

Scottish National Investment Bank plc

Terms of Reference for the Audit Committee

1 Purpose

- 1.1 Pursuant to the Scottish National Investment Bank Act 2020 (the "**Act**"), the Scottish National Investment Bank plc (the "**Bank**") must have an Audit Committee (the "**Committee**") and the Committee must be chaired by a non-executive director.
- 1.2 Pursuant to the Act, the function of the Committee is to provide independent review and oversight of the Bank's financial reporting processes, internal controls and independent auditors.
- 1.3 In discharging its function, the Committee shall also assist the board of directors of the Bank (the "**Board**") in fulfilling its oversight responsibilities in relation to the Bank by providing independent review and monitoring of:
 - 1.3.1 the integrity of the financial and narrative statements and other financial information provided to the Shareholder and in line with its legal reporting obligations;
 - 1.3.2 the Bank's system of internal financial reporting processes and internal controls;
 - 1.3.3 the internal and external audit process and auditors; and
 - 1.3.4 the processes for compliance with relevant laws, regulations and codes of practice as they relate to the duties of the Committee.

2 Membership

- 2.1 The Committee shall comprise at least three members. Members of the Committee shall be appointed by the Chair of the Board, in consultation with the chair of the Committee (the "**Committee Chair**").
- 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 Chair of the Board shall not be a member of the Committee but may be invited to attend its meetings.
- 2.3 Appointments to the Committee shall be for a period of up to three years, which may be extended, provided the director still meets the criteria for membership of the Committee.

3 Secretary

The Bank's General Counsel (who shall also be the company secretary) (the "**Company Secretary**"), or his or her 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 of the relevant issues.

4 Quorum

The quorum necessary for the transaction of business at a Committee meeting shall be two, one of whom must be the Committee Chair or nominated deputy chair who will be appointed by the Chair and will be one of the Members of the Committee.

5 Meetings

- 5.1 The Committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 5.2 Questions arising at a meeting shall be decided by a majority of votes. In the case of an equality of votes, the Committee Chair shall have a second or casting vote.
- 5.3 Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals including the Chair of the Board, the Chief Executive Officer, the Chief Financial Officer, the external auditor and the head of the internal audit function, which will be outsourced.
- 5.4 Only Committee members have the right to attend and vote at Committee meetings. The Committee Chair shall have the discretion to decide who, other than the Committee members, shall attend and address Committee meetings.
- 5.5 The secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 5.6 Meetings of the Committee may be conducted when the members are physically present together or in the form of either video or audio conference.
- 5.7 A resolution in writing and signed by all Committee members will be as effective as a resolution passed at a Committee meeting. Any written resolution shall be tabled and noted at the next meeting of the Committee.

6 Notice of meetings

- 6.1 Meetings of the Committee shall be convened by the secretary of the Committee at the request of any of its members or at the request of the external audit lead partner or head of the internal audit function 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 five working days before the date of the meeting.

7 Minutes of meetings

- 7.1 The secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 7.2 Draft minutes of Committee meetings shall be circulated within three weeks to all members of the Committee.
- 7.3 Final signed copies of the minutes of the meetings of the Committee shall be maintained for the Bank's records.

8 Duties

The Committee shall carry out the duties detailed below for the Bank, major subsidiary undertakings and the group as a whole, as appropriate:

- 8.1 Monitor the integrity of the financial statements of the Bank, including its annual reports, 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 Bank's auditor;
- 8.2 Review, challenge and approve where necessary:
 - (a) the consistency of, and any changes to, significant accounting policies, both on a year on year basis and across the Bank/group, including compliance with relevant accounting standards;
 - (b) the methods used to account for significant or unusual transactions where different approaches are possible;
 - (c) whether the Bank has followed the approved accounting policies and made appropriate estimates and judgements;
 - (d) the clarity and completeness of disclosure in the Bank's financial reports and the context in which statements are made; and
 - (e) all material information presented with the financial statements, such as the business review and the corporate governance statements relating to the audit;
- 8.3 Review, challenge and approve where necessary the methodology used to prepare performance related or other financial information to be published or provided to the Shareholder;
- 8.4 Report its views to the Board where it is not satisfied with any aspect of the proposed financial reporting of the Bank;
- 8.5 Review and recommend to the Board for approval the Bank's financial statements to be consolidated into the Annual Report and Accounts of the Bank;

- 8.6 Review whether the company's financial statements, to the extent necessary, comply with:
 - (a) any bespoke reporting requirements from the Shareholder Relationship Framework Document and Financial Memorandum;
 - (b) the duty to oversee the implementation of the processes to support the Accountable Officer's compliance with the relevant requirements, in particular with regard to propriety, regularity and value for money; and
 - (c) the financial reporting requirements of the Shareholder.
- 8.7 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 to assess the Bank's performance, business model and strategy;
- 8.8 Keep under review the adequacy and effectiveness of the Bank's internal financial controls and systems that identify, assess, manage and monitor financial risks, and other relevant internal control and risk management systems;
- 8.9 Review and approve the statements to be included in the annual report concerning internal controls;
- 8.10 Approve the appointment or termination of appointment of the head of internal audit and outsourcing arrangements in relation thereto;
- 8.11 Review the internal audit outsource contract;
- 8.12 Review and approve the charter or similar document in relation to the internal audit function and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 8.13 Ensure the internal auditor has direct access to the Chair of the Board and to the Committee Chair, and is accountable to the Committee;
- 8.14 Review and assess the annual internal audit work plan, prior to recommending it to the Board;
- 8.15 Receive a report on the results of the internal auditor's work on a periodic basis;
- 8.16 Review and monitor management's responsiveness to the internal auditor's findings and recommendations;
- 8.17 Meet with the head of internal audit at least once a year without the presence of management;
- 8.18 Monitor and review the effectiveness of the Bank's outsourced internal audit function, in the context of the Bank's overall risk management framework;
- 8.19 Review the adequacy and security of the Bank's arrangements, including its Policy, for its employees and contractors to raise concerns, in confidence, about

possible wrongdoing in financial reporting or other financial matters, and ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;

- 8.20 Review and approve all of the policies and procedures in relation to the Bank's financial reporting processes and internal controls, tax and data handling;
- 8.21 Ensure that the Bank has in place an appropriate process in relation to the preparation of the annual Budget;
- 8.22 Review and approve the Bank's delegations of authority in relation to the execution of documents which bind the Bank and financial spend approval limits;
- 8.23 Review and approve the Bank's financial key performance indicators;
- 8.24 Comply with its obligations under the Shareholder Relationship Framework Document and Financial Memorandum in respect of the appointment of external auditors and subject to these obligations shall:
 - (a) keep under review, and explain to the Board, the process with Audit Scotland in relation to the appointment, re-appointment and removal of the Bank's external auditor;
 - (b) review the quality and effectiveness of the services provided by the incumbent auditor;
 - (c) if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
 - (d) oversee the relationship with the external auditor including (but not limited to):
 - (i) recommendations on their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
 - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iii) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
 - (iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Bank (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;

- (v) agreeing with the Board a policy on the employment of former employees of the Bank's auditor, and monitoring the implementation of this policy;
 - (vi) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Bank compared to the overall fee income of the firm, office and partner and other related requirements;
 - (vii) 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;
 - (viii) seeking to ensure co-ordination with the activities of the internal audit function; and
 - (ix) 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 their auditor from the market in that evaluation;
- (e) 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, without management being present, to discuss the auditor's remit and any issues arising from the audit;
- (f) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- (i) a discussion of any major issues which arose during the audit;
 - (ii) key accounting and audit judgements;
 - (iii) levels of errors identified during the audit; and
 - (iv) the effectiveness of the audit process.

The Committee shall also:

- (g) review any representation letter(s), if any, requested by the external auditor before they are signed by management;
- (h) review the management letter and management's response to the auditor's findings and recommendations; and
- (i) 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 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 and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:
- (a) the significant issues that it considered in relation to the financial statements and how these were addressed;
 - (b) its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
 - (c) any other issues on which the Board has requested the Committee's opinion.
- 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 on its activities to be included in the Bank's annual report. The 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.
- 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 Bank is a going concern. The report 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 Secretary for assistance as required;
- 10.2 Be provided with appropriate and timely training, both in the form of an induction program for new members and on an ongoing basis for all members;
- 10.3 Give due consideration to laws, regulations, the provisions of the UK Code on Corporate Governance and any other rules, as appropriate;
- 10.4 Be responsible for co-ordination of the internal audit function and external auditors;
- 10.5 Oversee any investigation of activities which are within its terms of reference;

- 10.6 Work and liaise as necessary with all other Board Committees; and
- 10.7 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 to:

- 11.1 Seek any information it requires from any employee of the Bank in order to perform its duties;
- 11.2 Obtain, at the Bank's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- 11.3 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 Bank's annual report, details of any issues that cannot be resolved between the Committee and the Board.

These Terms of Reference became effective on **1 June 2021**