

Close Brothers Group plc

Audit Committee (the “Committee”)

Terms of Reference

1. Purpose and Authority

The Committee is a committee of the Board of Close Brothers Group plc (the “**Board**”), from which it derives its authority and to which it reports. The Committee has delegated authority from the Board in respect of the duties, authority and responsibilities set out in these Terms of Reference.

The Committee shall carry out the duties below on behalf of the Board in respect of Close Brothers Group plc (“**CBG**”), its subsidiary undertakings and divisions (being the Banking division (including Close Brothers Limited), Winterflood Securities (including Winterflood Securities Limited) and Close Brothers Asset Management (including Close Asset Management Limited)) as a whole (the “**Group**”), as appropriate.

The Committee provides oversight and advice to the Board on, among other things:-

- 1.1 Financial and narrative reporting;
- 1.2 Group internal controls, including financial controls;
- 1.3 Matters relating to the Group’s internal audit function; and
- 1.4 Matters relating to the Group’s external auditors.

2. Membership

- 2.1. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination and Governance Committee in consultation with the Chairman of the Committee. The Committee shall be made up of at least three members.
- 2.2. All members of the Committee shall be independent non-executive directors at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing. The Committee as a whole shall have competence relevant to the sector in which the Group operates. The Chairman of the Board shall not be a member of the Committee.
- 2.3. Only members of the Committee have the right to attend Committee meetings. Other individuals such as the Chairman of the Board, Group Chief Executive, Group Finance Director, other directors and senior management, and the heads of group risk, compliance, internal audit and finance may be invited to attend all or part of any meeting as and when appropriate. Only members of the Committee may vote at Committee meetings.
- 2.4. The external auditors will be invited to attend meetings of the Committee on a regular basis.

- 2.5. The Board shall appoint the Committee Chairman (the “Chairman”). In the absence of the Chairman, the remaining members present shall elect one of themselves to chair the meeting.

3. Secretary

- 3.1. The Company Secretary or their nominee shall act as the Secretary of the Committee.

4. Quorum

- 4.1. 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.

5. Frequency of Meetings

- 5.1. The Committee shall meet at least four times a year at appropriate times in the reporting and audit cycle and otherwise as required.
- 5.2. Outside the formal meeting programme, the Chairman, and to a lesser extent the other members of the Committee, will maintain a dialogue with key individuals involved in the Company’s governance, including the Chairman of the Board, the Group Chief Executive, the Group Finance Director, the external audit lead partner and the Group Head of Internal Audit.

6. Notice of Meetings

- 6.1. Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of the external auditor or the Group Head of Internal Audit if they 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 and any other person required to attend, no later than three working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

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. Minutes of Committee meetings shall be agreed with the Chairman and circulated promptly to all members of the Committee and to all members of the Board.

8. Annual General Meeting

- 8.1. The Chairman shall attend the Annual General Meeting to respond to any shareholder questions on the Committee’s activities.

9. Duties

9.1. Financial Reporting

9.1.1. The Committee shall monitor the integrity of the financial statements of CBG, including its annual and half yearly reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain, having regard to any matters communicated to it by the auditor. The Committee shall also, where practicable and consistent with any prompt reporting requirements to which the Group is subject, review any financial information contained in certain other documents, such as announcements of a price sensitive nature.

9.1.2. The Committee shall review and challenge where necessary:

1. the application and consistency of, and any changes to, accounting policies on a year on year basis;
2. the methods used to account for significant or unusual transactions where different approaches are possible;
3. whether the Group has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
4. the clarity of disclosure in CBG's financial reports and the context in which statements are made; and
5. all material information presented with the financial statements, such as the strategic report and the corporate governance statement (insofar as it relates to the audit and risk management).

9.1.3. Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

9.2. Narrative Reporting

The Committee shall review the content of the annual report and accounts and recommend to the Board whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy, and whether it informs the Board's statement in the annual report on these matters that is required under the UK Corporate Governance Code (the "Code").

9.3. Internal Controls

The Committee shall:

- 9.3.1. keep under review the effectiveness of the Group's internal controls, including financial controls; and
- 9.3.2. review and approve the statements to be included in the Annual Report concerning internal controls and the viability statement

9.4. **Group Internal Audit**

The Committee shall:

- 9.4.1. monitor and review the effectiveness of the group internal audit function;
- 9.4.2. carry out an annual assessment, using defined criteria, of the effectiveness of the group internal audit function, including obtaining an independent assessment at least every five years. The Committee will also monitor and assess the role and effectiveness of the group internal audit function in the overall context of the Company's risk management system;
- 9.4.3. approve the appointment and removal of the Group Head of Internal Audit;
- 9.4.4. assess annually whether the Group Head of Internal Audit remains independent, where she or he has been in role for seven years or more;
- 9.4.5. consider and approve the role and charter of group internal audit ensuring it is appropriate for the current needs of the Group and ensure it has the necessary resources and access to sufficient and timely information to enable it to perform its function effectively and in accordance with appropriate professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- 9.4.6. ensure that there is open communication between group internal audit and different functions across the Group, and that group internal audit evaluates the effectiveness of those functions as part of its internal audit plan;
- 9.4.7. review, assess and approve changes to the annual plan of proposed activities for the group prepared by the Group Head of Internal Audit, and ensure that the plan is aligned to the key risks of the Group's business;
- 9.4.8. review promptly all reports from group internal audit;
- 9.4.9. review and monitor management's responsiveness to the findings and recommendations of group internal audit; and
- 9.4.10. meet the Group Head of Internal Audit at least once a year, without management being present; and
- 9.4.11. ensure the Group Head of Internal Audit has direct access to the Chairman of the Board and to the Chairman, providing

independence from the executive, and is accountable to the Committee.

9.5. External Audit

The Committee shall:

- 9.5.1. 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 external auditors of CBG or any of its subsidiary companies;
- 9.5.2. ensure that the audit services contract is put out to tender, in line with the provisions of the Code or as required by applicable legislation, 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 develop and oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- 9.5.3. if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 9.5.4. oversee the relationship with the external auditors including (but not limited to):
 1. approving their remuneration in respect of audit services and ensuring that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
 2. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 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 and any threats to the auditor's independence and the safeguards applied to mitigate those threats;
 4. monitoring the auditor's processes for maintaining independence, its compliance with relevant UK law, regulation and professional requirements, including guidance on the rotation of audit partner and staff;
 5. satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Group (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
 6. agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation and application of this policy;

7. monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Group compared to the overall fee income of the firm, office and partner and other related requirements;
 8. assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
 9. seeking to ensure co-ordination with the activities of the internal audit function; and
 10. evaluating the risks to the quality and effectiveness of the financial reporting process (having regard, among other things, to the communications of the auditor with the Committee) and consideration of the need to include the risk of the withdrawal of their auditor from the market in that evaluation.
- 9.5.5. meet regularly with the external auditors, (including at the planning stage before the audit, after the audit at the reporting stages and at interim). The Committee shall meet the external auditors at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- 9.5.6. discuss with the external auditor the factors that could affect audit quality and 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;
- 9.5.7. review the findings of the audit with the external auditors. This shall include, but not be limited to, the following:
1. a discussion of any major issues which arose during the audit;
 2. the auditor's explanation of how the risks to audit quality were addressed;
 3. key accounting and audit judgements;
 4. the auditor's view of their interactions with senior management;
 5. levels of errors identified during the audit; and
 6. the effectiveness of the audit process; and
 7. review the effectiveness of the audit process, taking into account relevant UK professional and regulatory requirements, including an assessment of the quality of the audit, the handling of key judgments by the auditor, and the auditor's response to questions from the Committee.

The Committee shall also:

- 9.5.8. review any representation letter(s) requested by the external auditors before they are signed by management;
- 9.5.9. review the management letter and management's response to the auditors' findings and recommendations; and
- 9.5.10. develop and implement a policy on the supply of non-audit services by the external auditors, to avoid any threat to auditor objectivity and independence, taking into account any relevant regulations and ethical guidance on the matter and reporting to the Board on any improvement or action required. The policy will include a description of circumstances where the Committee is required to approve the provision of non-audit services, details of any non-audit services that are pre-approved, factors to be considered when assessing whether approval should be given, and arrangements with respect to the ratio of non-audit to audit fees.

9.6. Recovery and Resolution Plans

The Committee shall review and challenge the Group's Recovery and Resolution Plans (RRP).

10. Reporting Responsibilities

- 10.1. The Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 10.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3. The Committee shall compile a report on its activities to be included in the Annual Report. The report should include an explanation of how the Committee has addressed the independence and 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 Code.
- 10.4. In compiling the reports above, 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 and the inputs to the Board's viability statement. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

11. Other Matters

The Committee shall:

- 11.1. have access to sufficient resources in order to carry out its duties, including access to the CBG secretariat for assistance as required;
- 11.2. 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;
- 11.3. 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 Guidance and Transparency Rules and any other applicable rules, as appropriate;
- 11.4. be responsible for co-ordination of the internal and external auditors;
- 11.5. oversee any investigation of activities which are within its terms of reference and act as a court of the last resort to the extent applicable;
- 11.6. review and approve those policies which from time to time fall to be considered by the Committee under the Group Policy Framework;
- 11.7. work and liaise as necessary with all other Board committees, taking particular account of the impact of risk management and internal controls delegated to other committees; and
- 11.8. arrange for periodic reviews of its own performance, and, at least annually, review its 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.

12. Authority

The Committee is authorised:

- 12.1. to seek any information it requires from any employee in order to perform its duties and to call any employee to be questioned at a meeting of the Committee;
- 12.2. to obtain, at the Group's expense, outside legal or other professional advice on any matter within its terms of reference;
- 12.3. to call any employee to be questioned at a meeting of the Committee as and when required; and
- 12.4. to publish in the Annual Report details of any issues that cannot be resolved between the Committee and the Board.

June 2019