

EJF INVESTMENTS LTD

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TERMS OF REFERENCE OF THE AUDIT AND RISK  
COMMITTEE

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## EJF INVESTMENTS LTD (THE "COMPANY")

### AUDIT AND RISK COMMITTEE TERMS OF REFERENCE

1. **COMPOSITION AND MEETINGS OF AUDIT AND RISK COMMITTEE**
- 1.1 The Audit and Risk Committee (the "Committee") shall comprise not less than two independent non-executive directors of the Company, to be selected by the board of directors of the Company (the "**Board**"), in consultation with the chair of the Committee.
- 1.2 The Committee as a whole shall have the competence relevant to the sector in which the Company operates. All members of the Committee shall have the skills and experience appropriate for membership and at least one member must have competence in accounting or auditing or both.
- 1.3 The Chair of the Company may be a member (but not chair) of the Committee, provided that he or she was considered independent on appointment.
- 1.4 The chair of the Committee shall be appointed by the Board and shall be a non- executive director. In the absence of the chair of the Committee, the remaining members shall elect one of themselves to chair the meeting.
- 1.5 The company secretary of the Company (the "Company Secretary") shall be secretary of the Committee.
- 1.6 The quorum for meetings of the Committee is any two of its members.
- 1.7 Only members of the Committee and those entitled to attend as an observer have the right to attend Committee meetings.<sup>1</sup> However, the external auditor ("the Auditor") may be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or part of any meetings as and when appropriate.
- 1.8 Meetings of the Committee are to be held at least three times a year at appropriate times in the financial reporting and audit cycle and otherwise as required.
- 1.9 Committee meetings should be scheduled to allow for any work arising from the meeting to be carried out as required ahead of the applicable Board meeting.
- 1.10 The Committee shall, at least annually, meet the Auditor, without EJF Investments Manager LLC, to discuss matters relating to its remit and any issues arising from the audit.
- 1.11 Any of the Committee members or the Company's Auditor may request a meeting of the Committee if he or she considers it necessary, to be arranged by the Company Secretary.

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<sup>1</sup> Members of the Committee may attend meetings in person or through the medium of telephone conference or similar, provided that all persons participating in the meeting are able to hear and speak to each other throughout the meeting.

- 1.12 The chair of the Committee will maintain a dialogue outside the formal meeting dialogue with key individuals involved in the Company's governance including the external audit lead partner.

## 2. **AUTHORISATIONS**

- 2.1 The Committee is authorised by the Board:

- 2.1.1 to undertake and investigate any activity within its terms of reference;
- 2.1.2 to obtain, at the Company's expense, such independent legal, accounting or other independent professional advice on any matter it deems necessary to fulfil its responsibilities;
- 2.1.3 to seek any information it requires from any member of the Board, any member of the Company's group and/or any director or employee of EJF Investments Manager LLC;
- 2.1.4 to secure the attendance of other persons at its meetings if it considers this necessary; and
- 2.1.5 to 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.

## 3. **DUTIES OF THE COMMITTEE**

- 3.1 The duties of the Committee are:

### *External audit*

- 3.1.1 to consider and make recommendations to the Board in relation to the appointment of the Auditor. This includes negotiating the fee and scope of the audit, initiating a tender process, influencing the appointment of an engagement partner and making formal recommendations to the Board on the appointment, reappointment and removal of the Auditor. If the Board does not accept the Committee's recommendation(s), the Committee shall prepare a statement for inclusion in the Company's annual report, and in any papers recommending the appointment or re-appointment of the Auditor, explaining the recommendation and setting out the reasons why the Board has taken a different position;
- 3.1.2 to ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- 3.1.3 to oversee the relationship with the Auditor including (but not limited to):
  - (a) approving or recommending to the Board the remuneration to be paid to the Auditor in respect of audit services provided and to satisfy itself that

the level of fee payable is appropriate and that an effective, high quality audit can be conducted for such a fee;

- (b) approving the terms of engagement and the remuneration to be paid to the Auditor in respect of the audit services provided;
- (c) reviewing and agreeing the engagement letter issued by the Auditor at the start of each audit, ensuring it has been updated to reflect changes in circumstances arising since the previous year. The scope of the audit should be reviewed by the Committee with the Auditor. If the Committee is not satisfied as to its adequacy it should arrange for additional work to be undertaken;
- (d) assessing annually the Auditor's independence and objectivity taking into account relevant UK law, regulation, the Ethical Standards for Auditors and other professional requirements. The Committee should consider the annual disclosure from the Auditor and discuss with the Auditor the threats to independence and the safeguards applied to mitigate those threats;
- (e) evaluating the risks to the quality and effectiveness of the financial reporting process, especially in light of the Auditor's communications with the Committee;
- (f) assessing annually all relationships between the Company and the Auditor, including throughout the Company's group and the Auditor's network firms and any safeguards established by the Auditor;
- (g) agreeing with the Board a policy on the employment of former employees of the Company's Auditor, and monitoring the implementation of this policy;
- (h) monitoring the Auditor's compliance with relevant ethical and professional guidance, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related regulatory requirements;
- (i) annually seeking from the Auditor information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those regarding rotation of audit partners and staff;
- (j) where the Committee has decided that it is necessary to extend the normal rotation period for the audit engagement partner and key audit partners from five years up to a maximum of seven years, in order to safeguard the quality of the audit (as long as it does not compromise the independence or objectivity of the Auditor) disclosing this to shareholders as early as practicable; and
- (k) assessing annually, and reporting to the Board on, the qualifications, expertise and resources, and independence of the Auditor and the

effectiveness of the audit process, with a recommendation on whether to propose to the shareholders that the Auditor be reappointed. The assessment should cover all aspects of the audit service provided by the Auditor and include obtaining a report from the Auditor on its own internal quality procedures and consideration of the Auditor's annual transparency reports;

- 3.1.4 to meet regularly with the Auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) at least once a year to discuss its remit and any issues arising from the audit;
- 3.1.5 to review with the Auditor, in a timely manner, the findings of their work and the Auditor's report. This shall include, but not be limited to, the following:
  - (a) a discussion of any major issues which arose during the audit and have been subsequently resolved and those issues that have been left unresolved;
  - (b) an explanation by the Auditor of how they addressed the risks to audit quality identified earlier;
  - (c) weigh the evidence they have received in relation to each of areas of significant judgement and a review of key accounting and audit judgements;
  - (d) ask the Auditor for their perception of their interactions with the manager and administrator; and
  - (e) review levels of errors identified during the audit; obtain explanations from the Manager and, where necessary, the Auditor as to why certain errors might remain unadjusted;
- 3.1.6 to assess the effectiveness of the audit process. An assessment of external audit quality in the particular circumstances of the Company requires consideration of the mind-set and culture; skills, character and knowledge, quality and control; and judgment, including the robustness and perceptiveness of the Auditors in handling key judgements, responding to questions from the Committee and in their commentary where appropriate on the systems of internal control. In the course of its assessment of effectiveness, the Committee should:
  - (a) ask the Auditor to explain the risks to audit quality that they identified and how these have been addressed;
  - (b) discuss with the Auditor the key audit firm and network level controls the Auditor relied on to address the identified risks to audit quality and enquire about the findings from internal and external inspections of its audit and its audit firm;
  - (c) review whether the Auditor has met the agreed audit plan and understand the reasons for any changes, including changes in perceived audit risks and the work undertaken by the Auditor to address those risks;

- (d) obtain feedback about the conduct of the audit from key people involved, including from the Manager and Administrator;
- (e) review and monitor the content of the Auditor's communications with the Committee, in order to assess whether it is based on a good understanding of the Company's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon; and
- (f) keep under review the scope and results of the audit, the audit fee and its cost effectiveness, taking into consideration relevant professional and regulatory requirements;

3.1.7 to review:

- (a) any representation letter(s) requested by the Auditor before they are signed by the Board and give particular consideration to matters where representation has been requested that relate to non-standard issues. The Committee shall consider whether the information provided is complete and appropriate based on its own knowledge; and
- (b) the Auditor's letter and response to the Auditor's findings and recommendations;

3.1.8 to develop and recommend to the Board the Company's policy in relation to the provision of non-audit services by the Auditor, taking into account the Ethical Standard and legal requirements and keep the policy under review;

3.1.9 to approve non-audit services. The Committee's objective is to ensure that the provision of such services does not impair the Auditor's independence or objectivity. In the context of non-audit services that are not prohibited by law, the Committee will apply judgement concerning the provision of such services, including assessing

- (a) the Auditor's assessment as to whether the provision of such services would threaten their independence;
- (b) threats to independence and objectivity resulting from the provision of such services and any safeguards in place to eliminate or reduce these threats to a level where they would not compromise the Auditor's independence and objectivity;
- (c) the nature of the non-audit services;
- (d) whether the skills and experience of the Auditor make it the most suitable supplier of the non-audit service;
- (e) the fees incurred, or to be incurred, for non-audit services both for individual services and in aggregate, relative to the audit fee, including special terms and conditions (for example contingent fee arrangements); and
- (f) the criteria which govern the compensation of the individuals performing the audit; and

- 3.1.10 if the Auditor resigns, to investigate the issues leading to this and decide whether any action is required;

*Audit plan*

- 3.1.11 to ensure that appropriate plans are in place for the audit at the start of each annual audit cycle. The Committee shall consider whether the Auditor's over work plan, including planned levels of materiality and proposed resources to execute the audit plans, appears consistent with the scope of the audit engagement having regard to the seniority, expertise and experience of the audit team;

*Financial and Narrative reporting*

- 3.1.12 to identify, in consultation with the Manager, the principal risks facing the Company, including those that could threaten its business model, future performance, solvency or liquidity and ability to deliver its strategy. Those risks should be described and an explanation on how they are being managed or mitigated should be included in the annual report of the Company.

- 3.1.13 to review, and report to the Board on, the significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements (having regard to matters communicated to it by the auditor). The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.

- 3.1.14 to review the content of the annual report, including the narrative report, and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders and other users to assess the Company's position and performance, business model and strategy.

- 3.1.15 to review and challenge where necessary:

- a) the appropriateness, consistency of, and any significant changes to, accounting policies both on a year on year basis and across the Company;
- b) the methods used to account for significant or unusual transactions where different approaches are possible;
- c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- d) the basis on which the Company has been determined as a going concern;
- e) for the purposes of the viability statement:
  - i. to explain in the annual report how the prospects of the Company have been assessed, taking into account the Company's current

position and principal risks, over what period and the reason such period is deemed appropriate (but longer than 12 months); and

- ii. to determine and report to shareholders in the annual report whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment;
- f) the clarity and completeness of disclosures in the Company's financial statements and the context in which the statements are made;
- g) all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management); and
- h) the Company's compliance with the applicable legal and regulatory requirements.

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.

#### *Risk*

- 3.1.16 to monitor risk management and internal control systems to identify the risks facing the Company and to consider their likelihood and impact if they were to materialise;
- 3.1.17 to advise the Board on the overall risk strategy;
- 3.1.18 to establish the risk assessment measures and methodology employed by the Company to manage the risks faced by the Company. This shall include the nature and frequency of risk assessments, measures and methodology used including the process for identifying new and emerging risk types;
- 3.1.19 to assess the effectiveness of risk mitigation factors or measures and make recommendations to the Board for changes thereto;
- 3.1.20 to seek to ensure that the established risk practices are internally consistent and properly reflected in any strategy or policy determined by the Board;
- 3.1.21 to make recommendations to the Board in respect of any review of the Company's procedures that may be required as a result of a change in the risk assessment;
- 3.1.22 to periodically review the Company's risks and the management thereof as identified and reported in the Company's financial statements to ensure that it is appropriate given specific disclosure obligations and the general obligation for the financial statements to be fair, balanced and understandable;
- 3.1.23 to review the reports provided by the Manager, prior to consideration of the principal risks and uncertainties to be included in the half-yearly and annual financial statements.

### *Internal controls and risk management systems*

- 3.1.24 to keep under review the adequacy and effectiveness of the Company's internal financial controls, that is the systems established to identify, assess, manage and monitor financial risks as part of their expected roles and responsibilities set out in the UK Corporate Governance Code;
- 3.1.25 to keep under review the adequacy and effectiveness of the Company's internal financial control and related risk management systems;
- 3.1.26 to consider the level of assurance it is getting on the risk management and internal control systems, including internal financial controls, and whether this is enough to help the Board in satisfying itself that they are operating effectively;
- 3.1.27 to review and recommend to the Board the statements to be included in the annual report in relation to internal control, risk management and the viability statement;

### *Internal audit*

- 3.1.28 to consider regularly whether the Company should have an internal audit function and make a recommendation to the Board accordingly;
- 3.1.29 to describe in the annual report the absence of an internal audit function;

### *Whistleblowing, compliance and fraud*

- 3.1.30 to assess the adequacy and security of the Company's procedures by which the Company's principal service providers may, in confidence, raise concerns about possible wrongdoing in matters of 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;
- 3.1.31 to review the Company's procedures for preventing and detecting fraud;
- 3.1.32 to review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;

### *Recommendations, reports and actions*

- 3.1.33 to have the chair of the Committee report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. This report shall include:
  - (a) the significant issues that it considered in relation to the financial statements (required under paragraph **Error! Reference source not found.**) and how these were addressed;
  - (b) any key matters raised by the Auditor;
  - (c) its assessment of the effectiveness of the external audit process (required under paragraph 3.1.3(k)) and its recommendation on the appointment or reappointment of the Auditor;

- (d) the results of its risk management and internal compliance and control systems; and
- (e) any other issues on which the Board has requested the Committee's opinion;

3.1.34 to consider the major findings of internal investigations;

3.1.35 to make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed;

3.1.36 to oversee any investigation of activities which are within its terms of reference; and

3.1.37 to consider other matters as referred to the Committee by the Board.

#### *Communication with Shareholders*

3.1.38 To include a separate section in the annual report describing the work of the Committee in discharging its responsibilities, signed by the chair. The Committee section should include the following matters:

- (a) a summary of the role and work of the Committee;
- (b) how the Committee composition requirements have been addressed, and the names and qualifications of all members of the Committee during the period, if not provided elsewhere;
- (c) the number of Committee meetings;
- (d) how the Committee's performance evaluation has been conducted;
- (e) an explanation of how the Committee has assessed the effectiveness of the external audit process and of the approach taken to the appointment or reappointment of the external auditor; the length of tenure of the current audit firm; the current audit partner name, and for how long the partner has held the role; when a tender was last conducted; and advance notice of any retendering plans;
- (f) if the external auditor provides non-audit services, the Committee's policy for approval of non-audit services; how auditor objectivity and independence is safeguarded; the audit fees for the statutory audit of the Company's financial statements paid to the Auditor and its network firms for audit related services and other non-audit services, including the ratio of audit to non-audit work; and for each significant engagement, or category of engagements, explain what the services are and why the Committee concluded that it was in the interests of the Company to purchase them from the Auditor; and
- (g) the significant issues that the Committee considered, including:
  - issues in relation to the financial statements and how these were addressed, having regard to matters communicated to it by the Auditor;

- the nature and extent of interaction (if any) with the FRC’s Corporate Reporting Review team; and
- where the Company’s audit has been reviewed by the FRC’s Audit Quality Review team, the Committee should discuss the findings with the Auditor and consider whether any of those findings are significant and, if so, make disclosures about the findings and the actions they and the Auditor plans to take. This discussion should not include disclosure of the audit quality category.

3.1.39 To exercise judgement in deciding which of the issues the Committee considers in relation to the financial statements are significant. The Committee should aim to describe the significant issues in a concise and understandable form whilst reporting on the specific circumstances of the Company. The section need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

#### 4. **COMMITTEE CHAIR**

4.1 The Committee chair shall attend the Company's annual general meeting prepared to answer shareholders' questions on the separate section of the annual report describing the Committee's activities and matters within the scope of the Committee’s responsibilities.

#### 5. **COMPANY SECRETARY**

5.1 The Company Secretary shall:

- 5.1.1 no later than five working days before each meeting<sup>2</sup> of the Committee, forward to each member of the Committee, and any other person required to attend, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed;
- 5.1.2 ensure that the Committee receives information and papers in a timely manner to enable the full and proper consideration to be given to issues;
- 5.1.3 minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance;
- 5.1.4 ascertain, at the beginning of each meeting the existence of any conflicts of interest and minute them accordingly<sup>3</sup>; and
- 5.1.5 promptly circulate draft minutes of Committee meetings to all members of the Committee and, once agreed, to all members of the Board, unless it would be inappropriate to do so in the opinion of the chair of the Committee.

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<sup>2</sup> Such notice period may be waived or shortened with the consent in writing of all the members of the Audit and Risk Committee.

<sup>3</sup> An Audit and Risk Committee member must abstain from voting on any resolution of the Audit and Risk Committee in which he or she has an interest.

6. **OTHER MATTERS**

6.1 The Committee shall:

- 6.1.1 have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
- 6.1.2 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;
- 6.1.3 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code, the AIC Code and the requirements of the Financial Conduct Authority's Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules and any other applicable Rules, as appropriate;
- 6.1.4 work and liaise as necessary with other Board committees; and
- 6.1.5 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.

6.2 Each member of the Committee shall give sufficient time and attention to his or her duties as a member of the Committee.

Last reviewed and approved by the Board on 11 December 2020.