

Clarkson PLC

Audit Committee Terms of reference

1 Membership

- 1.1 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 committee. The committee shall be made up of at least 3 members.
- 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 committee as a whole should have competence relevant to the sector in which the company operates. The chairman of the board shall not be a member of the committee.
- 1.3 Only members of the committee have the right to attend committee meetings. However other individuals such as the chairman of the board, chief executive, finance director, other directors, (the heads of risk, compliance and internal audit) and representatives from the finance function maybe invited to attend all or part of any meeting as and when appropriate.
- 1.4 The external auditors will be invited to attend meetings of the committee on a regular basis.
- 1.5 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 director remains independent.
- 1.6 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 their 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

- 3.1 The quorum necessary for the transaction of business shall be 2 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 three times a year at appropriate times in the reporting and audit cycle and otherwise as required.
- 4.2 Outside of the formal meeting programme, the committee chairman will maintain a dialogue with key individuals involved in the company's governance, including the board chairman, the chief executive, the finance director, the external audit lead partner.

5 Notice of meetings

- 5.1 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 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, shall be forwarded to each member of the committee, any other person required to attend and all other non-executive directors, no later than 5 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.

6 Minutes of Meetings

- 6.1 The secretary shall minute the proceedings and decisions of all meetings of the committee, including recording the names of those present and in attendance.
- 6.2 The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3 Draft Minutes of committee meetings shall be circulated promptly to all members of the committee and, once approved, to all members of the board, unless it would be inappropriate to do so in the opinion of the committee chairman.

7 Annual General Meeting

- 7.1 The chairman of the committee shall attend the Annual General Meeting prepared to respond to any shareholder questions of the committee's activities.

8 Duties

The committee should review the effectiveness of the audit committee annually and carry out the duties below for the parent company, major subsidiary undertakings and 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 including its annual and half-yearly reports, interim management statements, 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 matters communicated to it by the auditor.
- 8.1.2 The committee shall also review summary financial statements and any financial information contained in certain other documents, such as announcements of a price sensitive nature. If the regulator raises any formal question or complaint or makes any adverse comment, the committee should be advised by e-mail within 5 days of receipt of the same.
- 8.1.3 The committee shall review and challenge where necessary:
 - 8.1.3.1 the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the company/group;

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

8.1.3.3 whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

8.1.3.4 the clarity and completeness of disclosure in the company's financial reports and the context in which statements are made; and

8.1.3.5 all material information presented with the financial statements, such as the Strategic Report and the corporate governance statement (in so far as it relates to the audit and risk management).

8.1.4 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.

8.2 Narrative Reporting

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.

8.3 Internal controls and risk management systems

The committee shall:

8.3.1 keep under review the adequacy and effectiveness of the company's internal financial controls and internal control and risk management systems and consider the level of assurance and information it is getting on the risk management and internal financial controls and whether this is enough the help the board satisfy itself that they are operating effectively;

8.3.2 review and approve the statements to be included in the annual report concerning internal controls, risk management and the viability statement; and

8.3.3 Regularly consider the internal audit work reports issued in the regulated Banking operations, consider the plans for internal audit in those operations and consider whether there is a need for any internal audit activity in the Group's wider operations.

8.4 Compliance Whistleblowing and fraud

The committee shall:

8.4.1 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. 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 a full report from the Money Laundering Officer annually at the November Audit Committee meeting on the adequacy and effectiveness of the company's anti-money laundering systems and controls otherwise the Money Laundering Officer shall report on an "exceptional" basis only; and
- 8.4.5 review a full report from the Compliance Officer annually at the November Audit Committee meeting on the adequacy and effectiveness of the company's compliance function otherwise the Compliance Officer shall report on an "exceptional" basis only.

8.5 External Audit

The committee shall:

- 8.5.1 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. In circumstances where the Board, on the advice of the committee, has determined that the audit relationship should be put out to tender, as is necessary, either in compliance with regulatory requirements or for other reasons, the committee will be responsible for conducting the tender process for recommending two Firms to the Board and expressing a preference for one of those Firms. ;
- 8.5.2 oversee the relationship with the external auditor including (but not limited to):
 - 8.5.2.1 recommend for approval their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
 - 8.5.2.2 approval of their terms of engagements, including any engagement letter issued at the start of each audit and the scope of the audit;
 - 8.5.2.3 assessing annually their independence and objectivity taking into account relevant UK law, regulatory and professional requirements, including the relevant ethical guidelines, and the relationship with the auditor as a whole, including the provision of any non-audit services. The committee should consider the annual disclosure from the statutory auditor and discuss with the auditor the threats to their independence and the safeguards applied to mitigate those threats;
 - 8.5.2.4 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) which could adversely affect the auditor's independence and objectivity;

- 8.5.2.5 agreeing with the board a policy on the employment of former employees of the company's auditor, taking into account the relevant ethical guidelines, then monitoring the implementation of this policy;
 - 8.5.2.6 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;
 - 8.5.2.7 assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include obtaining a report from the external auditor on their own internal quality procedures and consideration of the audit firms' annual transparency reports; and
 - 8.5.2.8 evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of the auditor from the market in that evaluation.
- 8.5.3 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The committee shall meet the external auditor at least once a year, without management being present; to discuss their remit and any issues arising from the audit;
- 8.5.4 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; and
- 8.5.5 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- 8.5.5.1 a discussion of any major issues which arose during the audit;
 - 8.5.5.2 weigh the evidence they have received in relation to each of the areas of judgement and review key accounting and audit judgements;
 - 8.5.5.3 levels of errors identified during the audit and how they addressed the risks to audit quality that were identified;
 - 8.5.5.4 ask the auditor for their perception of their interaction with senior management and other members of the finance team; and
 - 8.5.5.5 the effectiveness of the audit.

The committee shall also:

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

- 8.5.7 review the management letter and management's response to the auditor's findings and recommendations; and
- 8.5.8 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 and legal requirements on the matter. This policy shall include, but not be limited to, the following:
 - 8.5.8.1 the types of trivial non-audit service for which use of the external auditor is pre-approved;
 - 8.5.8.2 how it will assess whether non-audit services have a direct or material effect on the audited financial statements;
 - 8.5.8.3 how it will assess and explain the estimation of the effect on the financial statements; and
 - 8.5.8.4 how it will consider the external auditors' independence.

9 Reporting responsibilities

- 9.1 the committee chairman shall report formally to the board on its proceedings after each meeting on:
 - 9.1.1 all matters within its duties and responsibilities and any other issues on which the board has requested the Committee's opinion and;
 - 9.1.2 in addition, at any meeting where the content of the financial reports, or the performance of the Auditors are considered, the committee shall report to the board on how it has discharged its responsibilities in relation to:-
 - i) the significant issues that it considered in relation to the financial statements (required under 8.1.1) and how these were addressed; and
 - ii) its assessment of the effectiveness of the external audit process (required under paragraph 8.5) and its recommendation on the appointment or reappointment of the external auditor.
- 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 and satisfy itself that the sources of the assurance and information it requires to properly carry out its roles to review, monitor and provide assurance or recommendation to the board are sufficient and objective.
- 9.3 The committee shall compile a report to shareholders on its activities to be included in the company's annual report. This 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 Code.

9.4 In compiling the reports referred to in 9.1 and 9.3, 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 having taken into account the longer term 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.

10 Other Matters

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 UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other 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;
- 10.5 work and liaise as necessary with all other board committees; and
- 10.6 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.

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, independent outside legal accounting or other professional advice on any matter it believes it necessary to do so;
- 11.3 to call any employee to be questioned at a meeting of the committee as and when required; and
- 11.4 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.