

STM GROUP PLC AUDIT AND RISK COMMITTEE

TERMS OF REFERENCE

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STM GROUP PLC

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1. PURPOSE & AUTHORITY

The Audit and Risk Committee ('the Committee') is the highest supervisory committee of STM Group Plc ('the Company') concerned with audit and risk management. The Committee's primary function is to assist the BOD in fulfilling its responsibilities relating to audit and risk, ensuring financial reporting and internal control principles are applied consistently across the Group as set out in the Combined Code, approving the accounting policies and accounts of the Group, implementing the risk strategy set by the BOD, ensuring the BOD approved risk framework is correctly adhered to and periodically reviewing and assessing the Group's risk profile.

The BOD will review annually to confirm this combined committee is deemed to operate effectively against its objectives.

The Audit and Risk Committee is authorised by the BOD to:

- conduct or authorise investigations into any matter within its terms of reference;
- seek any information that it requires from any employee, and all employees are expected to co-operate with any such request;
- obtain outside legal or other independent professional advice as necessary at the Company's expense.

2. DEFINITION OF 'RISK'

For the purposes of its management within the Company, 'Risk' is defined as:

"any risk, whether positive or negative in nature, which may jeopardise the Company's objectives including, but not limited to its market position, authority to act in regulated markets, corporate strategy or current business plans, or which are likely to damage consumer confidence in the Company".

3. COMPOSITION AND MEMBERSHIP

- The Committee has been established as a committee of the BOD by resolution of the BOD.
- The members of the Committee shall be appointed by the BOD who shall select from its members no fewer than three Non-Executive Directors, to serve on the Committee, at least one member of which shall have significant, recent and relevant experience of audit and risk management within a financial services business.
- The Chairman of the Committee shall be designated by the BOD from among the non-executive members of the BOD. The Chairman of the Committee may not be the Chairman of the BOD. In the absence of the Chairman of the Committee at any Committee meeting, the members present shall appoint one of the other non-executive members in attendance to act as Chairman of that particular meeting.
- The Company Secretary will act as the Secretary of the Committee and shall be in attendance, either in person or by telephone (as appropriate), at each meeting.
- Each member shall remain on the Committee until the member resigns or is removed.
- Any member of the Committee may be removed or replaced at any time by the BOD, and will cease automatically to be a member upon ceasing to be a Director of the Company.

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4. FREQUENCY OF MEETINGS, ATTENDANCE AND PROCEEDINGS

- The Committee will meet at least four (4) times per calendar year, and at such other times as the Chairman of the Committee shall think fit.
- The quorum for meetings shall be two Non-Executive Directors, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to clearly speak and hear each other.
- Notice of meetings shall be sent no later than 10 working days prior to each meeting, however meetings may be held without formal notice being given if all of the members are present and do not object to notice not having been given, or if those that are absent waive notice in any manner before the start of the meeting.
- The Committee may invite such officers, Executive or Non-Executive Directors or employees of the Company, as it may deem appropriate, to attend one or more Committee meeting(s) and assist the Committee in the discussion and consideration of matters, or to seek any information it requires relating to its duties. The CFO and Head of Enterprise Risk Management (ERM) should attend the meetings to assist the Committee whenever possible.
- Any matter to be voted upon shall be decided by a majority of the votes cast by the Committee's members on the question. In the case of an equality of votes, the Chairman of the Committee shall be entitled to a second or deciding vote.
- Minutes of the proceedings and resolutions of the Committee shall be kept by the Company Secretary and sent to all Committee members and to the BOD.

5. DUTIES AND RESPONSIBILITIES

The BOD hereby delegates to the Committee the following powers and duties to be performed by the Committee on behalf of and for the BOD. The Committee shall:

FINANCIAL STATEMENTS

- monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance;
- keep under review the consistency of accounting policies, both on a year-to-year basis and across the Group;
- review and challenge where necessary the Company's financial statements (including the actions and judgments of management in relation to them) before submission to the BOD, taking into account, in particular:
 - critical accounting policies and practices, and any changes in them;
 - decisions requiring a major element of judgment;
 - the extent to which the financial statements are affected by any unusual transactions or circumstances and how they are disclosed;
 - the clarity of disclosures;
 - significant adjustments resulting from the audit;
 - the going concern assumption;
 - compliance with accounting standards;
 - compliance with stock exchange and other regulatory and legal requirements;
 - consider management's response to any major external or internal audit recommendations;
 - review the annual financial statements of the pension funds, where not reviewed by the BOD as a whole;
 - review the Company's accounting policies and their compliance with generally accepted accounting practices.

EXTERNAL AUDIT

- Make recommendations to the BOD in relation to the appointment of the external auditors, oversee the selection process and approve the remuneration and terms of engagement of the external auditors;
- monitor and review the external auditors' independence, objectivity and effectiveness;
- meet with the external auditors at least twice each year, including at the audit planning stage, when the nature and scope of the audit, quality control procedures and steps taken by the auditors in response to regulatory and other requirements will be considered, and post audit at the reporting stage;
- ensure a tender process is followed for the provision of external audit services after a period of time, to be determined by the BOD;

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- review any auditor's management letters and management's responses;
- discuss with the external auditors issues such as compliance with accounting standards and any proposals which the external auditors have made in relation to the Company's internal auditing standards;
- determine the policy on the engagement of the external auditors to supply non-audit services, specifying types of non-audit work:
 - from which the external auditors are excluded;
 - for which the external auditors can be engaged without referral to the Committee;
 - for which a case-by-case decision from the Committee is necessary.

RISK MANAGEMENT

- Periodically review and assess the Group's risk profile in respect of all relevant risk categories across all areas of the Group's business activities that may have an impact, both positively and negatively, on the performance and viability of the business, including:
 - strategic risk
 - corporate governance
 - reputational risk
 - regulatory risk
 - compliance & legal risk
 - financial risk
 - operational risk
 - conduct risk
 - reporting & management information risk
 - 3rd party risk
- ensure adequate risk mitigation measures are in place in respect of each identified risk to the Group's businesses;
- monitor any changes in the risk profile of the business that would impact existing policies or procedures and require their review;
- oversee and monitor material risks that the Group faces and update these as events occur, identified risks shift or the Group's risk appetite changes;
- inquire of management and the external auditors about significant business, political, financial, regulatory and operational risks or exposure to such risk;
- review the Group's risk strategy, risk management framework, risk appetite and risk policies at least annually and provide an update to the Board in this regard;
- provide formal sign-off for the Board Risk Report and other risk related sections within the Annual Report & Account;
- oversee the embedding of a risk culture across the Group, ensuring that the consideration of risk forms part of any decision-making process;
- review adherence to Group risk principles and policies and any action taken resulting from material policy breaches across the Group;
- monitor compliance with the regulatory obligations of all businesses in the Group across all jurisdictions;
- make recommendations as to the systems, controls and KRIs required to manage and monitor risk;
- ensure accurate and timely reporting is made to the BOD of KRIs and any significant incidents which can result in material losses, serious regulatory breaches or significant reputational damage.

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COMPLIANCE, WHISTLEBLOWING AND FRAUD

- Review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. These arrangements must allow proportionate and independent investigation of such matters and appropriate follow-up action;
- review the Company's procedures for detecting fraud;
- review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- review regular reports from the MLROs across the Group businesses and the adequacy and effectiveness of the Company's AML systems and controls;
- review regular reports from the Compliance officers across the Group businesses and keep under review the adequacy and effectiveness of the compliance functions.

OTHER MATTERS

- Give due consideration to the requirements of the Listing Rules of the UK Listing Authority;
- review the Company's procedures by which staff may raise concerns about possible improprieties in matters of financial reporting or other matters, and to ensure that arrangements are in place for proportionate and independent investigation of such matters and for appropriate follow-up action.

6.REPORTING, RECOMMENDATIONS AND REVIEW

- The Committee shall report to the BOD at its next regular meeting on its proceedings on all matters within its duties and responsibilities.
- The Committee shall make whatever recommendations to the BOD it deems appropriate on any area within its remit where action or improvement is needed.
- The Committee shall, at least once a year, review its own performance and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the BOD for approval.



UK - GIBRALTAR - MALTA - JERSEY - SPAIN



STM GROUP PLC
18 ATHOL STREET
DOUGLAS
ISLE OF MAN
IM1 1JA
WWW.STMGROUPPLC.COM
INFO@STMGROUPPLC.COM