

Scottish National Investment Bank plc

Terms of Reference for the Audit Committee

1 Constitution

- 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 The Committee was constituted as an independent committee of the Board on establishment of the Bank, in accordance with the articles of association of the Company (the "**Articles**"). The procedures of the Committee shall at all times be compatible, and consistent, with the provisions of the Articles.

2 Role of the Committee and Scope

- 2.1 Pursuant to the Act, the function of the Audit Committee is to provide independent review and oversight of the Bank's financial reporting processes, internal controls and independent auditors.
- 2.2 In discharging its function, the Committee shall also assist the board of directors of the Bank (the "**Board**") in fulfilling its oversight responsibilities by providing independent review and monitoring of:
 - 2.2.1 the integrity of the financial and narrative statements and other financial information provided to the Shareholder and in line with its legal reporting obligations;
 - 2.2.2 the Bank's system of internal financial reporting processes and internal controls;
 - 2.2.3 the internal and external audit process and auditors; and
 - 2.2.4 the processes for compliance with relevant laws, regulations and codes of practice as they relate to the duties of the Committee.

3 Membership

- 3.1 The Committee shall comprise at least three members. Members of the Committee shall be appointed by the Board, on the recommendation of the Remuneration and Nomination Committee and Chair of the Committee (the "**Committee Chair**").
- 3.2 All members of the Committee shall be independent non-executive directors. The Committee as a whole shall have competence relevant to the business of the Committee. The Chair of the Board shall not be a Chair of the Committee but may be invited to attend its meetings.
- 3.3 Appointments to the Committee shall be for a period of up to four years, which may be extended, provided the director still meets the criteria for membership of the Committee.
- 3.4 The Committee Chair shall review membership of the Committee annually, as part of the annual performance evaluation of the Committee.
- 3.5 The Board shall appoint the Committee Chair. In the absence of the Committee Chair and/or his or her appointed deputy at a committee meeting, the remaining members present shall elect one of themselves to chair the meeting. Any person nominated to chair the Committee must be a member of the Committee.

- 3.6 Only Committee members and the Secretary have the right to attend Committee meetings. However, the Chief Financial Officer (“**CFO**”), Internal Auditor and External Auditor will be invited to attend meetings of the Committee on a regular basis and the Committee Chair shall have the discretion to decide if others should be invited to attend all or part of any meeting as and when appropriate.

4 Secretary

The Bank's 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.

5 Quorum

The quorum necessary for the transaction of business at a Committee meeting shall be two members.

6 Meetings

- 6.1 The Committee shall meet at least four times a year and otherwise as required.
- 6.2 Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Bank's governance, including the Chair of the Board, the Senior Independent Director, the Chief Executive Officer, the CFO, the internal and external audit lead partners and the Chair of any regulated subsidiary board.
- 6.3 Meetings of the Committee may be conducted when the members are physically present together or in the form of either video or audio conference.
- 6.4 Decisions 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 casting vote.
- 6.5 A resolution in writing, circulated with at least two business days' notice, and signed by a majority of 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.
- 6.6 The Committee Chair shall attend the Company's annual general meeting or be available at least annually to answer any shareholder questions concerning the Committee's activities.

7 Notice of meetings

- 7.1 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 audit lead partner or the internal audit partner if they consider it necessary.
- 7.2 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. Supporting papers shall be sent to committee members (and to other attendees as appropriate) at the same time. All documentation shall be sent in electronic form.

8 Minutes of meetings

- 8.1 The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance and any conflicts of interests declared by the members of the Committee.
- 8.2 Draft minutes of Committee meetings shall be circulated to the Committee Chair and once reviewed, to all members of the Committee.
- 8.3 Final approved minutes of the meetings of the Committee shall be available to the other members of the Board unless, exceptionally, it is determined by the Committee Chair that it is not appropriate to do so. Final signed copies of the minutes of the meetings of the Committee shall be maintained by the Secretary.

9 Duties

The Committee shall, unless required otherwise by regulation, carry out the duties detailed below for the Bank, its subsidiary undertakings (save where a subsidiary is required by law and/or regulation to carry out some or all of the duties for itself having due regard to the approach taken by the Bank in such areas) and the group as a whole, as appropriate:

9.1 Financial Reporting

- 9.1.1 Monitor the integrity of the financial statements of the Bank, including its annual reports, and any other formal announcement relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the Bank's external auditor;
- 9.1.2 In particular, the Committee shall review and challenge 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, taking into account the external auditor's views on the financial statements;
 - d) the clarity and completeness of disclosures in the Bank's financial statements and the context in which statements are made; and
 - e) all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and internal controls;
- 9.1.3 the Committee shall review and challenge, where necessary, any other statements requiring Board approval which contain financial information first, where to carry out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation;

- 9.1.4 the Committee shall review and challenge, where necessary, the methodology used to prepare performance-related or other financial information to be published or provided to the Shareholders;
- 9.1.5 the Committee shall review and approve the Bank's financial key performance indicators; and
- 9.1.6 monitor and assess performance against the Bank's Long-Term Incentive Plan financial performance conditions, as allocated to the Committee, and advise the Remuneration and Nominations Committee on the outcomes and the determination of any new performance conditions within that same remit.

9.2 **Narrative Reporting**

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 and others to assess the company's performance, business model and strategy and whether it informs the Board's statement in the annual report on these matters.

9.3 **Internal Controls**

The Committee shall:

- 9.3.1 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 controls;
- 9.3.2 review and approve the statements to be included in the annual report concerning internal control, going concern and viability;
- 9.3.3 review and approve the policies and procedures in relation to the Bank's financial reporting processes and internal controls and tax matters, in accordance with the policy framework; and
- 9.3.4 ensure that the Bank has in place an appropriate process in relation to the preparation of the annual Budget.

9.4 **Internal Audit**

The Committee shall:

- 9.4.1 approve the appointment or termination of appointment of the internal audit firm;
- 9.4.2 review and approve the internal audit outsource contract;
- 9.4.3 review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, and annually approve the internal audit charter considering whether it is appropriate for the current needs of the organisation;
- 9.4.4 review and approve the annual internal audit plan, consulting with other board committees as relevant to their remit, in order to align it to the key risks of the business and receive regular reports on work carried out;

- 9.4.5 seek assurance that the internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, assess whether there is open communication between different functions and ensure that the internal audit function evaluates the effectiveness of those functions as part of its internal audit plan, and assess whether the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 9.4.6 ensure the internal auditor has direct access to the Chair of the Board and to the Committee Chair and is accountable to the Committee; and
- 9.4.7 carry out an annual assessment of the effectiveness of the internal audit function and as part of this assessment:
- a) meet with the internal audit partner at least once a year without the presence of management to discuss the effectiveness of the function;
 - b) review and assess the annual internal audit work plan;
 - c) receive a report on the results of the internal auditor's work;
 - d) determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the organisation; and
 - e) review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function.

9.5 External Audit

The Committee shall 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:

- 9.5.1 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;
- 9.5.2 review the quality and effectiveness of the services provided by the incumbent auditor;
- 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 auditor. In this context the Committee shall:
- a) approve their remuneration, including both fees for audit and non-audit services, and consider whether the level of fees is appropriate to enable an effective and high quality audit to be conducted;
 - b) approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - c) assessing annually their independence and objectivity taking into account relevant law, regulation, the Ethical Standard and other professional requirements and the group's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats, including the provision of any non-audit services;

- d) satisfy 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;
- e) agree with the Board a policy on the employment of former employees of the Bank's auditor, taking into account the Ethical Standard and legal requirements, and monitoring the implementation of this policy;
- f) monitor the external audit firm'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;
- g) assess annually the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
- h) seek to ensure co-ordination of the external audit with the activities of the internal audit function;
- i) evaluate the risks to the quality and effectiveness of the financial reporting process in light of the external auditor's communications with the committee, including the risk of the withdrawal of their auditor from the market;
- j) develop and recommend to the Board the Bank's policy on the provision of non-audit services by the auditor, including prior approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
 - i. threats to the independence and objectivity of the external auditor and any safeguards in place;
 - ii. the nature of the non-audit services;
 - iii. whether the external audit firm is the most suitable supplier of the non-audit services;
 - iv. the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - v. the criteria governing compensation.
- k) 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;
- l) discuss with the external auditor the factors that could affect the audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- m) 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. the auditor's explanation of how the risks to audit quality were addressed;
 - iii. key accounting and audit judgements;
 - iv. the auditor's view of their interactions with senior management; and
 - v. levels of errors identified during the audit;
- n) review any representation letter(s) requested by the external auditor before it is approved by the Board and signed by management;
 - o) review the management letter and management's response to the auditor's findings and recommendations; and
 - p) review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the committee

10 Reporting responsibilities

- 10.1 The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.2 The Committee shall compile a report on its activities to be included in the Bank's annual report and accounts. The report should meet the requirements of the UK Corporate Governance Code and also explain any non-compliance with the relevant provisions of the UK Corporate Governance Code.
- 10.3 The Committee shall also formally report to the Board on the results of its own periodic effectiveness review.
- 10.4 In compiling the reports referred to in 10.1 and 10.3, 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 and each of its subsidiaries respectively are 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.
- 10.5 The Committee, through its Chair, will report to the Board matters that should be brought to the attention of the Board including instances where the Committee has been unable to reach full agreement together with any recommendations which require Board approval or action.

11 Other matters

The Committee shall:

- 11.1 have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;

- 11.2 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;
- 11.3 give due consideration to all relevant laws, regulations, the provisions of the UK Corporate Governance Code and published FRC guidance and any other rules, as appropriate;
- 11.4 oversee any investigation of activities which are within its terms of reference;
- 11.5 work and liaise as necessary with other Board committees ensuring interaction between committees and with the Board is reviewed regularly, taking particular account of the impact of risk management and internal controls being delegated to different committees;
- 11.6 ensure that a periodic evaluation of the Committee's own performance is carried out; and
- 11.7 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 to:

- 12.1 request the attendance of any employee at a meeting of the Committee as and when required and/or seek any information it requires of the Bank in order to perform its duties;
- 12.2 obtain, at the Bank's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- 12.3 delegate any matter or matters to a sub-committee or person as it deems appropriate; and
- 12.4 have the right to publish in the Bank's annual report and accounts, details of any issues that cannot be resolved between the Committee and the Board.

These Terms of Reference were reviewed and approved by the Board of Scottish National Investment Bank plc on **5 December 2024**

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