

## CITY OF LONDON GROUP PLC (“COLG” or “the Company”)

### AUDIT & RISK COMMITTEE

#### TERMS OF REFERENCE

##### 1. **Membership**

1.1 Members of the committee shall be appointed by the board, in consultation with the chair of the audit committee. The committee shall be made up of at least two members.

1.2 All members of the committee shall be non-executive directors, at least two of whom should be independent non-executive directors. One member of the committee shall have recent and relevant financial experience. The Chair of the board may be a member of, but not chair the committee.

1.3 Only members of the committee have the right to attend committee meetings. However, other individuals such as the chief executive, other executive directors and representatives from the finance function may be invited by the committee to attend all or part of any meeting as and when appropriate.

1.5 The external auditors will be invited to attend meetings of the committee on a regular basis.

1.6 The board shall appoint the committee chair. In the absence of the committee chair the remaining members present shall elect one of themselves to chair the meeting.

##### 2. **Secretary**

2.1 The COLG company secretary, or another person nominated by the company secretary, with the agreement of the committee chair, shall act as the secretary to the committee.

##### 3. **Quorum**

3.1 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. **Frequency of meetings**

4.1 The committee shall meet at least twice a year at appropriate times in the reporting and audit cycle and otherwise as required.

##### 5. **Notice of meetings**

5.1 Meetings of the committee shall be called by the secretary to the committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary.

5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers shall be forwarded to each member of the committee and any other person required to attend no later than five working days before the meeting.

##### 6. **Minutes of meetings**

6.1 The secretary shall minute the proceedings and resolutions of all meetings of the committee, including recording the names of those present and in attendance.

6.2 Minutes of committee meetings shall be circulated promptly to all members of the committee and, once agreed, to all members of the board, unless it would be inappropriate to do so.

## 7. Annual General Meeting

7.1 The chair of the committee should attend the annual general meeting prepared to respond to any shareholder questions on the committee's activities.

## 8. Duties

The committee should carry out the duties below for the parent company, major subsidiary undertakings and the Company and its subsidiary undertakings from time to time (the "Group") as a whole, as appropriate.

### 8.1 Financial reporting

8.1.1 The committee shall monitor the integrity of the financial statements of the Company and the Group of the Company, including its annual and half-yearly reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements containing inside information. The committee shall review any other statements requiring board approval which contain financial information first, where to carry out a review prior to board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation.

8.1.2 The committee shall review and challenge where necessary:

8.1.2.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/Group;

8.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible; and

8.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor

### 8.2 Narrative Reporting

8.2.1 where requested by the board, the committee should 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 and whether it informs the board's statement in the annual report on those matters that are required under the UK corporate governance code.

### 8.3 Internal controls and risk management systems

The committee shall

8.3.1 advise the board on the Company's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment drawing on financial stability assessments such as those published by the Bank of England, the Prudential Regulation Authority, the Financial Conduct Authority (or any successor body to any of them) and other authoritative sources that may be relevant for the Company's risk policies;

8.3.2 oversee and advise the board on the current risk exposures of the Company and future risk strategy;

8.3.3 in relation to risk assessment -

8.3.3.1 keep under review the Company's overall risk assessment processes that inform the board's decision making, ensuring both qualitative and quantitative metrics are used

8.3.3.2 review regularly and approve the parameters used in these measures and the methodology adopted

8.3.3.3 set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance

8.3.4 review the Company's capability to identify and manage new risk types;

8.3.5 before a decision to proceed is taken by the board, advise the board on proposed strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focussing 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;

8.3.6 review reports on any material breaches of risk limits and the adequacy of proposed action;

8.3.7 keep under review the effectiveness of the Company's internal financial controls and internal controls and risk management systems and review and approve the statements to be included in the annual report concerning internal controls and risk management; and

8.3.8 provide qualitative and quantitative advice to the remuneration committee on risk weightings to be applied to performance objectives incorporated in executive remuneration.

#### **8.4 Compliance, whistle-blowing and fraud**

The committee shall:

8.4.1 review the adequacy and security of the Company's arrangements for its employees, consultants 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;

8.4.2 review the Company's procedures for detecting fraud;

8.4.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;

8.4.4 review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the Company's anti-money laundering systems and controls; and

8.4.5 review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Company's compliance function.

## **8.5 Internal Audit**

8.5.1 The committee shall consider, at least annually, the need for an internal auditor.

## **8.6 External Audit**

The committee shall:

8.6.1 consider and make recommendations to the board, to be put to shareholders for approval at the AGM, 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 and if an auditor resigns the committee shall investigate the issues leading to this and decide whether any action is required;

8.6.2 oversee the relationship with the external auditor including (but not limited to);

8.6.2.1 recommendations on their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;

8.6.2.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

8.6.2.3 assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;

8.6.2.4 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);

8.6.2.5 agreeing with the board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;

8.6.2.6 monitoring the 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; and

8.6.2.7 developing and recommending to the board the Company's formal policy on the provision of non-audit services by the auditor, including approval of non-audit services by the committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements including (but not limited to)

- threats to the independence and objectivity of the external auditor and any safeguards in place
- the nature of the non-audit services
- whether the external audit firm is the most suitable supplier of the non-audit service
- the fees for the non-audit services, both individually and in aggregate, relative to the audit fee
- the criteria governing compensation;

8.6.3 meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and, at least once a year, meet with the external auditor without management being present, to discuss the auditor's remit and any issues arising from the audit;

8.6.4 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;

8.6.5 review the findings of the audit with the external auditor. This shall include but not be limited to, the following;

8.6.5.1 a discussion of any major issues which arose during the audit;

8.6.5.2 any accounting and audit judgements;

8.6.5.3 levels of errors identified during the audit;

The committee shall also review the effectiveness of the audit;

8.6.6 review any representation letter(s) requested by the external auditor before they are signed by management;

8.6.7 review the management letter and management's response to the auditor's findings and recommendations; and

8.6.8 develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

## **9. Reporting responsibilities**

9.1 The committee chair shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities.

9.2 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.

9.3 The committee shall compile a report to shareholders on its activities to be included in the Company's annual report.

## **10. Other**

The committee shall:

10.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;

10.2 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;

10.3 give due consideration to laws and regulations; the provisions of the UK corporate governance code; and the requirements of the AIM Rules, the Financial Conduct Authority, the EU Market Abuse Regulation and the UKLA Disclosure Guidance and Transparency Rules and guidance, as well as any other applicable rules as appropriate;

10.4 oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of the last resort; and

10.5 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

#### **11. Authority**

The committee is authorised:

11.1 to seek any information it requires from any employee of the Company in order to perform its duties;

11.2 to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference;

11.3 to call any employee to be questioned at a meeting of the committee as and when required; and

11.4 to have the right to publish in the Company's annual report details of any issues that cannot be resolved between the committee and the board.

**Adopted on 13 September 2017**