

ACCIDENT EXCHANGE GROUP PLC
("Company")

REMUNERATION COMMITTEE TERMS OF REFERENCE

Adopted on 26th October 2006

1. Definitions

In these terms of reference:

"Board" means the board of directors of the Company; and

"Committee" means the remuneration committee of the Board.

2. Membership

2.1 Members of the Committee shall be appointed by the Board, on the recommendation of the nomination committee in consultation with the chairman of the Committee. The Committee shall be made up of at least three members, all of whom shall be independent non-executive directors. The chairman of the Board should not be a member of the Committee. The current chairman of the committee is **Graham Stanley**.

2.2 Only members of the Committee have the right to attend Committee meetings. However, other individuals (such as the chief executive, external advisers) may be invited to attend for all or part of any meeting, as and when appropriate.

2.3 Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods provided that the relevant Committee member remains independent.

2.4 The Board shall appoint the chairman of the Committee, who shall be an independent non-executive director. In the absence of the chairman of the Committee and/or an appointed deputy, the remaining members present shall elect one of their number to chair the meeting.

3. Secretary

The Company secretary or his/her nominee shall act as the secretary of the Committee.

4. Quorum

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

5. Frequency of meetings

The Committee shall meet at least twice a year and at such other times as the chairman of the Committee shall require.

6. Notice of meetings

6.1 Meetings of the Committee shall be summoned by the secretary of the Committee at the request of any of its members.

6.2 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.

7. **Minutes of meetings**

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

7.2 The secretary of the Committee shall ascertain, at the beginning of each Committee meeting, the existence of any conflicts of interest and minute them accordingly.

7.3 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all other members of the Board, unless a conflict of interest exists.

8. **AGM**

The chairman of the Committee shall attend the AGM prepared to respond to any shareholder questions on the Committee's activities.

9. **Duties**

The Committee shall:

9.1 determine and agree with the Board the framework or broad policy for the remuneration of the Company's chief executive, chairman, 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 executive members of the Board. No director or manager shall be involved in any decisions as to his/her own remuneration;

9.2 in determining such policy, take into account all factors which it deems necessary. The objective of such policy shall be to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company;

9.3 review the ongoing appropriateness and relevance of the Company's remuneration policy;

9.4 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;

9.5 review the design of all employees' share schemes and other incentive plans for approval by the Board and shareholders. For any such schemes/plans, determine each year whether awards will be made and, if so, the overall amount of such awards, the individual awards to executive directors and other members of the executive management and the performance targets to be used;

9.6 determine the policy for, and scope of, pension arrangements for each executive director and other members of the executive management;

- 9.7 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;
- 9.8 within the terms of the agreed policy and in consultation with the chairman of the Board and/or chief executive, as appropriate, determine the total individual remuneration package of each executive director and other members of the executive management (including bonuses, incentive payments and share options or other share awards);
- 9.9 in determining such packages and arrangements, give due regard to any relevant legal requirements, the provisions and recommendations in the Combined Code and the listing rules of the UK Listing Authority and associated guidance;
- 9.10 review and note annually the remuneration trends across the group;
- 9.11 oversee any major changes in employee benefits structures throughout the group;
- 9.12 agree the policy for authorising claims for expenses from the chief executive and the chairman of the Board¹;
- 9.13 ensure that all provisions regarding disclosure of remuneration (including pensions), as set out in the Directors' Remuneration Report Regulations 2002 and the Combined Code, are fulfilled; and
- 9.14 be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee; and to obtain reliable, up to date information about remuneration in other companies. The Committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations.

10. **Reporting responsibilities**

- 10.1 The chairman of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 10.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3 The Committee shall produce an annual report of the Company's remuneration policy and practices, which will form part of the Company's annual report and accounts, and ensure that, at each AGM, such report is laid before, and voted on by, shareholders.

11. **Self-appraisal**

The Committee shall, at least once a year, review its own performance, 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.

12. **Authority**

The Committee is authorised by the Board:

- 12.1 to seek any information it requires from any employee of the Company in order to perform its duties; and
- 12.2 to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference.

Schedule A:

Provisions on the design of performance related remuneration

1. The remuneration committee should consider whether the directors should be eligible for annual bonuses. If so, performance conditions should be relevant, stretching and designed to enhance shareholder value. Upper limits should be set and disclosed. There may be a case for part payment in shares to be held for a significant period.
2. The remuneration committee should consider whether the directors should be eligible for benefits under long-term incentive schemes. Traditional share option schemes should be weighed against other kinds of long-term incentive scheme. In normal circumstances, shares granted or other forms of deferred remuneration should not vest, and options should not be exercisable, in less than three years. Directors should be encouraged to hold their shares for a further period after vesting or exercise, subject to the need to finance any costs of acquisition and associated tax liabilities.
3. Any new long-term incentive schemes which are proposed should be approved by shareholders and should preferably replace any existing schemes or at least form part of a well considered overall plan, incorporating existing schemes. The total rewards potentially available should not be excessive.
4. Payouts or grants under all incentive schemes, including new grants under existing share option schemes, should be subject to challenging performance criteria reflecting the company's objectives. Consideration should be given to criteria which reflect the company's performance relative to a group of comparator companies in some key variables such as total shareholder return.
5. Grants under executive share option and other long-term incentive schemes should normally be phased rather than awarded in one large block.
6. In general, only basic salary should be pensionable.
7. The remuneration committee should consider the pension consequences and associated costs to the company of basic salary increases and any other changes in pensionable remuneration, especially for directors close to retirement.