

**BIOPHARMA CREDIT PLC**  
(the "Company")

**AUDIT AND RISK COMMITTEE**

**Terms of Reference**

**1. DEFINITIONS**

- 1.1 Reference to the "**Committee**" shall mean the Audit and Risk Committee.
- 1.2 Reference to the "**Board**" shall mean the Board of Directors of the Company.

**2. MEMBERSHIP**

- 2.1 The Committee shall be made up of all independent non-executive directors of the Company. Members of the Committee shall be appointed by the Board, in consultation with the Chairman of the Committee. The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting (excluding the Chairman of the Board).
- 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. As a whole, the Committee should have competence relevant to the sector in which the Company operates and experience of corporate financial matters. The Board Chairman may be a member of the Committee if they were independent on appointment, but may not chair the Committee.
- 2.3 Only members of the Committee have the right to attend Committee meetings. However, other individuals, such as representatives of the Investment Manager and Administrator may be invited to attend all or part of any meeting, as and when appropriate.
- 2.4 The external auditor will be invited to attend meetings of the Committee on a regular basis. The Committee should have at least one annual meeting, or part thereof, with the external auditor without management being present, should the Committee deem that to be necessary.

**3. SECRETARY**

- 3.1 The Company Secretary or their nominee shall act as the Secretary of the Committee.
- 3.2 The Committee shall have access to the services of the Secretary on all Committee matters including: assisting the Chairman in planning the Committee's work, drawing up meeting agendas, maintenance of minutes, drafting of material about its activities for the annual report, collection and distribution of information and provision of any necessary practical support.
- 3.3 The Secretary shall minute the proceedings and decisions of all meetings of the Committee.

3.4 Draft minutes of Committee meetings shall be circulated to the Committee Chairman and, thereafter, to all members of the Committee. Once approved, minutes should be circulated to all members of the Board unless it would be inappropriate to do so in the opinion of the Committee Chairman.

#### **4. QUORUM**

4.1 The quorum necessary for the transaction of business shall be two Committee members. 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. Other directors may attend the meetings by invitation but, if they are non-independent, they may not vote.

#### **5. MEETINGS**

5.1 The Committee shall meet at least twice a year at appropriate times in the financial reporting and audit cycle and otherwise as required.

5.2 A sufficient interval should be allowed between Committee meetings and main Board meetings to allow any work arising from the Committee meeting to be carried out and reported to the Board as appropriate.

5.3 Meetings can be requested by the external auditors if they consider that to be necessary.

5.4 Outside of the formal meeting programme, the Committee Chairman will maintain dialogue with key individuals involved in the Company's governance, including the Board Chairman and the external audit lead partner.

5.5 Meetings of the Committee shall be convened by the Secretary of the Committee at the request of any of its members.

5.6 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, any other person required to attend and all other members of the Board, 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.

#### **6. ANNUAL GENERAL MEETING**

6.1 The Committee Chairman shall attend the Annual General Meeting to answer shareholder questions on the Committee's activities and matters within the scope of the Committee's responsibilities.

#### **7. DUTIES**

7.1 The Committee should carry out the duties below for the Company.

7.2 **Financial Reporting** The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgments which they contain, having regard to matters communicated to it by the external auditor.

7.2.2 In particular, the Committee shall review and challenge, where necessary, the Company's financial statements taking into account:

7.2.2.1 the consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Company;

7.2.2.2 decisions requiring a major element of judgment;

7.2.2.3 the methods used to account for significant or unusual transactions where different approaches are possible;

7.2.2.4 whether the Company has followed appropriate accounting standards and, where necessary, made appropriate estimates and judgments, taking into account the views of the external auditor;

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

7.2.2.6 any significant adjustments resulting from the audit;

7.2.2.7 assessing the basis on which the Company has been determined as a going concern and to disclose any material uncertainties identified during such assessment;

7.2.2.8 all material information presented with the financial statements, such as the strategic report and the corporate governance statement (insofar as it relates to the audit and risk management).

7.2.2.9 for the purposes of the viability statement, robustly assessing:

(i) the current position of the Company and the emerging and principal risks facing it, including those that would threaten its business model, future performance, solvency or liquidity, and how they are identified, managed and mitigated; and

(ii) the prospects of the Company over such period deemed appropriate (significantly longer than 12 months).

7.2.3 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.

### 7.3 **Internal Controls and Risk Management Systems**

7.3.1 The Committee shall:

7.3.1.1 carry out a robust assessment of the Company's emerging and principal risks and confirm in the annual report that it has completed this assessment, including a description of its principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated;

- 7.3.1.2 monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls;
- 7.3.1.3 ensure that there are clear processes for bringing significant issues to its attention more rapidly when required, and agreed triggers for doing so;
- 7.3.1.4 review and recommend to the Board the disclosures to be included in the annual report in relation to internal controls and risk management and the viability statement; and
- 7.3.1.5 monitor adherence to best practice in corporate governance.

#### 7.4 **Whistleblowing**

7.4.1 The Committee shall:

- 7.4.1.1 review the adequacy and security of the Company's arrangements by which staff of the Administrator or the Investment Manager (or any other service provider of the Company) may raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters; and
- 7.4.1.2 ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

#### 7.5 **Internal Audit**

- 7.5.1 The Committee shall consider annually whether there is a need for an internal audit function and make a recommendation to the Board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report.
- 7.5.2 The Committee shall receive and review annually, internal control reports from the Investment Manager's internal audit.
- 7.5.3 The Investment Manager's head of compliance shall have the right of direct access to the Chairman of the Committee and vice versa.
- 7.5.4 The Committee shall consider the major findings of internal investigations and management's response.

#### 7.6 **External Audit**

7.6.1 The Committee shall:

- 7.6.1.1 have primary responsibility for the appointment of the external auditor. This will include negotiating the fee and scope of the audit, initiating a tender process, influencing the appointment of an engagement partner and making 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 external auditor;
- 7.6.1.2 be responsible for the selection procedure for the appointment of audit firms. It will 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;

- 7.6.1.3 if an external auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required;
- 7.6.1.4 oversee the relationship with the external auditor including (but not limited to):
  - 7.6.1.4.1 making recommendations in relation to their remuneration, including fees for both audit and/or non-audit services and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - 7.6.1.4.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 7.6.1.4.3 assessing annually their independence and objectivity taking into account relevant UK law, regulations, the Ethical Standard and other professional requirements;
  - 7.6.1.4.4 considering the annual disclosure from the statutory external auditor and discuss with the external auditor the threats to their independence and the safeguards applied to mitigate those threats. This shall involve a consideration of all relationships between the Company and the external auditor (including throughout the group and the audit firm's network firms) and any safeguards established by the external auditor, in order to assess whether those relationships appear to impair the external auditor's independence and objectivity;
  - 7.6.1.4.5 seek information annually about their policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those regarding the rotation of audit partners and staff and the employment of former employees of the Company's external auditor;
  - 7.6.1.4.6 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity;
  - 7.6.1.4.7 monitoring the external auditor's compliance with the Ethical Standard, the level of fees paid by the Company compared to the overall fee income of the firm, or relevant part of it, and other related regulatory requirements; and
  - 7.6.1.4.8 assessing annually and reporting to the Board on 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 and consideration of audit firms' annual transparency reports;

- 7.6.1.5 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 their remit and any issues arising from the audit with respect to accounting or internal control systems, and to ensure that the external auditors' management letters and the Investment Manager's responses are reviewed;
- 7.6.1.6 review and approve the annual audit plan, consider the planned levels of materiality and proposed resources to execute the audit plan, and ensure that it is consistent with the scope of the audit engagement and review whether the plan has been met; and
- 7.6.1.7 review the findings of the audit work and the external auditor's report with the external auditor in a timely manner. This shall include, but not be limited to, the following:
  - 7.6.1.7.1 a discussion of any major issues which arose during the audit and have subsequently been resolved and those issues that have been left unresolved;
  - 7.6.1.7.2 ask the external auditor to explain how they addressed risks to audit quality;
  - 7.6.1.7.3 weigh the evidence they have received in relation to each of the areas of significant judgment and review key accounting and audit judgments;
  - 7.6.1.7.4 ask the external auditor for their perception of their interactions with the Investment Manager and the Administrator; and
  - 7.6.1.7.5 review levels of errors identified during the audit, obtaining explanations from the Investment Manager and the Administrator and, where necessary, the external auditors as to why certain errors might remain unadjusted.
- 7.6.2 The Committee shall keep under review the relationship with the external auditors including (but not limited to), discussions with the external auditors concerning such issues as compliance with accounting standards and any proposals which the external auditors have made.
- 7.6.3 At the end of the annual audit cycle, the Committee shall assess the effectiveness of the audit process. In the course of doing so, the Committee should:
  - 7.6.3.1 ask the external auditor to explain the risks to audit quality that they identified and how these have been addressed;
  - 7.6.3.2 discuss with the external auditor the key audit firm and network level controls the external auditor relied on to address the identified risks to audit quality and enquire about the findings from internal and external inspections of their audit and their audit firm;
  - 7.6.3.3 review whether the external 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;

7.6.3.4 obtain feedback about the conduct of the audit from key people of the Investment Manager or Administrator involved; and

7.6.3.5 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.

7.6.4 The Committee shall also:

7.6.4.1 review any representation letter(s) requested by the external auditor before signature and give particular consideration to matters where representation has been requested that relate to non-standard issues;

7.6.4.2 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 on the matter and keep the policy under review;

7.6.4.3 approve any non-audit services, ensuring that the provision of such services does not impair the external auditor's independence or objectivity; and

7.6.4.4 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 external auditor's independence.

## **8. REPORTING RESPONSIBILITIES**

8.1 Where requested by the Board, the Committee shall 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 to assess the Company's position and performance, business model and strategy.

8.2 The Committee shall report on whether the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due. This should explain how the Directors have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate.

8.3 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

8.4 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

- 8.5 The Committee shall compile a report to shareholders on its activities, composition, assessments and considerations to be included in the Company's annual report in compliance with the regulations applying to it.
- 8.6 The Committee or its Chairman shall discuss formally with the Board, at least once a year, the relationship with the external auditors, and identify any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken.

**9. COMMUNICATION WITH SHAREHOLDERS**

- 9.1 The terms of reference of the Committee, including its role and the authority delegated to it by the Board, should be made available. A separate section in the annual report should describe the work of the Committee in discharging those responsibilities.
- 9.2 The Committee section in the annual report should include the following matters:
- 9.2.1 a summary of the role and work of the Committee;
  - 9.2.2 how the Committee composition requirements have been addressed and the names and qualifications of all members of the Committee during the period;
  - 9.2.3 if the Chairman of the Board is a member of the Committee, the Board should explain in the Annual Report why it believes this is appropriate;
  - 9.2.4 the number of Committee meetings;
  - 9.2.5 how the Committee's performance evaluation has been conducted;
  - 9.2.6 how the Committee conducted its review of the effectiveness of the Company's risk management and internal control systems;
  - 9.2.7 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;
  - 9.2.8 the length of tenure of the current audit firm, the current audit partner name, and for how long the partner has held the role;
  - 9.2.9 when a tender was last conducted and advance notice of any re-tendering plans;
  - 9.2.10 if the external auditor provides non-audit services, the Committee's policy for approval of non-audit services and an explanation of how auditor objectivity and independence is safeguarded;
  - 9.2.11 the audit fees for the statutory audit of the Company's consolidated financial statements paid to the external auditor and its network firms for audit-related services and other non-audit services, including the ratio of 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; and
  - 9.2.12 the significant issues that the Committee considered in relation to the financial statements and how these were addressed, having regard to matters communicated to it by the external auditor.

**10. OTHER MATTERS**

10.1 The Committee shall:

- 10.1.1 have access to sufficient resources in order to carry out its duties;
- 10.1.2 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. Training should include an understanding of the principles of and developments in corporate reporting and regulation;
- 10.1.3 give due consideration to applicable laws and regulations including the requirements of the Listing Rules, the Prospectus Rules, the Disclosure Guidance and Transparency Rules and the provisions of the UK Corporate Governance Code, the Association of Investment Companies' Code of Corporate Governance as such apply to the Company from time to time;
- 10.1.4 oversee any investigation of activities which are within its terms of reference; and
- 10.1.5 arrange for periodic reviews of its own performance in collaboration with the Board 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 for approval.

10.2 The Committee is responsible for ensuring that financial information used within the business or published is reliable.

**11. AUTHORITY**

The Committee is authorised to:

- 11.1 seek any information it requires from the Investment Manager, Secretary and Administrator of the Company in order to perform its duties;
- 11.2 obtain, at the Company's expense, independent legal or other professional advice on any matter within its terms of reference;
- 11.3 request that representatives of the Investment Manager, Secretary and Administrator be available to answer questions at meetings of the Committee; and
- 11.4 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.

**DATE APPROVED:** 3 September 2019