

**EJF INVESTMENTS LTD (“EJFI” AND THE “COMPANY”)**

**AUDIT AND RISK COMMITTEE TERMS OF REFERENCE**

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**AUDIT AND RISK COMMITTEE  
TERMS OF REFERENCE****1. Membership**

- 1.1 The Committee shall comprise not less than two independent non-executive directors of the Company. Members of the Committee and the chair of the Committee shall be appointed by the board of directors of the Company (the “**Board**”).
- 1.2 At least one member shall have recent and relevant financial experience and the Committee as a whole shall have competence relevant to the sector in which the Company operates.
- 1.3 The chair of the Board can be a member of, but not chair, the Committee provided he or she was considered independent on appointment.
- 1.4 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as representatives of the external auditor may be invited to attend for all or part of any meeting as and when appropriate and necessary.
- 1.5 Any member who is determined by the Board to no longer be independent shall cease to be a member of the Committee.
- 1.6 The chair of the Committee (the “**Chair**”) shall be appointed by the Board and shall be an independent non-executive director. In the absence of the Chair, the remaining members present shall elect one of themselves to chair the meeting.

**2. Secretary**

The company secretary of the Company shall act as the secretary of the Committee.

**3. Quorum**

The quorum necessary for the transaction of business shall be two members of the Committee. 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 financial reporting and audit cycle and otherwise as required.
- 4.2 Outside of the formal meeting programme, the Chair will maintain a dialogue with key individuals involved in the Company’s governance, including the board chair and 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.
- 5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date shall be forwarded to each member of the Committee and any other person required to attend no later than ten working days before the date of the meeting unless otherwise agreed by the Chair. An agenda of items to be discussed shall be forwarded to the Chair in the first instance at least ten working days before the date of the meeting unless otherwise agreed by the Chair, then circulated to each member of the Committee and any other person required to attend at least 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.

## **6. Minutes of meetings**

- 6.1 The secretary shall minute the proceedings and decisions of all Committee meetings, including 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 no later than ten working days following the date of the meeting. Once approved, minutes should be tabled at the next available Committee meeting unless it would be inappropriate to do so in the opinion of the Chair.

## **7. Shareholder engagement**

The Chair shall seek engagement with shareholders on matters within the scope of the Committee's responsibilities including attending the Annual General Meeting to respond to any shareholder questions on the Committee's activities.

## **8. Duties**

- 8.1 The Committee should carry out the duties below for the Company, as appropriate, and have delegated responsibility for the functions as required under the UK Financial Conduct Authority ("FCA") Disclosure Guidance & Transparency Rule 7.1 and as recommended by The Association of Investment Companies (the "AIC") Corporate Governance Code.

### **8.2 Financial and Narrative reporting**

The Committee shall:

- 8.2.1 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 monitor the integrity of 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.
- 8.2.2 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.
- 8.2.3 review and challenge where necessary:
  - 8.2.3.1 the appropriateness, consistency of, and any significant changes to, accounting policies both on a year on year basis and across the Company;
  - 8.2.3.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 8.2.3.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - 8.2.3.4 the basis on which the Company has been determined as a going concern;
  - 8.2.3.5 for the purposes of the viability statement:

- a) 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
- b) 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;

8.2.3.6 the clarity and completeness of disclosures in the Company's financial statements and the context in which the statements are made; and

8.2.3.7 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 management).

8.2.4 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.

#### 8.4 Risk

The Committee shall:

8.4.1 be responsible for establishing the risk assessment methodology employed by the Board to manage the risks (including emerging risks) faced by the Company. This shall include the nature and frequency of risk assessments, the identification of risks to be assessed, the identification of appropriate risk limits and tolerances for the Board to consider as aspects of the risk appetite to be considered by the Board in formulating its overall investment strategy;

8.4.2 review the risk profile and appetite to consider their likelihood and impact if they were to materialise;

8.4.3 periodically carry out a robust assessment of the principal and emerging risks and principal uncertainties facing the Company, including those that would threaten its business model, future performance, solvency or liquidity and ability to deliver its strategy;

8.4.4 review the reports of the manager prior to consideration of the principal and emerging risks and principal uncertainties to be included in the half-yearly and annual financial statements;

8.4.5 review compliance with the applicable legal and regulatory requirements;

8.4.6 reasonably satisfy itself that systems put in place by the Company and the manager are adequate to meet relevant legal and regulatory requirements of the Company;

8.4.7 to consider the level of interaction with the manager in relation to ESG matters and the related assurance gained therefrom.

#### 8.5 Internal Controls

The Committee shall:

8.5.1 review the adequacy and effectiveness of the Company's internal financial controls (being the systems established to identify, assess, manage and monitor financial risks) and risk management systems and make recommendations to the Board where appropriate; and

8.5.2 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;

8.5.3 review and recommend to the Board the statements to be included in the annual report concerning internal controls, risk management and the viability statement.

#### 8.6 External audit

The Committee shall:

- 8.6.1. consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall be responsible for the selection procedure and oversee the selection process for new auditors and, if an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required;
- 8.6.2. 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;
- 8.6.3. if the auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 8.6.4. oversee the relationship with the external auditor including (but not limited to):
  - 8.6.1.1 approval of their remuneration, whether fees for audit or non-audit services, and satisfying itself that the level of fees is appropriate to enable an effective, high quality audit to be conducted;
  - 8.6.1.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit, and reviewing the scope of the audit;
  - 8.6.1.3 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;
  - 8.6.1.4 assessing annually their independence and objectivity, taking into account relevant law, regulation, ethical standards and other professional and regulatory requirements. This assessment should involve a consideration of all relationships between the Company and the audit firm, including throughout the group and with the audit firm's network firms, and any safeguards established by the external auditor;
  - 8.6.1.5 reviewing and monitoring the effectiveness of the audit process;
  - 8.6.1.6 seeking information annually about the auditor's policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those regarding the rotation of audit partners and staff;
  - 8.6.1.7 agreeing with the Board a policy on the employment of former employees of the Company's auditor and monitoring the application of this policy;
  - 8.6.1.8 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;
  - 8.6.1.9 assessing annually, and reporting to the Board on, the auditor's qualifications, expertise, resources and independence 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 firm's annual transparency reports, where available; and
  - 8.6.1.10 considering the need to include the risk of the withdrawal of the auditor from the market in their risk evaluation and planning.
- 8.6.2 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;

- 8.6.3 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, including planned levels of materiality and proposed resources, having regard to the seniority, expertise and experience of the audit team;
- 8.6.4 review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
  - 8.6.4.1 a discussion of any major issues which arose during the audit, including those that have been resolved and those that remain unresolved;
  - 8.6.4.2 an explanation from the auditor as to how they addressed any risks to audit quality previously identified;
  - 8.6.4.3 a review of the evidence received in relation to each area of significant judgement and of key accounting and audit judgements; and
  - 8.6.4.4 levels of errors identified during the audit and the reasons for any that remain unadjusted.
- 8.6.5 at the end of the annual audit cycle, the Committee should assess the effectiveness of the audit process. In the course of doing so, the Committee should:
  - 8.6.5.1 ask the auditor to explain the risks to audit quality that they identified and how these have been addressed;
  - 8.6.5.2 discuss with the auditor the key controls the auditor relied on to address the identified risks to audit quality and enquire about the findings from inspections of their audit and the audit firm;
  - 8.6.5.3 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 external auditors to address those risks;
  - 8.6.5.4 obtain feedback about the conduct of the audit from key people of the Investment Manager and/or Administrator involved; and
  - 8.6.5.5 review and monitor the content of the external auditor's management letter, 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.
- 8.6.6 review any representation letter(s) requested by the external auditor before they are signed by the Board; and
- 8.6.7 review the management letter and the Board's response to the auditor's findings and recommendations.
- 8.7 Non-audit services  
The Committee shall:
  - 8.7.1 develop and implement a policy on the supply of non-audit services by the external auditor and monitor the level of fees payable to the external auditor in respect of these services, taking into account any relevant ethical guidance and legal requirements on the matter, and keep the policy under review;
  - 8.7.2 approve any non-audit services, ensuring 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 should apply judgement concerning the provision of such services; and
  - 8.7.3 develop a policy for how the Committee will assess whether non-audit services have a direct or material effect on the audited financial statements, how the Committee will assess and explain the estimation of the effect on the financial statements and how the Committee will consider the auditor's independence.

## 8.8 Compliance and Fraud

The Committee shall:

- 8.8.1 review the Company's procedures for detecting fraud;
- 8.8.2 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
- 8.8.3 review the adequacy and effectiveness of the Company's anti-money laundering systems and controls.

## 9. Reporting responsibilities

- 9.1 The Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and shall also formally report on how it has discharged its responsibilities.
- 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 review and challenge the internal control, risk management and viability statements, as contained in the annual report, and advise the Board on whether, taken as a whole, they provides the information necessary for shareholders and other users to assess the Company's position and performance, business model and strategy review.
- 9.4 The Committee shall include in the annual report of the Company a description of the principal and emerging risks and principal uncertainties along with explanations on how they are being managed or mitigated and any change from previous years.
- 9.5 A separate section of the annual report should describe the work of the Committee in discharging its responsibilities and be signed by the Chair. The report should include, inter alia:
  - 9.5.1 a summary of the role and work of the Committee;
  - 9.5.2 the number of Committee meetings held;
  - 9.5.3 how any Committee composition requirements have been addressed and the names and qualifications of all members of the Committee during the period, if not provided elsewhere;
  - 9.5.4 if the Chair of the Company is a member of the Committee, an explanation why this is believed to be appropriate.
  - 9.5.5 the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
  - 9.5.6 an explanation of how it has assessed the effectiveness of the external audit process and of the approach taken to the appointment or re-appointment of the external auditor;
  - 9.5.7 the length of tenure of the current audit firm, the current audit partner name, and for how long the partner has held the role;
  - 9.5.8 when a tender was last conducted and advance notice of any re-tendering plans;
  - 9.5.9 if the auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded;
  - 9.5.10 in the case of the Board not accepting the Committee's recommendation on the external auditor appointment, reappointment or removal, a statement from the Committee explaining its recommendation and the reasons why the Board has taken a different position; and
  - 9.5.11 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. For each significant engagement, the report should explain what the

services are and why the Committee has concluded that it was in the interests of the Company to purchase them from the external auditor.

## **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 programme for new members and on an ongoing basis for all members;
  - 10.3 give due consideration to the applicable laws and regulations including (without limitation), provisions of The Association of Investment Companies Corporate Governance Code and the requirements of the UK Financial Conduct Authority Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules and any other applicable laws, as appropriate;
  - 10.4 oversee any investigation of activities which are within its terms of reference;
  - 10.5 work and liaise as necessary with other committees of the Boards;
  - 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 Boards for approval; and
11. Each member of the Committee shall give sufficient time and attention to his or her duties as a member of the Committee.

## **12. Authority**

- 12.1 The Committee is authorised:
- 12.1.1 to have access to sufficient resources in order to carry out its duties; including access to the Company Secretary and external advisers if required;
  - 12.1.2 to seek any information it requires from any Director or adviser of the Company in order to perform its duties;
  - 12.1.3 to obtain, at a reasonable cost and at the Company's expense, outside legal or other professional advice on any matter within its terms of reference;
  - 12.1.4 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.