

RIVER AND MERCANTILE  
GROUP

**RIVER AND MERCANTILE GROUP PLC**

**RISK COMMITTEE TERMS OF**

**REFERENCE**

**1. PURPOSE**

The Risk Committee is responsible for assisting the Board in its oversight of risk (including conduct risk, investment risk (the operational risk relating to client investment and the second line investment risk process), operational risk, regulatory compliance and legal risk, proposing and reviewing risk appetite and risk profile, reviewing the effectiveness of the Company's risk management framework, reviewing the methodology used in determining the Company's capital requirements, stress and scenario testing, ensuring due diligence appraisals are carried out on strategic or significant transactions, and monitoring the Company's regulatory requirements.

**2. DUTIES**

- 2.1 The Committee should carry out the duties below for the Company, major subsidiary undertakings and the Group as a whole, as appropriate.
- 2.2 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 risk reporting and risk management of the regulated entities.
- 2.3 The duties of the Risk Committee for the Group, the Company and its subsidiaries shall be to:
- 2.3.1 provide advice to the Board on risk strategy, including oversight of the Group's current risk exposures;
- 2.3.2 review and recommend, for annual approval by the Board, the risk appetite statement, including key indicators (i.e. limits and triggers) reflecting the Board's risk appetite;
- 2.3.3 review and monitor the Group's future risk strategy and its risk appetite, in particular in relation to capital and liquidity, franchise value, investment, conduct, reputational and operational risk with respect to the Group and recommend the approval of, and any material changes to such risk appetite to the Board;
- 2.3.4 review and challenge the Group's methodology for creating its forward-looking risk profile at both an individual and aggregate level (subject to materiality); review and challenge the forward looking risk profile against its risk strategy and risk appetite; to review the drivers of the changes, including triggers and limits, if any, in the Group's risk profile and their

- implications for capital, liquidity, franchise value, conduct risk and operational risk;
- 2.3.5 review and robustly assess (i) the design, completeness and effectiveness of the Group's risk management framework relative to its activities including those that would threaten the business model, future performance, solvency or liquidity. (ii) the adequacy and quality of the Group's risk management function, and (iii) the effectiveness of risk reporting (including timeliness and risk events);
  - 2.3.6 oversee and challenge due diligence on risk issues relating to material transactions and strategic proposals that are subject to approval by the Board, focusing on risk aspects and implications for the risk appetite and tolerance of the Board and taking external advice where appropriate;
  - 2.3.7 review and recommend to the Board for approval those risk policies that the Chairman and the Risk Committee Chairman agree from time to time are reserved for Board approval and material changes to these;
  - 2.3.8 promote a risk awareness culture, including providing the advice, oversight and challenge necessary to embed and maintain a supportive risk culture throughout the Group. Evaluate whether management is setting the appropriate "control culture" by communicating the importance of internal controls and the management of risk;
  - 2.3.9 review and recommend to the Board the scenarios proposed for the stress and reverse stress testing of the Group's strategic and business plans and review the outcomes and the impact on the economic and regulatory capital requirements;
  - 2.3.10 review and monitor the adequacy and effectiveness of the Group's fund governance framework;
  - 2.3.11 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 and counterparty, operational, cyber, conduct, legal and business risks with particular emphasis on key risks identified by the Board and receive and review reports from the risk management function, 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 the agreed appetites and tolerances;
    - ii. a summary of 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 is 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 event of any breaches, what actions have been taken or

are planned to address them;

- v. review and monitor management's responsiveness to findings by the risk and compliance functions;
- vi. review and recommend to the Board for approval, the Group's Internal Capital Adequacy Assessment Process (ICAAP) to fulfill its regulatory obligations under the Capital Requirements Directive and assess whether the Pillar capital assessments remain appropriate;
- vii. oversee and challenge due diligence on risk issues relating to material transactions and strategic proposals that are subject to approval by the Board, focusing on risk aspects and implications for the risk appetite and tolerance of the Group.
- viii. 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 within the risk appetite of the Group and are appropriately rewarded for their contributions to the Group.

#### 2.4 The Committee shall:

- 2.4.1 review and approve the Group Compliance Monitoring Plan which will be presented to the Committee on at least an annual basis;
- 2.4.2 review reports from the Compliance function on the findings of the compliance monitoring programme;
- 2.4.3 review significant breaches or potential breaches of regulations and the steps taken to ensure that the underlying causes of any regulatory control failure are being addressed;
- 2.4.4 review periodically and monitor the Group's procedures for ensuring compliance with regulatory reporting requirements;
- 2.4.5 monitor the relationships with the Group's regulatory authorities, developments and prospective changes in the regulatory environment. Oversee the regulatory landscape in respect of conduct matters and review the actions taken in relation to any regulatory developments, which may have a material impact on the Group;
- 2.4.6 monitor and review the adequacy and effectiveness of the Group's anti-money laundering systems and controls and receive an annual report from the Money Laundering Reporting Officer;
- 2.4.7 review the Group's arrangements for the deterrence, detection, prevention and investigation of fraud, both internal and external, and to receive and consider special investigation reports relating to fraud or major breakdown in internal controls of major errors and omissions

including remedial action by management;

- 2.4.8 review the findings of any examination by the Financial Conduct Authority and monitor the completion of any remediation plan;
- 2.5 review on a regular basis pending and threatened litigation affect the Group.

### **3. OTHER RESPONSIBILITIES – COMPLIANCE, LEGAL AND REGULATORY**

- 3.1 The Head of Compliance will have a dotted reporting line to the Committee, with a right of access to the Committee's Chairman.
- 3.2 The Committee will make recommendations to the Board on:
  - 3.2.1 the appointment and removal of the Head of Compliance, and
  - 3.2.2 the acceptance , agreement and the specific terms of the Head of Compliance's resignation or termination of contract.
- 3.3 The Committee will make recommendations regarding the remuneration arrangements of the Head of Compliance to the Chairman of the Remuneration Committee.
- 3.4 The Committee shall review the organisational structure and responsibilities of the Group's compliance and risk management functions and assess they are fit for purpose for the Group's activities.

### **4 REPORTING RESPONSIBILITY**

- 4.1 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:
  - 4.1.1 the significant issues that it considered in relation to risk, compliance and regulatory matters and how these were addressed;
  - 4.1.2 any other issues on which the Board has requested the Committee's opinion; and
  - 4.1.3 the Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 4.2 The Committee shall make available to shareholders these terms of reference by placing them on the Company's website.

### **5 OTHER MATTERS**

- 5.1 The Committee shall:
  - 5.1.1 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;

- 5.1.2 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;
  - 5.1.3 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, Financial Conduct Authority rules and regulations and any other applicable rules as appropriate;
  - 5.1.4 oversee any investigation of activities which are within its terms of reference;
  - 5.1.5 work and liaise as necessary with all other committees of the Board;
  - 5.1.6 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.
- 5.2 The Committee should consider such other matters as the Board may from time to time refer to it.

## **6 AUTHORITY**

- 6.1 The Committee is authorised, at the Company's expense:
- 6.1.1 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);
  - 6.1.2 to obtain outside legal or other professional advice on any matter within its terms of reference;
  - 6.1.3 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);
  - 6.1.4 to call any employee to be questioned at a meeting of the Committee as and when required.

## **7 MEMBERSHIP**

- 7.1 The membership of the Committee shall comprise at least three 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 Risk Committee (other than in respect of the initial members of the Committee as set out above).
- 7.2 All members of the Committee shall be independent Non-executive Directors. The Chairman of the Board may not be a member of the Committee but may attend meetings of the Committee.

7.3 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 the Non-executive Director continues to meet the criteria for membership of the Committee.

7.4 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.

## **8 SECRETARY**

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.

## **9 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 exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

## **10 PROCEEDINGS OF THE COMMITTEE**

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 Financial Officer and the Head of Compliance will normally be in attendance at meetings.

## **11 FREQUENCY OF MEETINGS**

11.1 The Committee shall meet at least four times a year and otherwise as required. Meetings should be organised so that attendance is maximised.

11.2 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 and the Compliance Officer.

## **12 NOTICE OF MEETINGS**

12.1 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; or (c) at the request of the Head of Compliance.

12.2 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.

- 12.3 Meetings of the Committee may be conducted when members are physically present or in the form of either video or audio conferences.
- 12.4 Shorter notice and late submission or circulation of papers will be permitted at the discretion of the Chairman of the Committee.
- 12.5 Supporting papers may be circulated electronically or in hard copy as circumstances permit.

### **13 MINUTES OF MEETINGS**

- 13.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 13.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 13.3 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.
- 13.4 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.

### **14 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.