

RIVER AND MERCANTILE
GROUP

RIVER AND MERCANTILE GROUP PLC

AUDIT AND RISK COMMITTEE TERMS

OF REFERENCE

1. MEMBERSHIP

- 1.1 The membership of the Committee shall comprise at least two Non-executive Directors who shall be independent of management and free of any relationship which could interfere with the exercise of their independent judgement. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee, in consultation with the Chairman of the Audit and Risk Committee (other than in respect of the initial members of the Committee as set out above).
- 1.2 All members of the Committee shall be independent Non-executive Directors at least one of whom shall have recent and relevant financial experience. The Chairman of the Board may not be a member of the Committee but may attend meetings of the Committee.
- 1.3 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 1.4 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 the Non-executive Director continues to meet the criteria for membership of the Committee.
- 1.5 The Board shall appoint the Committee Chairman who shall be an independent Non-executive Director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

2. SECRETARY

- 2.1 The Company Secretary or his/her nominee shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

3. QUORUM

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

4. PROCEEDINGS OF THE COMMITTEE

- 4.1 Only members of the Committee have the right to attend and vote at Committee meetings. However, the Committee may invite or require other persons to attend meetings where appropriate to assist in the effective discharge of the Committee's duties. The Chief Executive Officer and the Head of Compliance will normally be in attendance at meetings.

5. FREQUENCY OF MEETINGS

- 5.1 The Committee shall meet at least four times a year at appropriate times in the financial reporting and audit cycle and otherwise as required. Meetings should be organised so that attendance is maximised.
- 5.2 Outside of the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Company's governance, including the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the external audit lead partner and the head of internal audit.

6. NOTICE OF MEETINGS

- 6.1 Meetings of the Committee shall be called by the Secretary of the Committee: (a) in accordance with the agreed schedule of meetings of the Committee; (b) at the request of any of the Committee's members; (c) at the request of the Head of Compliance; or (d) at the request of external or internal auditors if they reasonably consider it necessary.
- 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, wherever practicable, be sent to Committee members and to other attendees as appropriate, at the same time.
- 6.3 Meetings of the Committee may be conducted when members are physically present or in the form of either video or audio conferences.
- 6.4 Shorter notice and late submission or circulation of papers will be permitted at the discretion of the Chairman of the Committee.
- 6.5 Supporting papers may be circulated electronically or in hard copy as circumstances permit.

7. MINUTES OF MEETINGS

- 7.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 7.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 7.3 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board unless it would be inappropriate to do so in the opinion of the Chairman of the Committee.

7.4 Final signed copies of the minutes of the meetings of the Committee should be maintained for the Company's records, in hard and soft copy where possible.

8. **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.

9. **DUTIES**

9.1 The Committee should carry out the duties below for the Company, major subsidiary undertakings and the Group as a whole, as appropriate.

9.2 The boards of the regulated entities within the Group from time to time have agreed with the Committee that it will have responsibility for overseeing at group level on behalf of those boards (with whom ultimate responsibility remains) the financial reporting and internal control of the regulated entities.

9.3 ***Internal Control and Risk Management Systems***

9.4 In respect of the Group's internal control and risk management framework, the Committee's responsibilities are to:

- (a) provide advice to the Board on risk strategy, including the oversight of the Group's current risk exposures, with particular emphasis on prudential risks;
- (b) review, and recommend to the Board, the design and implementation of risk management and measurement strategies across the Group and the procedures for monitoring the adequacy and effectiveness of those processes including monitoring whether internal control recommendations made by the external auditors, internal auditors, compliance or operational risk departments have been implemented;
- (c) evaluate the Company's capability to identify and manage potential emerging or new risk issues facing the Group as a whole, including their potential impact on the Group's business model;
- (d) develop proposals for consideration by the Board in respect of overall risk appetite and tolerance, as well as the metrics to be used to monitor the Group's risk management performance;
- (e) review the principal risk policies for consistency with the Group's risk appetite and approve any material changes to those policies;
- (f) oversee and challenge the design and execution of stress and scenario testing of the Group's business and strategic plans and receive reports on the outcomes that explain the resultant impact on the adequacy of its economic and regulatory capital requirements;
- (g) oversee and challenge management's day-to-day risk management and oversight arrangements;
- (h) review the Group's overall risk assessment processes and methodology, ensuring that both qualitative and quantitative metrics are used;
- (i) oversee and challenge due diligence on risk issues relating to material transactions and strategic proposals that are subject to approval by the Board, focusing in particular on risk aspects and implications for the risk appetite and tolerance of the Company, and taking independent external advice where appropriate and available;

- (j) provide advice to the Remuneration Committee on the implications of the remuneration policy for risk and risk management to ensure the senior executives are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their contributions to the Company;
- (k) provide advice, oversight and challenge necessary to embed and maintain a supportive risk culture throughout the Group;
- (l) review on behalf of the Board the capital adequacy of the Group;
- (m) satisfy itself on an ongoing basis that risk-based information is used effectively by management and the Board in the running of the business, for example, in the allocation of capital and in product pricing;
- (n) review and monitor management's responsiveness to the findings and recommendations of the Head of Compliance;
- (o) receive and review reports from the risk management function on the following, which are designed to assist the Committee in its consideration of the above:
 - (i) in relation to risk assessment, a report of risk exposures measured against agreed appetites and tolerances;
 - (ii) a summary of any significant risk events and material near misses which may have resulted in risk appetites or tolerances being exceeded;
 - (iii) details of the risk assessment process that has been carried out across the Group and a confirmation either that it has been conducted satisfactorily according to required standards and accuracy or, if not, the areas of deficiency;
 - (iv) a statement as to whether approved risk policies and standards have been complied with, and in the event of any breaches, what actions have been taken or are planned to address them;
- (p) consider and approve the remit and annual objectives of the risk management function, ensuring it has adequate resources, independence and has appropriate access to information to enable it to perform its function effectively;
- (q) evaluate whether or not management is setting the appropriate "control culture" by communicating the importance of internal control and the management of risk and ensuring employees within the Group have an understanding of their respective roles and responsibilities;
- (r) review and monitor the adequacy and effectiveness of the process for the identification, assessment, mitigation, monitoring and management of all significant risks including liquidity, market, regulatory, credit, legal operational and strategic risks with particular emphasis on key risks identified by the Board;
- (s) review and recommend to the Board for approval, the Group's Internal Capital Adequacy Assessment Process (ICAAP) to fulfil its regulatory obligations under the Capital Requirements Directive and assess whether the Pillar assessments remain appropriate;
- (t) review periodically and monitor the Group's procedures for ensuring compliance with regulatory and financial reporting requirements and its relationship with the relevant regulatory authorities;

- (u) review the Group's arrangements for the deterrence, detection, prevention and investigation of fraud and to receive and consider special investigation reports relating to fraud or major breakdowns in internal controls or major errors and omissions including remedial action by management;
- (v) review on a regular basis pending and threatened litigation affecting the Company or any of its subsidiaries;
- (w) review periodically the Group's tax strategy and associated internal controls; and
- (x) review the statements to be included in the Company's annual report concerning internal controls and risk management and, provided they are approved, recommend them to the Board for approval.

9.5 **Compliance**

The Committee shall:

- (a) review the activities and organisational structure of the Company's compliance function and the qualifications of personnel;
- (b) approve the monitoring programme of the compliance function on an annual basis and review the effectiveness of their activities;
- (c) receive reports from the Head of Compliance on the findings from the monitoring programme;
- (d) review the findings of any examinations by the Financial Conduct Authority ("**FCA**"); and
- (e) receive regular updates regarding compliance matters concerning the Group.

10. **COMPLIANCE MANAGER**

The Head of Compliance will report directly to the Chief Executive Officer. The Head of Compliance will also have a dotted reporting line to the Committee, with a right of access to the Committee's Chairman.

The Committee will make recommendations to the Board on:

- (a) the appointment and removal of the Head of Compliance; and
- (b) the acceptance, agreement and the specific terms of the Head of Compliance's resignation or termination of contract.

The Committee will make recommendations regarding the remuneration arrangements of the Head of Compliance to the Chairman of the Remuneration Committee.

10.2 **Financial reporting**

The Committee shall:

- (a) monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements (other than where dealt with by the Board), preliminary results announcements and any other formal announcement relating to its financial performance and review and report to the Board on significant financial reporting issues and judgements which they contain having regard to any matters communicated to it by the auditor and focusing particularly on:

- (i) any changes in accounting policies;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption;
 - (v) compliance with accounting standards, taking into account the view of the external auditor;
 - (vi) compliance with legal and regulatory requirements (in particular the requirements of the FCA); and
 - (vii) business review, and corporate governance statements relating to audit and risk management,
 - (viii) provided that such monitoring and review is not inconsistent with any requirement for prompt reporting under the UK Listing Authority's Disclosure and Transparency Rules. The Committee shall also review summary financial statements, significant financial returns to regulators and any significant financial information contained in other documents;
- (b) review and challenge where necessary:
- (i) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Group;
 - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
 - (iii) whether the Company/Group has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - (iv) the support for adopting the going concern basis in accordance with FRC guidance;
 - (v) the clarity and completeness of disclosure in the Group's financial reports and the context in which statements are made;
 - (vi) any legal matters which could have a significant impact on financial reporting; and
 - (vii) all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management);
- (c) where applicable review the annual financial statements of any defined benefit or final salary pension funds in respect of which the Company has liability where not reviewed by the Board as a whole; and
- (d) where the Committee is not satisfied with any aspect of the proposed financial reporting by the Group, it shall report its views to the Board.

10.3 ***Whistleblowing and fraud***

The Committee shall:

- (a) review the adequacy and security of the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- (b) review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the Group's anti-money laundering systems and controls;
- (c) review the Group's procedures for detecting internal and external fraud; and
- (d) review the Group's systems and controls for the prevention of bribery, its code of corporate conduct/business ethics and its policies for ensuring that the Group complies with relevant regulatory and legal requirements, receive and review reports on non-compliance and consider appropriate action.

10.4 ***Internal audit***

The Committee shall:

- (a) monitor and review the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system;
- (b) approve the appointment and removal of the head of the internal audit function;
- (c) consider and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards for internal auditors. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- (d) review and assess the annual internal audit plan including any changes or delays to the plan as the programme progresses;
- (e) review promptly all reports on the Group from the internal auditors;
- (f) review and monitor management's responsiveness to the findings and recommendations of the internal auditor;
- (g) meet the head of internal audit function at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out; and
- (h) in addition, the head of internal audit shall be given the right of direct access to the Chairman of the Board and to the Committee. If at any time the Company does not have an internal audit function, the Committee should consider annually whether there should be one and make a recommendation to the Board accordingly. The absence of such a function should be explained in the annual report.

10.5 ***External Audit***

The Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall oversee the selection process for new auditors (including where the external audit

contract is put out to tender) and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;

- (b) oversee the relationship with the external auditor including (but not limited to):
 - (i) recommendation as to their remuneration, whether fees for audit or non-audit services; ensuring that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
 - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iii) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
 - (iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity;
 - (v) agreeing with the Board a policy on the employment of former employees of the Company's external auditor, then monitoring the implementation of this policy;
 - (vi) monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
 - (vii) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures and, where available, consideration of the auditor's annual transparency reports;
 - (viii) seeking to ensure co-ordination with the activities of the internal audit function;
 - (ix) considering the risk of the withdrawal of the Company's present external auditor from the market; and
 - (x) evaluating the risks to the quality and effectiveness of the financial reporting process and considering the need to include the risk of the withdrawal of their auditor from the market in that evaluation;
- (c) meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall provide the external auditor with the opportunity to meet the Committee at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- (d) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- (e) review the findings of the audit with the external auditor including but not limited to, the following:

- (i) a discussion of any major issues which arose during the audit and the effectiveness of the audit;
 - (ii) any accounting and audit judgements;
 - (iii) levels of errors identified during the audit;
 - (iv) the effectiveness of the audit process; and
 - (v) compliance with relevant financial reporting standards and relevant financial and governance reporting requirements;
- (f) obtain from the external auditor a memorandum describing such "relevant audit information" as may be required by the external auditor from time to time for the purposes of any statutory directors' statement in connection therewith, and institute such procedures as it sees fit to enable the directors to provide such statement;
- (g) discuss any difficulties, reservations or other matters arising from the external auditors' audits (in the absence of management where necessary);
- (h) review any representation letter(s) requested by the external auditor before they are signed by management;
- (i) review the management letter and management's response to the auditor's findings and recommendations and take responsibility for the resolution of disagreements between the management and the auditors;
- (j) consider and review the findings of any external tax adviser to the Company or any of its subsidiaries;
- (k) develop and implement a policy on the supply of non-audit services by the external auditor, to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter and keep under review and report to the Board on the nature and extent of any non-audit services supplied; and
- (l) ensure that at least once every 10 years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms and in respect of such tender, oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process.

10.6 **Reporting responsibilities**

- (a) The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:
- (i) the significant issues that it considered in relation to the financial statements and how these were addressed;
 - (ii) its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted;

- (iii) an explanation of how auditor objectivity and independence is safeguarded where the external auditor provides non-audit services;
 - (iv) any other issues on which the Board has requested the Committee's opinion; and
 - (v) the Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- (b) The Committee shall, if requested by the Board, review the content of the annual report and accounts and advise the board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.
 - (c) The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor; and all other information requirements set out in the UK Corporate Governance Code (the "**Code**").
 - (d) In compiling the reports, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.
 - (e) The Committee shall make available to shareholders these terms of reference by placing them on the Company's website.

10.7 **Other matters**

The Committee shall:

- (a) have access to sufficient resources (including adequate information, provided by the Board on a proactive or reactive basis) in order to carry out its duties, including access to the Company 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 on-going basis for all members;
- (c) give due consideration to laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority's Listing Rules, Prospectus Rules and Disclosure and Transparency Rules and any other applicable rules as appropriate;
- (d) be responsible for co-ordination of the internal and external auditors;
- (e) supervise the Company's policy in respect of tax planning and the financing of the Company;
- (f) oversee any investigation of activities which are within its terms of reference;
- (g) work and liaise as necessary with all other committees of the Board;

- (h) act for internal purposes as a court of the last resort; and
 - (i) 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.
- 10.8 The Committee should consider such other matters as the Board may from time to time refer to it.

11. **AUTHORITY**

The Committee is authorised, at the Company's expense:

- 11.1 to investigate any activity within its terms of reference and seek any information it requires from any employee of the Group in order to perform its duties (all such persons being directed to co-operate with any such request by the Committee, including requests to attend meetings of the Committee);
- 11.2 to obtain outside legal or other professional advice on any matter within its terms of reference;
- 11.3 to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary (but such persons shall not be members of the Committee);
- 11.4 to call any employee to be questioned at a meeting of the Committee as and when required; and
- 11.5 to publish in the Group's annual report details of any issues that cannot be resolved between the Committee and the Board.