

SCHRODERS PLC (THE 'COMPANY')**AUDIT AND RISK COMMITTEE (THE 'COMMITTEE')
TERMS OF REFERENCE
(APPROVED BY THE BOARD ON 6 MARCH 2012)****1. BACKGROUND – SCOPE OF AUTHORITY**

- 1.1 The board of the Company (the “Board”) has delegated to the Committee responsibility for overseeing, on behalf of the Board, the financial reporting, risk management and internal control of the Company, its subsidiaries and their business (the “Group”), and for maintaining an appropriate relationship with the Company’s auditors.
- 1.2 The boards of the Group’s UK regulated entities (the “regulated entities”) have agreed with the Committee that the Committee will have responsibility for overseeing at the Group level, on behalf of those boards (with which boards ultimate responsibility remains), the financial reporting, risk management and internal control of the regulated entities in respect of which the members of the Committee are registered as Approved Persons (currently in the CF2 role).

2. MEMBERSHIP AND ATTENDANCE

- 2.1 The Committee, the members and Chairman of which are appointed by the Board on the recommendation of the Nominations Committee, shall consist of at least three independent Non-executive Directors, at least one of whom should have recent and relevant financial experience. At least one member of the Committee shall also be a member of the Remuneration Committee.
- 2.2 The Secretary of the Committee shall be appointed by the Board and shall be responsible for distributing the agenda and papers and setting the timing of each meeting, in coordination with the Committee Chairman and the Board Secretary.
- 2.3 Only members of the Committee shall have a right of attendance at Committee meetings. However, in order to fulfil its role, the Committee would normally expect to invite the following to be in attendance for all or part of the meeting:
- Chief Financial Officer
 - Group General Counsel
 - Head of Financial Reporting
 - Global Head of Compliance
 - Group Head of Risk
 - Group Head of Internal Audit
 - Representatives of the Company’s external auditors.
- 2.4 Additionally, other Directors and members of senior management may be invited by the Committee Chairman, at his instigation or at their request, to attend meetings of the Committee, but are not members of the Committee and do not perform the role of members of the Committee.

3. MEETINGS

- 3.1 The Committee shall meet as often as necessary to discharge its duties, normally at least five times per year. Meetings of the Committee may be called by any of its members or by the Secretary of the Committee, including where requested by the Group Head of Internal Audit or the external auditors.
- 3.2 Meetings of the Committee shall be organised in such a way as to ensure that the Committee's distinctive responsibilities with respect to audit matters and risk matters are appropriately discharged.
- 3.3 Notice of each meeting, confirming the venue, time and date together with an agenda of items to be discussed, shall, in normal circumstances, be forwarded to each member of the Committee and in so far as appropriate to others invited to attend the relevant meeting, not less than five days prior to the date of the meeting.
- 3.4 The quorum for Committee meetings shall be two members. In the absence of the Committee Chairman, the remaining members present shall elect one of their number to chair the meeting. 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 or discretions vested in or exercisable by the Committee.
- 3.5 The Secretary shall keep appropriate records and minutes of all meetings of the Committee. Copies of the minutes approved by the Committee shall be circulated to all members of the Board.
- 3.6 The Committee Chairman, or in his absence the elected chairman of the relevant meeting, shall report on the issues raised at each Committee meeting at the next following meeting of the Board.
- 3.7 At least once each year the Committee shall meet with the external auditors, the Chief Financial Officer, the Group Head of Risk, the Global Head of Compliance and the Group Head of Internal Audit, without any executive Director or member of the Company's management present.
- 3.8 One meeting each year shall be held with the members of the Group Management Committee to consider risk matters in a wider context including, as appropriate, increasing and emerging risks, the potential for extreme events, risks which might threaten the Group's business model and the Group's strategy, and risks to the Group's reputation.

4. ROLE AND RESPONSIBILITIES OF THE COMMITTEE

- 4.1 The role of the Committee is to encourage and safeguard the highest standards of integrity, financial reporting, risk management and internal control for the Group, having regard to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules (together the "Listing Rules") as appropriate. The Committee will report to the Board and through the executive management of the Company where relevant to the boards of the regulated entities on areas of business risk or exposure which are highlighted by its review and monitoring process with recommendations, if appropriate, of actions that management should take.

- 4.2 The responsibilities of the Committee encompass the two related areas of audit matters and risk matters. The specific responsibilities of the Committee for each area are:

Audit Matters

4.3 Audit and Financial Statements

- 4.3.1 To keep under review the form, content and process for the preparation of the Company's statutory accounts and other published financial information of the Company and the Group, including reviewing the Company's Accounting Policies, its Statement on Internal Controls and the consistency and appropriateness of accounting policies on a year to year basis, and monitoring the financial reporting process, including the provision of information to the external auditors, and the statutory audit of the annual consolidated accounts;
- 4.3.2 To monitor the integrity of the financial statements of the Company and the Group and any formal announcements relating to the Company's and the Group's financial performance (excluding the Group's Interim Management Statements which will be reviewed by a duly appointed Committee of the Board) and to review significant financial reporting issues and judgements contained in them (including but not limited to liquidity, access to capital, cash management, fair value and asset impairment, exposure to counterparties, hedging policies and borrowing facilities);
- 4.3.3 The Committee will, where necessary, challenge financial statements, for instance on matters requiring a major element of judgement, the extent to which financial statements are affected by any unusual transactions, the clarity of disclosures, any significant adjustments resulting from the audit, the assumptions made regarding going concern, compliance with accounting standards and compliance with the Listing Rules and legal requirements;
- 4.3.4 To review and, if appropriate, recommend to the Board the Group's and, as needed, the Company's annual and interim reports;

4.4 Internal Audit

- 4.4.1 To monitor and review the effectiveness of the Group's internal audit function. To assist the Committee in this, the Committee shall review and assess with the Group Head of Internal Audit the planned programme of internal audit work at least annually and the reasons for any significant change or delay to this programme;
- 4.4.2 To approve the appointment and removal of the Group Head of Internal Audit, the terms of reference of the Group's Internal Audit function and the terms of reference or engagement relating to the provision of internal audit services by a third party and to ensure that the Internal Audit function has adequate resources and appropriate access to information to enable it to perform effectively and in accordance with professional standards;
- 4.4.3 To review reports on the Group by the Group's Internal Audit function and to review and monitor the responsiveness of the Group's management to the findings and recommendations contained in such reports;

4.5 External Audit

- 4.5.1 To make recommendations to the Board, for it to put, in due course, to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors and to ensure that key individuals within the appointed audit firm are rotated from time to time;
- 4.5.2 To review and monitor the external auditors' expertise, resources, performance, independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- 4.5.3 To meet with the external auditors as appropriate (which shall normally be through attendance of the external auditors at regular meetings of the Committee), to review the scope of the audit, the audit results, and to ensure that formal representation letters, management letters and management's responses are reviewed;
- 4.5.4 To develop and implement policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm and to report to the Board, identifying any matters in respect of which it considers that action is needed and making recommendation as to the steps to be taken;
- 4.5.5 To recommend to the Board a policy on the employment of former employees of the external auditor and to monitor implementation of this policy;

4.6 Concerns Raised by Staff

- 4.6.1 To review arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or any other matter relating to the Group's operations;
- 4.6.2 To oversee arrangements for the proportionate and independent investigation of such matters and for appropriate follow-up action;

Risk Matters

4.7 Risk and Internal Controls

- 4.7.1 To keep under review the effectiveness of the framework that is used to monitor the Group's internal controls and risk management systems, although the Committee is not responsible for the design, implementation and effectiveness of such systems which are the responsibility of management;
- 4.7.2 To review and monitor the adequacy and effectiveness of the process for the identification, assessment, mitigation, monitoring and management of all risks including liquidity, market, regulatory, credit, legal, operational and reputational, with particular emphasis on the key risks faced by the Group;
- 4.7.3 To review and recommend to the Board for approval, the Group's Internal Capital Adequacy Assessment Process ("ICAAP") to fulfil its regulatory obligations under the Capital Requirements Directive and assess whether the Pillar 2 assessments and Pillar 3 disclosures remain appropriate;

- 4.7.4 To review, on behalf of the Board, the Group's overall risk tolerance and monitor the Group's risk profile against this tolerance, noting that the Board will determine the Group's risk tolerance limits;
- 4.7.5 To review the Audit and Assurance Faculty ("AAF") report on internal controls produced annually in respect of a number of Group subsidiaries;
- 4.7.6 To review the Group's arrangements for the deterrence, detection, prevention and investigation of fraud and to receive and consider special investigation reports relating to fraud or major breakdowns in internal controls or major errors and omissions including remedial action by management;
- 4.7.7 To review on a regular basis current, pending and threatened litigation affecting the Company or any of its subsidiaries and to review the legal risks faced by the Group;
- 4.7.8 To ensure the Group has in place adequate insurance arrangements, and review the terms and levels of cover of such insurance from time to time;
- 4.7.9 To monitor the Group's approach to the acceptance of liabilities and non-standard commitments and the provision of indemnities with respect to the Group's business;
- 4.7.10 To review and consider periodically the Group's tax strategy and the associated internal controls;
- 4.7.11 To review, on behalf of the Board, risks associated with acquisitions where such risks are not considered directly by the Board as part of the acquisition approval process;

4.8 Compliance

- 4.8.1 To review a quarterly report from the Global Head of Compliance, including details of the Group's relations with the regulators; the Compliance monitoring programme; material breaches, errors and complaints; retail conduct risk, anti-money laundering controls and sanctions compliance;
- 4.8.2 To review periodically and monitor the Group's procedures for ensuring compliance with regulatory and financial reporting requirements and its relationship with the relevant regulatory authorities;

4.9 Other

- 4.9.1 To oversee, with any appropriate legal advice, any investigation of activities which are within these Terms of Reference;
- 4.9.2 To conduct an annual review of the Committee's performance, and to review periodically the Terms of Reference to ensure that it is operating efficiently and recommend any changes to the Board;

4.10 Emerging and Thematic Risks

- 4.10.1 The Committee shall regularly consider emerging risks which, in the view of management or the Committee, may have a material impact on the Group's operations in the future. The Committee may also consider risks on a thematic basis in order to assess the Group-wide impact such risks may have on the Group's businesses.

5 ACCESS TO INFORMATION AND SERVICES

- 5.1 The Committee shall have the right to seek any necessary information to fulfil the above, including the hiring of such accounting, financial management consultants, legal or other advisers as it may deem necessary in its best judgement, in order to obtain advice with respect to the discharge of its responsibilities, with due regard to cost, without the need to obtain the prior approval of any officer of the Company, although such advice would usually be coordinated by the Board Secretary.
- 5.2 In conducting its role, the Committee shall receive regular reports from the Chief Financial Officer, the Group Head of Risk, the Global Head of Compliance, the Group General Counsel and the Head of Group Internal Audit, together with Internal Audit reports relating to particular matters. In addition, it has the power to call any member of staff or contractor to be questioned as and when required. The Group Head of Internal Audit, the Group Head of Risk and the Global Head of Compliance shall be able to discuss matters relating to the work of the Committee directly with the Committee Chairman. Management shall provide all reasonable assistance to the Committee with respect to the provision of information and support as the Committee Chairman may request to enable it to carry out its responsibilities.
- 5.3 Member(s) of the Committee who serve on the Remuneration Committee shall report to the Remuneration Committee any matters drawn to the Committee's attention that might need to be taken into account in respect of the control of risks when setting remuneration; and report back to the Committee any remuneration proposals or circumstances that could materially increase the exposures to risk faced by the Group.

6 ANNUAL REPORT AND ACCOUNTS AND ANNUAL GENERAL MEETING

- 6.1 The Committee is responsible for reviewing on behalf of the Board the statement in the Annual Report concerning internal controls and risk management and describing the work of the Committee in discharging its responsibilities, together with an explanation to shareholders how auditor objectivity and independence is safeguarded.
- 6.2 The Chairman of the Committee shall attend the Annual General Meeting of the Company in order to respond to questions from shareholders about the activities of the Committee.

7 MATERIALITY AND LIMITATION ON SCOPE

- 7.1 The Committee shall undertake its tasks in the context of its judgement as to the materiality and significance to the Group of the matters within its terms of reference.
- 7.2 For the avoidance of doubt the following matters fall outside the scope of the duties of the members of the Committee in the context of the Committee's responsibility for overseeing at the Group level, on behalf of the boards of the regulated entities, the financial reporting and internal control of those entities:
- 7.2.1 Being a director of any regulated entity or taking any action or carrying out any duty which would result in being a shadow director of a regulated entity;
- 7.2.2 Receiving any board papers or board minutes of a regulated entity;

- 7.2.3 Attending any meetings (whether of the board or other committees) of a regulated entity;
- 7.2.4 Receiving routinely any information or reports in relation to a regulated entity, other than such information or reports (if any) as Non-executive Directors would receive in the context of carrying out their duties as a Non-executive Director of the Company and as a member of any other Committee of the Board of the Company;
- 7.2.5 Having any form of executive or management responsibility for or over any part of the business of the regulated entities or their employees;
- 7.2.6 Having a reporting line from any employee within the regulated entities to any of the members of the Committee or the delegation by the Committee of matters to or having authority over any such employees;
- 7.2.7 Having any responsibility for reporting matters to the FSA in relation to regulated entities;
- 7.2.8 Having any responsibility for the implementation of systems of control to comply with regulatory requirements, monitoring compliance with regulatory requirements or investigating any system failures or regulatory breaches within the regulated entities, other than reviewing and monitoring the effectiveness of the Group's systems and controls as a member of the Committee in a Non-executive Director's capacity; and
- 7.2.9 Putting in place systems of control in respect of any regulated entity's business and ensuring the employees of any regulated entity are aware of the need for regulatory compliance.