

Group Secretariat

Group Audit Committee Terms of Reference

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GROUP AUDIT COMMITTEE - TERMS OF REFERENCE

1. Definitions

Board	The board of directors of the Company
Code	Recommendation of the UK Corporate Governance Code (FRC, June 2010 edition)
Committee	The Group Audit Committee of the Company
Company	RSA Insurance Group plc
Group	The RSA Insurance Group plc group of companies

2. Principal Function

2.1 The purpose of the Committee is to assist the Board in discharging its responsibilities for the integrity of the Company's financial statements, for the effectiveness of the systems of internal control and financial and regulatory risk management systems and for monitoring the effectiveness and objectivity of the internal and external auditors. The Board is also ultimately responsible to the Financial Services Authority for ensuring compliance with the Group's regulatory obligations. The Board is responsible for directing the affairs of the Company and the Group in a manner that meets both shareholder and regulatory requirements and is consistent with the Articles of Association and current corporate governance standards. However, provided the Board can demonstrate it is acting within its over-arching obligations of good faith and duty of care, it is able to delegate the discharge of those responsibilities.

2.2 The following responsibilities have been delegated to the Committee:

- (A) co-ordination and oversight of the integrity of the financial reporting process;
- (B) monitoring compliance with relevant regulations, industry codes and legal requirements;
- (C) oversight of internal and external audit functions;
- (D) management of the effectiveness of the systems of internal controls;
- (E) review of the Group's financial performance; and
- (F) providing assurance on the effectiveness of the Group's financial and regulatory risk management arrangements.

2.3 In addition, adherence to the Financial Services Authority capital resources regime is monitored at a Group level. In this respect the oversight and challenge of the operational, financial and regulatory risk management processes of the Group's regulated entities in the UK is also the responsibility of the Committee.

3. Membership and attendance

- 3.1 The Committee shall be appointed by the Board and shall comprise at least three members. (Code C.3.1). Membership shall include at least one member of the Board Risk Committee.
- 3.2 All members of the Committee shall be independent Non-Executive Directors (Code C.3.1). The Chairman of the Board shall not be a member of the Committee.
- 3.3 Committee members should be financially literate and at least one member of the Committee should have recent and relevant financial experience (Code C.3.1).
- 3.4 Care shall be taken to minimise the risk of any conflict of interest or coalition of interests that could arise, in particular, cross-directorships.
- 3.5 The Board shall appoint the Committee Chairman and determine the period for which they shall hold office. In the absence of the Committee Chairman, the remaining members present shall elect one of their number to chair the meeting.
- 3.6 If a regular member is unable to attend due to absence, illness or any other cause the Chairman of the Committee may appoint an independent Non-Executive Director to serve as an alternate member, maintaining the quorum set out in paragraph 5.1 below.
- 3.7 Only Committee members have the right to attend Committee meetings (Code B.1). The Committee may invite any directors, other executives of the Group or external professional advisors to attend all or part of any meetings as and when appropriate. The following usually attend meetings at the invitation of the Committee:
 - (A) the Group Chief Executive;
 - (B) the Group Chief Financial Officer;
 - (C) the Group Chief Auditor;
 - (D) the Group General Counsel;
 - (E) the Director of Group Financial Reporting & Control;
 - (F) the Group Head, Regulatory Risk & Compliance; and
 - (G) a representative of the external auditors.

The Chairman of the Company may also be invited to attend where the Committee considers this to be appropriate.

4. Secretary

The Group Company Secretary or his duly appointed nominee shall act as Secretary to the Committee.

5. Quorum

- 5.1 The quorum necessary for the transaction of business shall be two members of the Committee.
- 5.2 A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise any or all of the authorities, powers and discretions vested in or exercisable by the Committee.

6. Frequency of meetings

- 6.1 The Committee shall meet at least four times each year at appropriate times in the reporting and audit cycle and at such other times as otherwise required.
- 6.2 Each year, the Committee shall have at least one meeting, or part thereof, with the external auditor, the Group Head, Regulatory Risk & Compliance and the Group Chief Auditor without executive directors or management being present.

7. Notice of meetings

- 7.1 Meetings of the Committee shall be summoned by the Secretary to the Committee at the request of any of its members. Meetings can be requested by management, the external or internal auditors if they consider it necessary.
- 7.2 Unless otherwise agreed, notice of each meeting confirming the venue, date and time together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the Committee and to other attendees as appropriate prior to the date of the meeting. The Committee Chairman shall have the sole discretion to reduce the above notice period to whatever the Committee Chairman considers appropriate in the circumstances.

8. Minutes of meetings

- 8.1 The Secretary shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance. The Secretary shall also minute the proceedings and resolutions of any meeting between the Non-Executive Directors, the internal auditors and the external auditors where executive management are not present at the discretion of the Committee Chairman.
- 8.2 The members of the Committee shall, at the beginning of each meeting, declare the existence of any conflicts of interest arising and the Secretary shall minute them accordingly.
- 8.3 Draft minutes of Committee meetings shall be circulated promptly to the Committee Chairman and once agreed to all members of the Committee.
- 8.4 Once approved, minutes of Committee meetings shall be circulated to all members of the Board unless it would be inappropriate to do so.

9. Annual General Meeting

The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities and responsibilities.

10. Responsibilities

The Committees obligations shall include oversight and challenge of the effectiveness of the financial and regulatory risk and internal controls of the Group's regulated entities. The Committee's responsibilities shall include but shall not be limited to:

10.1 Internal control

The Committee shall:

- (A) keep under review the effectiveness of the Company's financial reporting, internal controls and financial and regulatory risk management systems; and
- (B) review the Company's annual statement on its systems of internal control prior to endorsement by the Board. In reviewing the effectiveness of internal controls, consideration shall include:
 - (i) the changes since the last annual assessment in the nature and extent of significant risks, and the company's ability to respond to changes in its business and the external environment;
 - (ii) the scope and quality of management's ongoing monitoring of risks and of the system of internal control, and, where applicable, the work of its internal audit function and other providers of assurance;
 - (iii) the extent and frequency of reporting to the Board (or Board committee(s)) which enables the Committee to build up a cumulative assessment of the state of the system of internal control in the company and the effectiveness with which risk is managed;
 - (iv) the incidence of significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the company's financial performance or condition; and
 - (v) the effectiveness of the company's public reporting processes.

10.2 Financial and Regulatory risk management systems

The Committee shall provide assurance on the effectiveness of the Group's financial and regulatory risk control arrangements and in particular:

- (A) consider any matters relevant to the Group's risk management that may be referred to it by the Board or the Board Risk Committee; and

- (B) monitor, co-ordinate and make recommendations to the Board concerning the Group's compliance with all legal and regulatory requirements of each territory in which the Group transacts business, and shall review:
- (i) reports from the Group Head, Regulatory Risk & Compliance on compliance and regulatory risk management issues and activities throughout the Group;
 - (ii) the effectiveness of the Group's legal and compliance arrangements;
 - (iii) the Group's compliance policy and approve the compliance, strategy and annual plan;
 - (iv) the Group's compliance with the required close or prohibited periods for trading in the Group's securities by employees classified as insiders.; and
 - (v) any other matter relevant to the Group's world-wide legal and compliance obligations, including any matters referred to it by the Board Risk Committee.

10.3 Whistleblowing and fraud

The Committee shall review the Company's procedures for detecting fraud and investigating and handling allegations from whistleblowers and ensure arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters (Code C.3.2).

10.4 Internal audit

The Committee shall provide oversight of the internal audit function, in particular:

- (A) approve the appointment and removal of the Group Chief Auditor;
- (B) consider and approve the mandate of the internal audit function on an annual basis;
- (C) review, assess and approve the annual internal audit programme and costs and ensure the internal audit function is independent, adequately resourced and has appropriate standing within the Company;
- (D) review promptly all significant reports on the Company from the internal auditors;
- (E) review and monitor management's responsiveness to internal audit reports; and
- (F) review and monitor the effectiveness of the internal audit function in the context of the Company's financial and regulatory risk management systems.

The Group Chief Auditor shall be offered direct access to the Chairman of the Committee and where necessary the Chairman of the Board.

10.5 External audit

The Committee shall provide oversight of the external audit firm or firms and in particular:

- (A) consider and make recommendations to the Board as regards the appointment, re-appointment or removal of the Company's external auditors, and shall ensure that key partners within the appointed firm are rotated after a maximum of five years and, upon rotation, they must be subject to a five year time-out period.
- (B) the Committee shall:
 - (i) at the start of each audit year meet with the external auditors to discuss the nature and scope of the audit plans and the proposed fees;
 - (ii) approve the terms of engagement and the remuneration to be paid to the external auditor in respect of the audit services provided;
 - (iii) meet with the external auditors to discuss the findings of their work, including any major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved, key accounting and audit judgments, levels of errors identified during the audit, obtaining explanations from management and the external auditors as to why certain errors might remain unadjusted. All errors and non-adjusting items are to be made available to the Committee;
 - (iv) review the audit representation letter before consideration by the Board, giving particular consideration to matters that relate to non-standard issues;
 - (v) review and monitor the content of the external auditor's management letter, in order to assess whether it is based on a good understanding of the Group's businesses. Management's response shall be approved by the Committee and the Committee shall monitor whether recommendations have been acted upon, and if not, the reasons why; and
 - (vi) confirm annually that the CEO, CFO and Group Financial Controller have not been employed by the external auditors and participated in the audit of the Company during the one year period preceding the audit initiation date.
- (C) keep under review the relationship with external auditors including (but not limited to):
 - (i) the qualification, expertise, resources, independence and objectivity of the external auditors and the effectiveness of the audit process,

taking into consideration relevant UK professional and regulatory requirements (Code C.3.2);

- (ii) the development and implementation of policy (the "Protocol", as appended to this terms of reference) on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance on the matter and shall report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken (Code C.3.2);
 - (iii) the approval of audit fees which should be paid, ensuring that these are adequate to enable the external auditors to conduct an effective audit, as well as any other fees which are payable to the external auditors in respect of non-audit activities;
 - (iv) consideration of the external auditors' own internal quality control procedures;
 - (v) discussions with the external auditors concerning such issues as compliance with accounting standards and any proposals which the external auditors have made in relation to the Company's internal auditing standards; and
 - (vi) the consideration of whether the external auditors met the agreed audit plan and why any changes came about, the robustness and perceptiveness of the external auditors in their handling of key accounting and audit judgements and in their communications with the Committee and feedback on the conduct of the audit from relevant executive management.
- (D) offer to meet the external auditor at least once each year without management being present to discuss their remit and any issues arising from the audit.

10.6 Financial reporting

The Committee shall provide co-ordination and oversight of the integrity of the financial reporting process and in particular:

- (A) keep under review the consistency of accounting policies both on a year to year basis and across the Company and the Group;
- (B) provide the Board with assurance on the effectiveness of the Group's procedures for reviewing disclosure and presentation;
- (C) review and challenge where necessary the actions and judgments of management in relation to the Company's financial statements, operating and financial review or business review, interim reports, preliminary announcements, interim management statements and related formal statements, taking into account the recommendations of the Disclosure Committee before submission to, and approval by, the Board and before clearance by the external auditors;

- (D) review and challenge where necessary:
 - (i) the consistency of and any changes to the Group's critical accounting policies and practices, on a year on year basis;
 - (ii) decisions requiring a major element of judgment;
 - (iii) extent to which the financial statements are affected by any significant or unusual transactions and how they are disclosed;
 - (iv) clarity of disclosures and the context in which statements are made, paying particular attention to any matters which are referred to it by the Board or the Disclosure Committee;
 - (v) significant adjustments resulting from the audit;
 - (vi) going concern assumption;
 - (vii) compliance with accounting standards and whether management have made appropriate estimates and judgements, taking into account the views of the external auditor;
 - (viii) compliance with stock exchange and other legal requirements;
 - (ix) statement on internal control systems prior to endorsement by the Board;
 - (x) policies and process for identifying and assessing business risks and the management of those risks by the Company; and
- (E) review the implications of the commitments of the pension schemes on the Group where not reviewed by the Board as a whole.

11. Reporting Responsibilities

- 11.1 The Chairman of the Committee shall report formally to the Board on its proceedings after each meeting.
- 11.2 Where, following its review, the Committee is not satisfied with any aspect of the proposed financial reporting by the Company it shall report its views to the Board.
- 11.3 The Committee shall:
 - (A) at least once a year, review its own performance, constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board;
 - (B) produce an annual report describing the Committee's audit policy, practices, attendance and frequency of meetings which will form part of the Company's Annual Report and Accounts;
 - (C) disclose in a report to shareholders the policy and procedures for the approval of non-audit services; and

- (D) make available its terms of reference in accordance with the provisions of the Code.

12. Other matters

The Committee shall:

- (A) have access to sufficient resources in order to carry out its duties, including access to the Group's Secretariat for assistance as required;
- (B) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members; and
- (C) give due consideration to the requirements of the UK Listing Authority's Listing Rules, Disclosure and Transparency Rules, Prospectus Rules, the provisions of the Code and any other relevant laws or regulations in force from time to time.

13. Authority

The Committee is authorised by the Board to:

- 13.1 investigate any activity within its terms of reference;
- 13.2 seek any information it reasonably requires from any employee of the Company in order to perform its duties;
- 13.3 obtain, at the Company's expense, independent legal or other professional advice on any matters within its terms of reference; and
- 13.4 call any member of staff to be questioned at a meeting of the Committee as and when required.

Approved by the Board on 29 March 2011