

ABERDEEN FRONTIER MARKETS INVESTMENT COMPANY LIMITED
(the “Company”)

AUDIT & RISK COMMITTEE

TERMS OF REFERENCE
(ADOPTED 10 SEPTEMBER 2018)

1. SCOPE

These terms of reference are issued for the use of the Audit & Risk Committee (the “Committee”).

2. MEMBERSHIP

2.1 The members of the Committee at the date of the adoption of these terms of reference are David Warr, John Whittle and Lynne Duquemin.

2.2 The Committee shall consist of at least two members, who should be independent non-executive directors. Members of the Committee shall be appointed by the Board. At least one of which shall have recent and relevant financial experience preferably with an accountancy qualification from one of the professional accountancy bodies.

2.3 The Board shall appoint the Committee Chairman. The Chairman currently appointed is David Warr.

3. SECRETARY

3.1 The Company Secretary of the Company is the Secretary of the Committee.

4. MEETINGS AND ATTENDANCE

4.1 The Committee will meet at least twice each year.

4.2 The quorum at the meetings 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.

4.3 A representative of the external auditor should attend meetings on at least an annual basis.

5. AUTHORITY

5.1 The members of the Committee are authorised to seek any information that they require from the Manager, Company Secretary or UK Administration Agent and to obtain advice from the Company’s external auditors, professional advisers or otherwise and to take independent professional advice and to request the Manager, Company Secretary or UK Administration Agent at the expense of the Company, to attend meetings of the Committee in order to obtain such information or advice.

6. DUTIES, MAIN ROLE AND RESPONSIBILITIES

6.1 The Committee will at all times comply with the AIM rules and will apply the recommendations of the AIC Code of Corporate Governance as far as practicable and appropriate to the circumstances of the Company.

6.2 The main role and responsibilities of the Committee are:

Internal controls and risk management systems

The Committee shall

6.2.1 monitor the Company's risk management and internal controls systems, comprising:

6.2.1.1 a robust assessment of the principal risks facing the Company, including those which would threaten its business model, future performance, solvency and liquidity; and

6.2.1.2 an assessment, taking into account the Company's current position and principal risks identified in 6.2.1.1, of how the Directors have assessed the prospects and longer term viability of the Company, over what period they have done so and why they consider that period to be appropriate. The Directors should state whether they have 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 their assessment, drawing attention to any qualifications or assumptions as necessary.

6.2.2 review and approve the statements to be included in the annual report concerning internal controls and risk management, including a description of how the principal risks identified in 6.2.1.1 are managed or mitigated, and an explanation of the assessment set out in 6.2.1.2

6.2.3 advise the Board on the Company's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment drawing on financial stability assessments such as those published by the Bank of England, the Financial Conduct Authority and other authoritative sources that may be relevant for the Company's risk policies;

6.2.4 oversee and advise the Board on the current risk exposures of the Company and future risk strategy

6.2.5 in relation to risk assessment:

6.2.5.1 maintain a robust assessment of the risks facing the Company, evidenced by a risk control self-assessment and risk heat-map

6.2.5.2 keep under review the Company's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used;

6.2.5.3 review regularly and approve the parameters used in these measures and the methodology adopted; and

6.2.5.4 set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance;

6.2.6 review the Company's capability to identify and manage new risk types;

6.2.7 before a decision to proceed is taken by the Board, advise the Board on proposed strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focussing in particular on risk aspects and implications for the risk appetite and tolerance of the Company, and taking independent external advice where appropriate and available; and

6.2.8 review reports on any material breaches of risk limits and the adequacy of proposed action.

6.3 Compliance, whistleblowing and fraud

The Committee shall

6.3.1 review the adequacy and security of the Manager's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in 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

6.3.2 review the Manager's procedures for detecting fraud;

6.3.3 review the Manager's systems and controls for the prevention of bribery and receive reports on non-compliance; and

6.4.4 review regular reports from the Manager's compliance function and keep under review the adequacy and effectiveness of the Manager's compliance function.

6.4 Internal audit

The Committee shall

6.4.1 monitor and review the effectiveness of the Manager's internal audit function in the context of the Company's overall risk management system.

6.5 External Audit

The Committee shall

6.5.1 consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall oversee the 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;

6.5.2 consider at least once every ten years if 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;

6.5.3 oversee the relationship with the external auditor including (but not limited to):

6.5.3.1 recommendations on their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;

6.5.3.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

6.5.3.3 assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;

6.5.3.4 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business);

6.5.3.5. monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;

6.5.3.6 assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures; and

6.5.3.7 evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market in that evaluation.

6.5.4 communicate regularly with the external auditor, including once before the audit (Chairman) and once after the Audit at the reporting stage (Committee). The Committee shall meet the external auditor at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit

6.5.5 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team

6.5.6 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:

6.5.6.1 a discussion of any major issues which arose during the audit;

6.5.6.2 any accounting and audit judgements;

6.5.6.3 levels of errors identified during the audit; and

6.5.6.4 the effectiveness of the audit process.

The Committee shall also

6.5.7 review any representation letter(s) requested by the external auditor before it (they) are signed by the Board

6.5.8 review the auditor's audit highlights report and their findings and recommendations

6.5.9 develop and implement a policy on the supply of non-audit services by the external auditor, to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.

7. REPORTING RESPONSIBILITIES

7.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:

7.1.1 the significant issues that it considered in relation to the financial statements and how these were addressed;

7.1.2 its assessment of the effectiveness of the external audit process (required under paragraph 6.5.3.6) and its recommendation on the appointment or reappointment of the auditor; and

7.1.3 any other issues on which the Board has requested the Committee's opinion.

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

7.3 The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report. The report should include:

7.3.1 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 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;

7.3.2 the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor; and

7.3.3 and all other information requirements set out in the Code.

7.4 In compiling the reports referred to in paragraphs 7.1 and 7.3, 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 is a going concern. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

8. OTHER MATTERS

The Committee shall

8.1 have access to sufficient resources in order to carry out its duties, including access to the Secretary for assistance as required

8.2 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

8.4 oversee any investigation of activities which are within its terms of reference

8.5 work and liaise with all Board Committees

8.6 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 Board for approval.

9. AUTHORITY

The Committee is authorised

9.1 to seek any information it requires from any employee of the Manager in order to perform its duties

9.2 to obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so

9.3 to call any representative of the Manager to be questioned at a meeting of the Committee as and when required

10. FINANCIAL STATEMENTS

10.1 to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them

10.2 to focus on the following areas in the Annual Report and Half-yearly Report:

10.2.1 Any significant audit issues;

10.2.2 Changes in accounting policies;

10.2.3 Any areas of major judgements;

10.2.4 Significant adjustments resulting from the audit;

10.2.5 Review of going concern status of the Company;

10.2.6 Compliance with accounting standards; and

10.2.7 Compliance with the AIM rules and legal and other relevant requirements, including any relevant provisions in the AIC Code of Governance.

10.3 to provide advice, as required, to the Board on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy; and

10.4 to consider any other topic as deemed necessary.

11. REPORTING

11.1 The Committee Chairman will report to the board on how the Committee has fulfilled its duties and discharged its responsibilities.

11.2 The Secretary will circulate the minutes of all meetings to the members of the Committee.

11.3 The Committee will prepare a separate section of the annual report should describe the work of the Committee in discharging its responsibilities. This report will include:

11.3.1 the significant issues that the Committee considered in relation to the financial statements, and how these issues were addressed;

11.3.2 an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted; and

11.3.3 if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.

David Warr

Chair

10 September 2018