any matter on which he has a personal interest, in the event of an equality of votes on any matter the chairman of the Committee will have a second or casting vote.

4 Authority

- 4.1 The Committee is concerned with the business of the entire Group and its authority extends to all companies in the Group. It is authorised to investigate any activity within its terms of reference and to seek any information it requires from any employee of the Group and all Group employees are directed to co-operate with any request made by the Committee.
- 4.2 The Committee is authorised to obtain outside legal or other independent professional advice and to secure the attendance of non-Committee members with relevant experience and expertise if it considers this necessary. The costs incurred which shall be reasonable shall be notified to the Chairman of North.
- 4.3 The Chairman of the Committee is authorised to set the Committee's Timetable and Standing Agenda.

5 Duties

5.1 The duties of the Committee shall be as follows:

External Audit

- 5.1.1 oversee the integration and operation of external audit functions across the Group;
- 5.1.2 consider the appointment of Group external auditors, their audit fee and any questions of their resignation or dismissal;
- 5.1.3 review and monitor the external auditor's independence and objectivity and the effectiveness of the Group audit process, taking into consideration all applicable professional and regulatory requirements;
- 5.1.4 discuss with the Group external auditor before the Group audit commences the nature and scope of the audit;
- 5.1.5 review North's annual report and consolidated annual financial statements before submission to the North Directors, focusing particularly on:
 - 5.1.5.1 any changes in accounting policies and practices;
 - 5.1.5.2 major judgmental areas;
 - 5.1.5.3 significant adjustments resulting from the audit;
 - 5.1.5.4 the going concern assumption;
 - 5.1.5.5 compliance with accounting standards;
 - 5.1.5.6 compliance with legal requirements
- 5.1.6 report to the North Directors on the approval of all Subsidiary financial statements by the directors of the relevant Subsidiary, and all relevant matters relating to these financial statements;
- 5.1.7 discuss problems and reservations arising from all Group interim and final audits, and any matters the external auditor may wish to discuss (in the absence of management where necessary);

Internal Audit

- 5.1.8 oversee the integration and operation of internal audit functions across the Group;
- 5.1.9 consider the appointment of the Group Internal Auditor, their fee and any questions of their resignation or dismissal;
- 5.1.10 consider the Group Internal Audit plan and approve the same on an annual basis;
- 5.1.11 consider the work of the Group Internal Auditor against its plan;
- 5.1.12 consider reports from the Group Internal Auditor;

General

- 5.1.13 receive and review regular capital monitoring reports and review the assessment of the Group's regulatory capital requirements, including the methodologies and assumptions used and monitor the Group's coverage of such capital requirements;
 - 5.1.14 review and recommend for approval to the directors of the relevant Group company any regulatory report or public disclosure (including the UK's Solvency and Financial Condition Report and Regular Supervisory Report) requiring board approval prior to their submission and / or disclosure;
 - 5.1.15 independently monitor the effectiveness of the Group's internal controls, risk management systems and internal audit regarding the financial reporting of the Group;
 - 5.1.16 consider other topics relating to the Group, as defined by the North Directors from time to time;
 - 5.1.17 consult with and receive reports, information and recommendations from the boards and committees of other Group companies as required to enable the Committee to perform its duties in relation to the Group;
 - 5.1.18 review the Group's accounting policies and ensure that they comply with all applicable laws and accounting standards;
 - 5.1.19 monitor Group critical value estimates and the going concern assumption;
 - 5.1.20 review the financial content of management accounts and reports to the North Directors and their reconciliation with the final statutory accounts of the Group and/or any subsidiary;
 - 5.1.21 review the Group's arrangements for non-audit services provided by the external auditor; and
 - 5.1.22 report to the North Directors, identifying any relevant matters in respect of which the Committee considers that action or improvement is needed, and making recommendations as to the steps to be taken.
- 5.2 At the request of the Chairman of the North Board, the Committee shall carry out all or any of the duties referred to in paragraph 5.1 in relation to any Group company.
- 5.3 In carrying out its duties, the Committee shall give due consideration to all applicable laws and regulations.

6 Reporting Procedures

- 6.1 The chairman of the Committee shall report to the Directors upon the activities of the Committee at each Directors Meeting.
- 6.2 The Secretary shall circulate the minutes of meetings of the Committee to all members of the Committee and to other North and Sunderland Marine Directors on request.