

Group Secretariat

Group Audit Protocol

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GROUP AUDIT PROTOCOL

APPENDIX TO THE TERMS OF REFERENCE OF THE GROUP AUDIT COMMITTEE

1. Purpose

- 1.1 The protocol is intended to provide guidance as to the principles to be observed and the process to be followed when considering the appointment of the Group's auditors to perform non audit services.
- 1.2 Dependent upon circumstances, these rules also extend to secondary auditors i.e. those that do not sign the group accounts, but do audit a part of the Group.

2. Introduction

- 2.1 It is not the Group's intention to prohibit the use of its main or secondary auditors to provide non audit services. It is however essential to ensure that any such work neither compromises the independence of the auditor, nor gives rise to any potential conflict of interest between the consulting and auditing activities.

3. Principles

- 3.1 The following principles will apply to the use of either main or secondary auditors in providing non audit services:
 - (A) the auditors should not carry out an assignment where the output or recommendations are then subject to their review as auditors;
 - (B) any appointment must comply with all regulatory requirements, including any prospective changes, imposed by the Institute of Chartered Accountants in England and Wales and UK Company Law;
 - (C) the auditors will not be considered for an assignment in the following circumstances, unless it is reasonable to conclude that the same firm will not subject the results of these services to audit procedures during an audit of the financial statements, or where the location is immaterial to the Group audit:
 - (i) bookkeeping or other services related to the accounting records or financial statements of the audit client including:
 - (a) maintaining or preparing the audit client's accounting records;
 - (b) preparing the audit client's financial statements that are filed; or
 - (c) preparing or originating source data underlying the audit client's financial statements;
 - (ii) financial information systems design and implementation where:
 - (a) the systems concerned would be important to any significant

part of the accounting systems or to the production of the financial statements; and

- (b) The auditor would place significant reliance upon them as part of the financial statement audit;
 - (iii) any appraisal service, valuation service, or any service involving a fairness opinion or contribution-in-kind report for an audit client;
 - (iv) any actuarially-oriented advisory service involving the determination of amounts recorded in the financial statements and related accounts for the audit client other than assisting a client in understanding the methods, models, assumptions, and inputs used in computing an amount; and
 - (v) any internal audit service that has been outsourced by the audit client that relates to the audit client's internal accounting controls, financial systems, or financial statements;
- (D) The auditors will not be considered for the following assignments, irrespective of whether or not the results of these services will be subject to audit procedures:
- (i) management functions:
 - (a) acting temporarily or permanently as a director, officer, or employee of an audit client, in a role where they:
 - (1) make management or operational decisions
 - (2) have power to sign (or similar) for the company; or
 - (3) where their work will need to be reviewed as part of the financial statement audit.
 - (ii) human resources:
 - (a) searching for or seeking out prospective candidates for managerial, executive, or director positions;
 - (b) engaging in psychological testing, or other formal testing or evaluation programs;
 - (c) undertaking reference checks of prospective candidates for an executive or director position;
 - (d) acting as a negotiator on the audit client's behalf, such as determining position, status or title, compensation, fringe benefits, or other conditions of employment; or
 - (e) recommending, or advising the audit client to hire, a specific candidate for a specific job (except that an accounting firm may, upon request by the audit client, interview candidates and

advise the audit client on the candidate's competence for financial accounting, administrative, or control positions);

- (iii) broker-dealer, investment adviser, or investment banking services:
 - (a) acting as a broker-dealer (registered or unregistered), promoter, or underwriter, on behalf of an audit client; or
 - (b) making investment decisions on behalf of the audit client or otherwise having discretionary authority over an audit client's investments, executing a transaction to buy or sell an audit client's investment, or having custody of assets of the audit client, such as taking temporary possession of securities purchased by the audit client;
- (iv) providing any service to an audit client that, under circumstances in which the service is provided, could be provided only by someone licensed, admitted, or otherwise qualified to practice law in the jurisdiction in which the service is provided;
- (v) Expert services unrelated to the audit:
 - (a) providing an expert opinion or other expert service for an audit client, or an audit client's legal representative, for the purpose of advocating an audit client's interests in litigation or in a regulatory or administrative proceeding or investigation; or
 - (b) in any litigation or regulatory or administrative proceeding or investigation, an accountant's independence shall not be deemed to be impaired if the accountant provides factual accounts, including in testimony, of work performed or explains the positions taken or conclusions reached during the performance of any service provided by the accountant for the audit client.

3.2 Appended to this protocol is a list of services that are considered to comply with the above principles and which the auditor may provide.

4. Terms and conditions

4.1 The auditors may not provide any services to RSA for a contingent fee or a commission, where it is material to the auditor or it relates to something that may be subject to audit judgement.

5. Tendering

5.1 The services provided by the auditors to RSA should be considered as falling into one of the following three categories:

- (A) audit work necessary for expressing an opinion on RSA's accounts. RSA will formally consider the appointment of its auditors every three years in accordance with procedures determined from time to time, which may or may not include an external tendering process;

- (B) non-audit services which are closely allied with the audit function or where, for reasons of efficiency and effectiveness, it is advantageous to RSA to use its auditors in view of their knowledge and experience of RSA. This would include, but not be limited to the following: accounting advice, regulatory returns, tax advice including compliance services, due diligence and other transaction support, and reporting accountants in connection with shareholder circulars. For these services an external tendering process will not ordinarily be required; or
- (C) all other work. Any other work appointments for non-audit services must only be made following a formal open tender process involving at least two suitably qualified professional advisory firms.

6. Reporting

- 6.1 The use of the Group's external auditors for Non Audit Services is controlled by the Group CFO. Any work in excess of £100,000 must be submitted to the Group CFO for prior approval, by completing the Non Audit Services Approval form (available on the Intranet) and submitting this for approval via the Executive Licence Extension mailbox. Although the form requests "brief" details, these should be sufficiently detailed to provide a summarised business case. All assignments in excess of £250,000 will be notified by the group CFO to the chairman of the Group Audit Committee.
- 6.2 Note that there is an additional Group Finance requirement to report all engagements of RSA external Auditors for non audit work even where the value of the work is below £100,000, to the Group Head of Financial Reporting. This information will be collected as part of the Star3 submissions.
- 6.3 The auditors will communicate annually to the Group Audit Committee, in writing, any circumstances, including the potential impact of performing non audit services, which could affect their independence.
- 6.4 Each year the Group Audit Committee will review the potential threats to the objectivity and independence of the auditors. The Committee will determine whether it is satisfied that the auditors' independence is not jeopardised, taking account of the reports that it has received, and will report accordingly to the Board.

**Chief Financial Officer
Group Finance
December 2009**



APPENDIX: NON-AUDIT SERVICES AN AUDITOR CAN PROVIDE

The following functions are not considered to be prohibited services and so may be provided by the auditors:

- (A) tax planning (Group structure, funding, resolution of specific tax issues);
- (B) preparation, audit & filing of tax returns;
- (C) advice regarding VAT compliance;
- (D) audits of Pension Funds, Charities or other entities associated with RSA, but not forming part of the Group;
- (E) audit of new finance systems;
- (F) implementation and audit of non-financial systems;
- (G) audit work on restructuring / integration provisions;
- (H) accounting and tax advice regarding the purchase or sale of a business or assets;
- (I) due diligence procedures;
- (J) purchase investigations;
- (K) preparation of completion accounts;
- (L) advice in relation to changes in accounting and reporting requirements;
- (M) human Resources tax advice (compliance requirements on share options, expatriate tax returns, PAYE audits);
- (N) forensic accounting investigations;
- (O) evaluating compliance with other regulatory or good practice requirements;
- (P) risk analysis and control; and
- (Q) benefits and compensation advice and compliance.