

**ZENITH NATIONAL INSURANCE CORP.**

**CHARTER  
OF THE  
AUDIT COMMITTEE  
OF THE  
BOARD OF DIRECTORS**

**(Adopted by the Board of Directors on June 4, 2014)**

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**I. PURPOSE OF THE COMMITTEE**

The Audit Committee's purpose is to (a) provide assistance to the Board of Directors (the "Board") of Zenith National Insurance Corp. and its subsidiaries (the "Company") to fulfill the Board's obligations with respect to accounting, auditing, financial reporting, internal control and related functions, including, without limitation, assisting the Board's oversight of (i) the integrity of the Company's financial statements and (ii) the Company's internal audit function and (b) conduct such assistance in accordance with any requirements the Audit Committee of Fairfax Financial Holdings Limited (the "Fairfax Audit Committee") may impose.

**II. COMPOSITION OF THE COMMITTEE**

The Committee shall be comprised of three or more directors as determined from time to time by resolution of the Board.

The Chairperson of the Committee shall be designated by the Board, *provided* that if the Board does not so designate a Chairperson, the members of the Committee, by a majority vote, may designate a Chairperson.

Any vacancy on the Committee shall be filled by majority vote of the Board at the next meeting of the Board following the occurrence of the vacancy.

**III. MEETINGS OF THE COMMITTEE**

The Committee shall meet once every fiscal quarter or on such other schedule as it shall determine is necessary to carry out its duties and responsibilities. The Committee, in its discretion, may ask members of management, the Board, the Fairfax Audit Committee or others to attend its meetings (or portions thereof) and to provide pertinent information as necessary. The Committee should meet separately on a periodic basis with (i) management, (ii) the director of the Company's internal audit department or other persons responsible for the internal audit function and (iii) the Company's independent auditor, in each case to discuss any matters that the Committee or any of such persons or firms believes should be discussed privately.

A majority of the members of the Committee present in person or by means of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear

each other shall constitute a quorum.

The Committee shall maintain minutes of its meetings and records relating to those meetings.

#### **IV. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE**

In carrying out its duties and responsibilities, the Committee's policies and procedures should remain flexible, so that it may best react or respond to changing circumstances or conditions.

With respect to the Company's financial statements and related disclosures, the Committee shall:

1. Review with management, the independent auditor and the director of the Company's internal audit department, the following:
  - A. The Company's annual audited financial statements and quarterly unaudited financial statements;
  - B. The Company's critical accounting policies and practices that the Committee deemed appropriate to be reviewed prior to any interim or year-end filings with regulatory bodies, including any financial reporting issues which could have a material impact on the financial statements;
  - C. All alternative treatments of financial information within United States Generally Accepted Accounting Principles, Statutory Accounting Principles and/or International Financial Reporting Standards ("GAAP, SAP and/or IFRS") that have been discussed by the independent auditors and management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor;
  - D. Major issues regarding accounting principles and financial statements presentations, including (i) any significant changes in the Company's selection or application of accounting principles and (ii) any analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the ramifications and effects of alternative GAAP, SAP and/or IFRS methods on the Company's financial statements;
  - E. Any analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP, SAP and/or IFRS methods on the Company's financial statements; and
  - F. Material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
2. Review with the independent auditor on a regular basis any problems or difficulties that it encountered in the course of any audit, including management's response with respect thereto,

any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management;

3. Review with management and any outside professionals that the Committee considers appropriate, the effectiveness of the Company's disclosure controls and procedures; and
4. Review with management and any outside professionals that the Committee considers appropriate, important trends and developments in financial reporting practices and requirements and their effect on the Company's financial statements.

The Committee shall conduct the following procedures (and provide reports on its determinations) on the performance of the internal audit function and independent auditors:

1. Review and discuss with management, the internal auditor and the independent auditor the independent auditor's annual audit plan, including the scope of audit activities and all critical accounting policies and practices to be used, and if the plan is satisfactory, accept it and monitor its progress and results;
2. Review with management, the internal auditor and the independent auditor the quality, adequacy and effectiveness of the Company's accounting and internal control policies and procedures, including the internal audit function's organization, staffing, budget, responsibilities, plans and results, as well as any proposed appointment, replacement, reassignment or dismissal of the principal internal auditor;
3. Review the Management's Report of Internal Control over Financial Reporting prior to it being filed with regulatory bodies;
4. Review and discuss guidelines and policies governing the process by which senior management and relevant departments of the Company assess and manage the Company's exposure to risk, as well as the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures;
5. Require management to notify the Committee of any weakness or deficiencies of internal control and/or solvency concerns that are assessed by management to be material or significant at the threshold of any of the insurance subsidiaries and upon such notification, inform the Fairfax Audit Committee, which will oversee the remediation of such weakness, deficiencies or solvency concerns.

In connection with compliance with legal and regulatory requirements, the Committee shall:

1. Review with management, and any internal or external counsel that the Committee considers appropriate, any legal matters (including the status of pending litigation) that may have a material impact on the Company and any material reports or inquiries from regulatory or governmental agencies;
2. Meet at least annually with the general counsel, and outside counsel when appropriate, to review legal and regulatory matters, including (1) any matters that may have a material impact

on the financial statements of the Company and (2) any matters involving potential or ongoing material violations of law or breaches of fiduciary duty by the Company or any of its directors, officers, employees or agents or breaches of fiduciary duty to the Company;

3. Establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, auditing matters or potential violations of law, and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting and/or auditing matters or potential violations of law; and

4. Obtain reports from management, the internal auditor and the independent auditor regarding compliance with all applicable legal and regulatory requirements.

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In fulfilling their responsibilities hereunder, it is recognized that it is not the duty or responsibility of the Committee or its members to conduct “field work” or other types of auditing or accounting reviews or procedures or to set auditor independence standards, and each member of the Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Company from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee and (iii) statements made by management or third parties as to any information technology, internal audit and other non-audit services provided by the auditors to the Company, in either instance absent actual knowledge to the contrary (which shall be promptly reported to the Board).