

THE SCOTTISH INVESTMENT TRUST PLC

(the "Company")

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

(the "Committee")

1. CONSTITUTION AND RESPONSIBILITY

- 1.1. The Committee is appointed by the board of the Company (the "Board") in accordance with its Articles of Association (article 142).
- 1.2. The Committee is to assist the Board in carrying out its responsibilities relating to the Company's accounting policies, internal controls, risk management and financial reporting functions. This includes any significant matters relating to the Company's subsidiary, SIT Savings Ltd.

2. MEMBERSHIP

- 2.1. The Committee shall be appointed by the Board, on the recommendation of the nomination committee, and shall comprise a chairman who is not the chairman of the Company and at least two other members.
- 2.2. All members of the Committee shall be directors independent of the management and free from any business or other relationship which could interfere with the exercise of their independent judgement.
- 2.3. At least one member of the Committee should have recent and relevant financial knowledge.
- 2.4. The audit committee as a whole shall have competence relevant to the sector.
- 2.5. The Board shall appoint the Committee chairman. In the absence of the Committee chairman and/or an appointed deputy, the remaining members present shall elect one of their number present to chair the meeting.
- 2.6. Each member shall declare any conflicts or potential conflicts of interest at the start of each meeting.

3. ATTENDANCE

- 3.1. The Committee may ask the chairman, other members of the Board and any relevant senior management to attend meetings either regularly or by invitation, but the invitees have no right of attendance.
- 3.2. The Committee may ask a representative of the external auditors to attend all meetings.
- 3.3. The Committee should, at the request of the external auditors, have a meeting without management being present.

4. SECRETARY

The company secretary of the Company or his/her nominee shall act as the secretary of the Committee.

5. QUORUM

- 5.1. The quorum necessary for the transaction of business shall be two.
- 5.2. 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.

6. FREQUENCY OF MEETINGS

- 6.1. The Committee shall meet not less than three times per year and at such other times as the chairman of the Committee shall require.
- 6.2. Meetings will be arranged to tie in with key dates within the financial reporting and audit cycle.
- 6.3. A meeting can be requested by the external auditors if they consider one is necessary.

7. NOTICE OF MEETINGS

Meetings of the Committee shall be convened by the secretary of the Committee at the request of any member thereof.

8. MINUTES OF MEETINGS

- 8.1. The secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 8.2. The secretary should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 8.3. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and to the chairman and all members of the Board.

9. ANNUAL GENERAL MEETING

The chairman of the Committee shall attend the annual general meeting prepared to respond to any shareholder questions on the Committee's activities.

10. DUTIES

The duties of the Committee shall be:

10.1. Financial Reporting

10.1.1. The Committee shall consider the Company's financial statements, including its Annual Report and Accounts and any other formal announcements relating to the Company's 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 auditor.

In particular, the Committee shall review and challenge where necessary:

- (a) the application of significant accounting policies and practices and any changes to them;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements;
- (d) the clarity of disclosures;
- (e) 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).

10.1.2. Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company they shall report their views to the Board.

10.2. Narrative reporting

When requested by the Board, the Committee shall review the content of the Company's 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 performance, business model and strategy.

10.3. Internal Control and Risk Assessment

10.3.1. The Committee shall review the adequacy and effectiveness of the Company's internal financial controls and the Company's internal control and risk management systems. In particular, this will consider:

- (a) Periodic consideration of the top risks facing the Company, risk management processes in place, including the mitigating controls and any risk events arising with any follow up actions taken.

10.3.2. Consideration of the major third party service providers used by the Company including in relation to key areas such as investment accounting and administration, company secretarial services, depositary and custodian arrangements.

10.3.3. The Committee shall also review and approve statements to be included in the annual report and accounts relating to internal control, risk management, going concern and the viability statement.

10.4. Internal audit

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.

10.5. External audit

The Committee is responsible for overseeing the Company's relations with the external auditor.

10.5.1. The Committee shall consider and make recommendations to the Board on proposals to be put to shareholders in relation to the appointment, reappointment or removal of the Company's external auditors. The Committee is responsible for the timetable for the tendering of the external audit contract (in the context of the EU Audit Directive), the tender and selection process for a new auditor and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.

10.5.2. The Committee shall consider and make recommendations to the Board regarding the remuneration to be paid to the external auditor for both audit and non-audit services. The Committee should satisfy itself that the level of fees is appropriate for an effective, high quality audit to be conducted.

10.5.3. The Committee shall approve the terms of engagement of the external auditor, including the engagement letter issued at the start of each audit and the scope of the audit.

10.5.4. The Committee shall assess the independence and objectivity of the external auditor annually taking into account relevant UK law, the Ethical Standard and other professional requirements. Such assessment will include consideration of all relationships between the Company and the audit firm, including any threats to the auditor's independence and any safeguards applied to mitigate those threats including the provision of any non-audit services.

- 10.5.5. The Committee shall annually assess the qualifications, expertise and resources, and the independence of the external auditors and the effectiveness of the external audit process.
- 10.5.6. The Committee or its chairman shall meet with the external auditors at least twice each year, once at the planning stage, where the scope of the audit will be considered, and once post audit at the reporting stage where major issues, key judgements and errors identified will be discussed., The Committee shall ensure that any auditor's management letters and management's responses are reviewed as well as the wording of any representation letter requested by the external auditor.
- 10.5.7. The Committee shall assess and advise on the provision of non-audit services, taking into account any relevant ethical guidance on the matter.

10.6. Compliance, whistleblowing and fraud

- 10.6.1. The Committee shall review the Company's procedures for handling allegations from whistleblowers.
- 10.6.2. The Committee shall review the Company's procedures for detecting fraud.
- 10.6.3. The Committee shall consider the Company's compliance arrangements on a periodic basis, including matters such as bribery and financial crime.

11. REPORTING RESPONSIBILITIES

- 11.1. The Committee or its chairman shall meet formally with the Board at least once a year to discuss such matters as the annual report and the relationship with the external auditors.
- 11.2. A final report to shareholders on the Committee's activities shall be prepared to be included within the Company's annual report including:
 - 11.2.1. the membership of the Committee, number of meetings held and attendance over the course of the year;
 - 11.2.2. the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
 - 11.2.3. an explanation of how the Committee has addressed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans; and
 - 11.2.4. if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence are safeguarded.

12. OTHER MATTERS

- 12.1. The Committee shall have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required.
- 12.2. The Committee shall give due consideration to all applicable laws and regulations, in particular the directors' duties contained in the Companies Act 2006, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure Guidance and Transparency Rules as appropriate.
- 12.3. An induction programme is provided for new Committee members and ongoing training is available for existing members of the Committee.
- 12.4. The Committee shall oversee any investigation of activities which are within its terms of reference.
- 12.5. The Committee should, on a regular basis, review its own performance, constitution and, at least annually, its terms of reference to ensure it is operating at maximum effectiveness.

13. AUTHORITY

- 13.1. The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties.
- 13.2. The Committee is authorised to obtain, at the Company's expense, independent legal, accounting or other professional advice on any matters it believes it necessary to do so.
- 13.3. The Committee is authorised to publish, in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board.