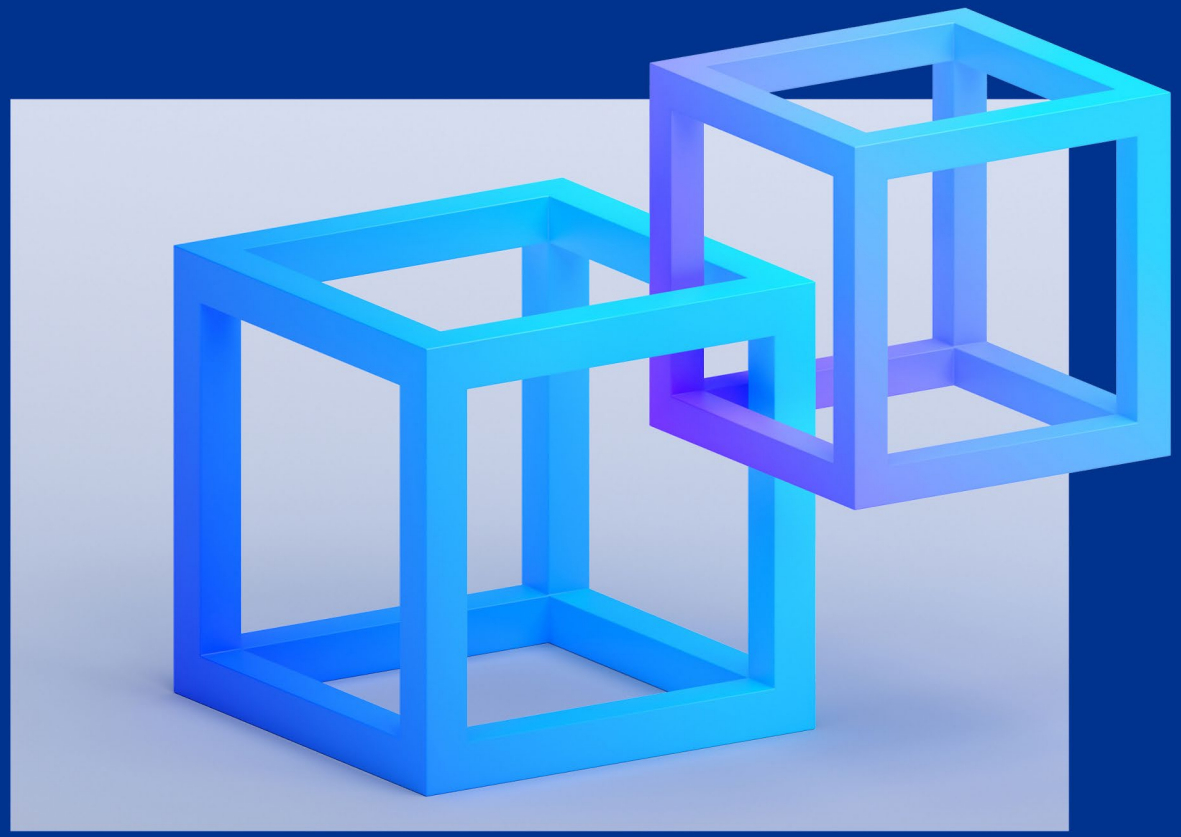
KPMG

Scottish National Investment Bank plc



Report to the Audit Committee

Audit plan and strategy for the year ending 31 March 2026

Report date: 13 November 2025

Meeting date: 20 November 2025

Important notice

This report is presented under the terms of the Audit Scotland letter of appointment.

Circulation of this report is restricted.

The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the consolidated financial statements of Scottish National Investment Bank plc (the 'Company') (and its subsidiaries (the 'Group')), prepared in accordance with International Financial Reporting Standards ('IFRSs') as at and for the year ending 31 March 2026. This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's Code of Audit Practice ('the Code').

This report is for the benefit of Scottish National Investment Bank plc ('SNIB') and is made available to Audit Scotland, the Auditor General and the Scottish Government, as a body (together 'the Beneficiaries'). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, although we are aware that others may read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scoping and purpose section of this report.

Restrictions on distribution

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

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Introduction

To the Audit Committee of Scottish National Investment Bank plc

I am pleased to have the opportunity to meet with you on 20 November 2025 to discuss our audit of the consolidated financial statements of Scottish National Investment Bank plc (SNIB), as at and for the year ending 31 March 2026.

This report outlines our preliminary risk assessment and planned audit approach. We note that at the time of writing, we are in the early stages of planning our audit and our risk assessment procedures remain alert to changes in the organisation and environment. We will communicate any significant changes to the planned audit approach subsequently to the audit committee. I provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

Contents **Page**

Overview of planned scope including materiality	4
Significant risks and Other audit risks	7
Mandatory communications	13
Audit timeline	14
Appendix	15

Scope definition

Audit Scotland has appointed KPMG LLP as auditor of SNIB in accordance with the Public Finance and Accountability (Scotland) Act 2000.

In addition to responsibilities under our appointment by Audit Scotland, we will be engaged by SNIB as an auditor of its two subsidiaries – Scottish Investments Limited and Scottish Investments Services Limited. We understand that strategic options are being considered which may remove the requirement for a statutory audit for Scottish Investments Services Limited and have planned our audit on this basis. We will provide separate planning independence confirmation for the subsidiary audits as relevant at a later date.

We will also perform work in accordance with the wider responsibilities embodied in the Code of Audit Practice approved by the Commission and the Auditor General (see pages 22 - 26)

The engagement team

I will be responsible for the audit opinion. I have over 14 years of experience with KPMG in the financial services industry and this will be my second year signing the audit opinion.

Other key members of the engagement team include Megan Fuller (Director) and Clare Adams (Senior Manager) with 14 and 17 years of experience respectively.

Yours sincerely,



Hannah Walsh

13 November 2025

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define ‘audit quality’ as being the outcome when :

- An audit is executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls; and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We depend on well-planned timing of our audit work to avoid compromising the quality of the audit. This is also heavily dependent on receiving information from management and those charged with governance in a timely manner.

We have agreed with management a set of actions aimed at addressing points raised during the prior year audit debrief – refer to separate document setting out actions and status. As you are aware, we will not issue our audit opinion until we have completed all relevant procedures, including audit documentation.

Restrictions on distribution

This report is intended solely for the information of those charged with governance of the Group and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

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Overview of planned scope including materiality

Our materiality levels

We determined materiality for the consolidated financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the information included in the financial statements. We used a benchmark of total assets which we consider to be appropriate given the sector in which the entity operates, its ownership and financing structure, and the focus of users.

We considered qualitative factors noted above when determining materiality for the financial statements as a whole.

To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of materiality (£12,900k or 75% of materiality) driven by our expectations of a normal level of undetected or uncorrected misstatements in the period. We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons, such as directors' remuneration. Based on our, professional judgement, we have set the overall materiality level for directors' remuneration in the Financial Statements at £1k (2025: £1k).

We will report misstatements to the audit committee including:

- Corrected and uncorrected audit misstatements above £865k (parent company £855k).
- Errors and omissions in disclosure (corrected and uncorrected) and the effect that they, individually and in aggregate, may have on our opinion.
- Other misstatements we include due to the nature of the item.

Control environment

The impact of the group control environment on our audit is reflected in our planned audit procedures. Our planned audit procedures reflect findings raised in the previous year and management's response to those findings.

We will execute a substantive audit approach as the most effective and efficient method of addressing the identified risks of material misstatement.

We will assess the design and implementation of controls over journal entries and investment valuation processes as required by the auditing standards.

Group Materiality*

	Group
Materiality for the consolidated financial statements as a whole	£17.3m (2025: £14.9m 2.5% of total assets)
Materiality at 1 component in scope for the Group audit (SNIB plc audited by group auditor). We will audit to the lower of component and statutory materiality	£17.1m (2025: £14.6m)
Misstatements reported to the audit committee	£865k (2025: £745k)

Company Materiality

£17.1m

2.5% of Company total assets £685m

(2025: £14.6m)



*Our preliminary expectation is based on unaudited Q2 trial balance, before applying the quarterly valuation adjustment for Q2. The materiality numbers are subject to change, and we will revisit this assessment for Q2-Q4.

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Overview of planned scope including materiality (cont.)

Timing of our audit and communications

We will maintain communication led by the engagement partner, director, senior manager and manager throughout the audit. We set out below the form, timing and general content of our planned communications:

- Audit committee meeting on 20 November 2025 where we present our initial audit plan;
- Status meetings with management on throughout the duration of our audit where we communicate progress on the audit plan, any misstatements, control deficiencies and significant issues; and
- Audit committee meeting at the completion stage of the audit where we communicate the findings of our work, any audit misstatements and significant control deficiencies.

We plan to perform our audit work as follows:

- Planning and risk assessment will be completed prior to year end, allowing us to perform interim procedures over expenses and journal entries through November / December. The extent and timing of procedures performed over expenses may be influenced by plans for Scottish Investments Services Limited. Our current audit planning assumes this entity will not need an audit. Should this change later, elements of re-work could be required;
- As in the prior year, we expect to commence our risk assessment in February and testing on unlisted investments earlier in the cycle in April 2026 to allow us to provide an interim update to the Audit Committee in May; and
- Substantive procedures will be performed both prior to the year end as part of interim testing and from April to June.

The year end timetable, including signing of financial statements has been discussed but is yet to be agreed with management.

Wider scope

The Code of Audit Practice has four areas used to define the wider audit scope. These are financial management, financial sustainability, vision, leadership and governance and use of resources to improve outcomes.

Our audit will take the above areas into account in its execution.

Reporting on regularity of expenditure and income

We will perform procedures to support our opinion on the regularity of expenditure and income in the financial statements as noted in the audit report.

Revenue recognition – rebuttal of fraud risk

Professional standards require us to presume, unless rebutted, that the fraud risk from revenue recognition is a significant risk. We do not believe there is a fraud risk related to revenue recognition because the calculation of revenue is non-complex and non-judgmental.

Impacts of climate risk and new ESG/climate change disclosures

We will evaluate management's assessment of the potential financial implications of climate risk on the financial statements, including estimates and disclosures.

As part of our procedures on other information, we will obtain and read your ESG/climate change disclosures. We will consider whether there is a material inconsistency between this information included in the annual report and the financial statements with our knowledge obtained in the audit.

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Overview of planned scope including materiality (cont.)

Our fees

We are discussing our audit fees with management, the Audit Committee and Audit Scotland. Upon completion of those discussions, we will share our finalised fee proposal with the Committee in writing.

Using the work of others and areas requiring specialised skill

We outline below where, in our planned audit response to audit risks, we expect to use the work of others or require specialised skill/knowledge to perform planned audit procedures and evaluate results. If circumstances arise during the audit that cause us to widen the scope or to involve additional specialists, we will communicate this throughout the course of the audit, including in our Audit Highlights Memorandum for the final position at the completion stage.

Others	Extent of planned involvement or use of work
KPMG Tax specialist	Tax specialists will be engaged to support the audit of the current tax computation.
KPMG iRadar Valuation Specialist	Testing the valuation of a risk-based selection of unlisted debt investments by reperforming management's calculation/independently reprojecting the calculations.
KPMG Credit Risk Assurance (CRA) – Credit rating specialist	Credit Risk Assurance (CRA) team will support us in assessing the credit rating applied by management for a risk-based selection of unlisted debt investments.
KPMG Data & Analytics (D&A) specialist	Our Clara D&A specialists will be involved using AI Transaction Scoring to journal entries for testing.

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Significant risks and Other audit risks

Our preliminary risk assessment draws upon our historic knowledge of the business, the industry and the wider economic environment in which the group operates.

We also use our regular meetings with senior management to update our understanding.

The risk map shows the identified significant risks and other areas of audit risks, subject to the completion of our risk assessment procedures. Accounting for intra-Group transfer of investments holdings were highlighted as significant risk at Company level in the prior year However this as a one off and therefore in the current year this is not applicable. Interest income is non-complex and non-judgemental and has been downgraded from other area of audit risk for the current year. Furthermore, valuation of fund investments held at NAV involves less estimation uncertainty than the rest of the unlisted valuation portfolio and is therefore classified as an “other audit risk” rather than a “significant risk.

Our audit report will include details of our findings in relation to significant financial statement audit risks and key audit matters.

Significant risks

Management override of control is a significant risk that professional standards require us to assess in all cases.

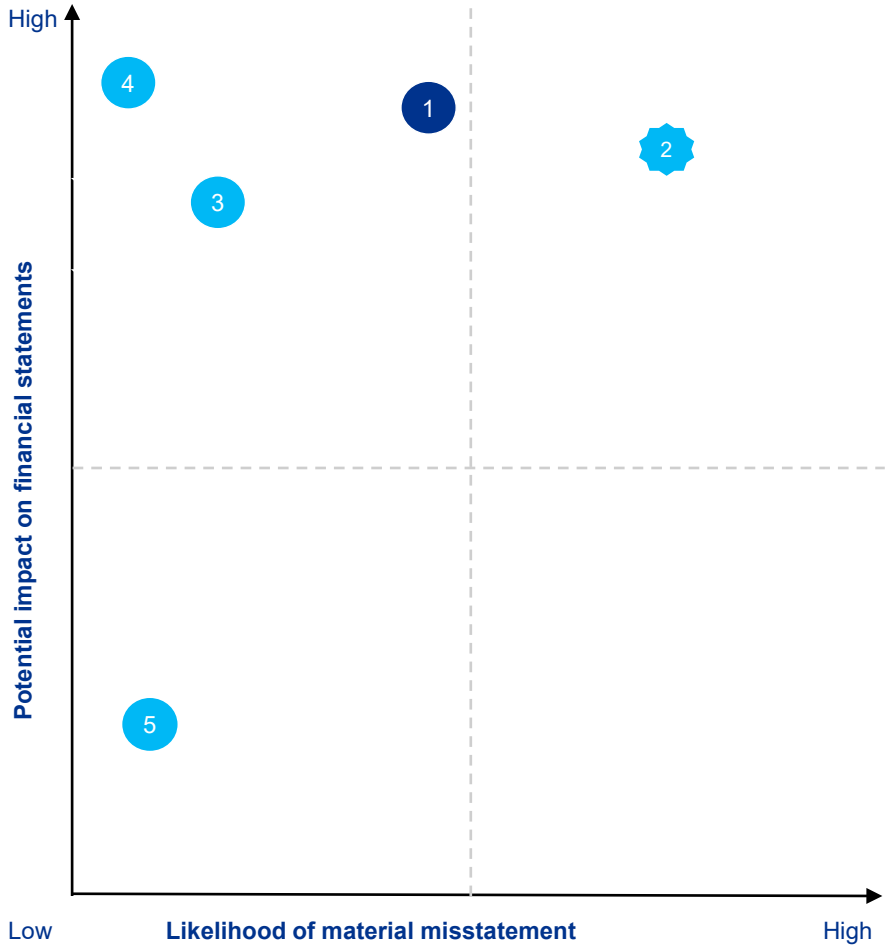
Valuation of unlisted investments (excluding fund investments held at NAV) is considered to be a significant risk due to significant estimation uncertainty around the valuations and further complexity in relation to macroeconomic factors.

Significant risks	
1.	Management override of controls
2.	Valuation of unlisted investments – excluding fund investments held at NAV (Key audit matter)

Other areas of audit risks	
3.	Valuation of fund investments held at NAV
4.	Going concern
5.	Cash

Key:

- # Significant financial statement audit risks
- Change compared to prior year
- # Key audit matter
- # Higher assessed risk or Other audit risk
- # Key audit matter and significant financial statement audit risk



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Significant risks

1 Management Override of Controls(a)

Fraud risk related to unpredictable way management override of controls may occur

Change vs prior year ⟷

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management of any company is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- Other than potential for management bias on investment estimates, we have not identified any specific additional risks of management override relating to this audit.

Planned response

- Our audit methodology incorporates the risk of management override as a default significant risk.
- In line with our methodology, we will test the design and implementation of controls over journal entries and post-closing adjustments, as well as the design and implementation of relevant controls within the unlisted valuation process.
- Identify journal entries and other adjustments with characteristics that indicate that they may be inappropriate or unauthorised and therefore may have been used to manipulate the financial statements (which we refer to as 'high-risk journals and other adjustments'), using AI Transaction Scoring and perform procedures to test the appropriateness of these entries and adjustments.
- We will assess the appropriateness of changes compared to the prior period to the methods and underlying assumptions used to prepare accounting estimates.
- We will assess the appropriateness of the accounting for significant transactions that are outside the Group's normal course of business or are otherwise unusual as applicable. At planning, we understand that there has been no activity or transaction that would qualify as a significant transaction.

Note: (a) Significant risk that professional standards require us to assess in all cases.

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Significant risks (cont.)

2 Valuation of unlisted investments – excluding fund investments held at NAV (key audit matter)

Risk that the carrying value of unlisted investments (excluding fund investments held at NAV) is materially misstated

Change vs prior year ⟷

Significant audit risk and key audit matter

- The Group's portfolio of unlisted investments – excluding NAV makes up 78% (2025: 78%) of the total assets (based on the draft trial balance as at 30 September 2025). Unlisted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using measurements of value such as prices of recent orderly transactions and earnings multiples.
- The valuation of unlisted investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.
- Furthermore, valuation of fund investment held at NAV involves less estimation uncertainty than the rest of the unlisted valuation portfolio and is therefore classified as a "other audit risk" rather than a "significant risk.

Planned response

- **Methodology choice**: In the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines, we will challenge the appropriateness of the valuation basis selected.
- **Our valuations experience**: We will challenge the directors on key judgements affecting investee company valuations, such as the choice of benchmark for earnings multiples where relevant, their consideration of milestones and analysis of progress against these, credit risk assessments and use of appropriate discount rates. We will compare key underlying financial data inputs to external sources, investee company audited accounts where available and management information as applicable. We will challenge the assumptions around maintainability of revenue or earnings based on the forecasts of the investee companies and whether these are achievable and we will obtain understanding of performance against milestones. We will challenge the key assumptions of credit ratings and credit spreads used to determine discount rates, used in the discounted cash flow valuations that determine fair values of loans. We will consult or involve KPMG credit risk and valuation specialist to assist the audit team in our work over certain aspects of the valuation where required. Our work will include consideration of events which occur subsequent to the period end up until the date our audit report.
- **Comparing valuations**: Where a recent transaction is used to value a holding, we will obtain an understanding of the circumstances surrounding the transaction whether it is considered to be on arms-length basis and suitable as an input into a valuation. We will also assess whether subsequent changes or events such as market or entity specific factors would imply a change in value.
- **Assessing transparency:** We will consider the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unlisted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions.

We will perform risk assessment procedures to determine the level of audit testing required over each asset in the portfolio. This will incorporate any risk assessment prepared by management as well as consideration of the nature and size of each investment in the context of the overall portfolio.

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Other areas of audit risks

3 Valuation of fund investments held at NAV

Risk that the carrying value of fund investments held at NAV is materially misstated

Change vs prior year ↓

Other audit risk

- The Group's portfolio of fund investments held at NAV makes up 17% (2025: 18%) of the total assets (based on the draft trial balance as at 30 September 2025). These investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using measurements of value such as net assets.
- The valuation of fund investments held at NAV involves less estimation uncertainty than the rest of the unlisted valuation portfolio and is therefore classified as an "other audit risk" rather than a "significant risk".

Planned response

- Obtain a breakdown of the Level 3 NAV financial instruments and agree the total balance as per the breakdown to the total as per the Balance Sheet.
- Recalculate the entity's share of NAV by multiplying the holding owned by the entity by the net asset value per unit or the total fund net asset value (adjusted as appropriate) as of the measurement date.
- Obtain the capital statement directly from the underlying fund and recalculate ownership % by taking fund commitment over total fund commitment.
- Assess the appropriateness of NAV as fair value of investment.
- Evaluate whether the nature and scope of management's assessment of the appropriateness of using NAV as representative of fair value was sufficient to identify all relevant adjustments to the NAV.
- Agree the reported valuation per management to the latest NAV statements and investigate any differences.
- Evaluate any adjustments made to the NAV and assess how management evaluates changes made to the assumption.
- Where unaudited financial information (NAV statement) has been used as the basis of the NAV fair value, perform a 'historic lookback test' by comparing the NAV per the latest investee audited financial statements to the NAV statement as at the investee balance sheet date.
- Establish an understanding of any difference, determine whether this indicates (in conjunction with any additional factors identified from the evaluation of audited financial statements performed in risk assessment*) that the NAV statement at the audited entity measurement date may be unreliable or require adjustment and perform additional procedures over the completeness of any adjustments to the NAV price (method) or any actual adjustment (assumption) as necessary.

We will perform risk assessment procedures to determine the level of audit testing required over each NAV investment in the portfolio. This will incorporate any risk assessment prepared by management as well as consideration of the nature and size of each investment in the context of the overall portfolio.

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Other areas of audit risks

4 Going Concern

Ability of the business to continue as a going concern

Change vs prior year 

Other audit risk

- Management's assessment of the Group's ability to continue as a going concern involves consideration of all factors affecting the group.
- There is a risk that management's assessment of the Group's ability to continue as a going concern does not appropriately consider the impact of all external factors, including plausible but severe downside scenarios on the income and carrying value of assets.
- The risk that disclosures in the financial statement and the annual report are not adequate with regard to the effect of key risks to the financial position, performance, business model and strategy.

Planned response

- Evaluate how management's risk assessment process identifies business risks relating to events and conditions that may cast significant doubt on the ability to continue as a going concern.
- Evaluate any model management uses in its assessment and evaluate how the information system captures events and conditions that may cast significant doubt on ability to continue as a going concern.
- Evaluate whether management's assessment has failed to identify events or conditions that may cast significant doubt on going concern and whether the method used by management is appropriate.
- We will inspect a letter received by the Directors indicating the Scottish Government's intention to provide ongoing support and will assess the business reasons why the Scottish Government may or may not choose to provide this support.
- Assess whether Scottish Government has obtained appropriate State aid approval which enables them to continue to provide financial support to the Group.
- Assess management's going concern assessment including the plausible but severe downside scenarios, particularly whether those downside scenarios reflect plausible external impacts on the business.
- Evaluate whether sufficient and appropriate audit evidence has been obtained to conclude whether a material uncertainty exists and the appropriateness of management's use (or otherwise) of the going concern basis of accounting.
- Evaluate whether there is adequate support for the assumptions underlying management's assessment, whether they are realistic and achievable and consistent with the external and/or internal environment and other matters identified in the audit.
- Evaluate whether the going concern disclosures to the financial statements give a full and accurate description of the directors' assessment of going concern, including the identified risks, dependencies and related sensitivities.

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Other areas of audit risks

5 Cash

Cash balances may be materially misstated

Change vs prior year 

Other audit risk

- Cash balances, as reported by management, may not be complete or accurate, or the company may not have the rights to ownership of the bank accounts

Planned response

- All year end cash balances recorded in the financial statements will be agreed to third party confirmations received independently. We will investigate any reconciling items above our misstatement reporting threshold.
- We will substantively test the period-end bank reconciliation.

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Mandatory communications

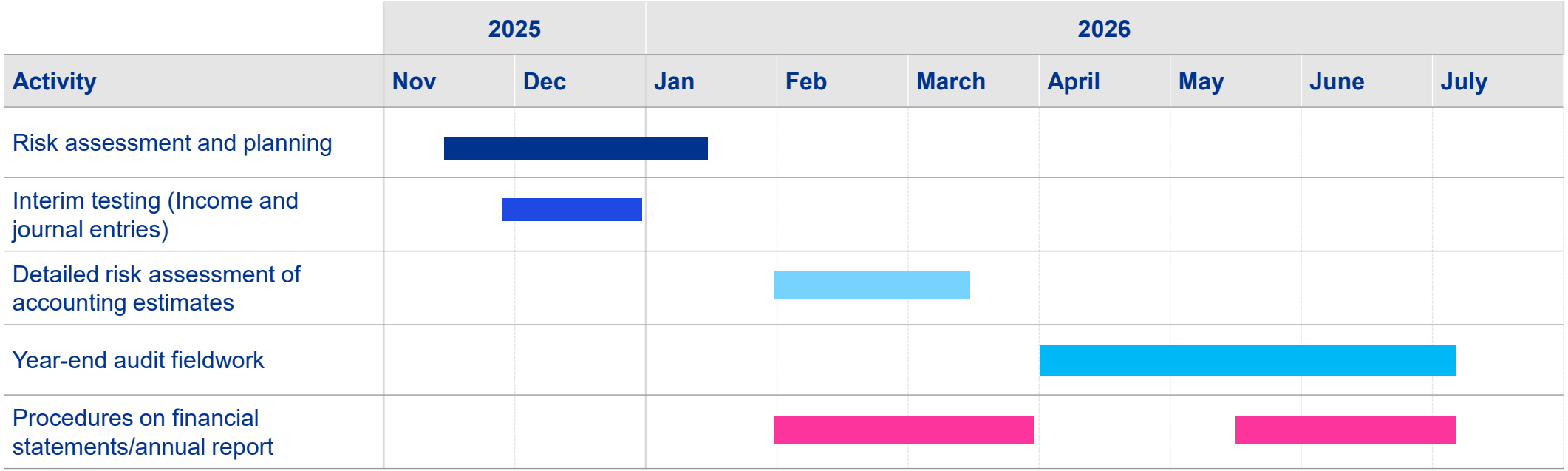
Type	Statements
Management's responsibilities (and, where appropriate, those charged with governance)	Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error. Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.
Auditor's responsibilities	The Audit Scotland letter of appointment and Code of Practice and our subsidiary engagement letters communicates our responsibilities to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
Auditor's responsibilities – Fraud	This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.
Auditor's responsibilities – Other information	The Audit Scotland letter of appointment and Code of Practice and our subsidiary engagement letters communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.
Independence	Our independence confirmation letter on page 16 discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff.

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Audit timeline

We have developed our audit timeline based on management's financial reporting timetable. If we need to make significant changes to the audit timeline below, then we will communicate the reasons to you on a timely basis.



SNIB will prepare a draft of the FS in February, which KPMG will review to resolve comments and ensure consistency across the notes.

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Appendix

A	Confirmation of independence	16
B	KPMG's Audit quality framework	19
C	Group Audit	20
D	Newly effective standards	21
E	Audit Scotland Code of Audit Practice	22
F	2025 AQR results	27
G	Understanding of IT	28

Confirmation of independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit Committee members

Assessment of our objectivity and independence as auditor of Scottish National Investment Bank Plc and its subsidiaries ("the Group")

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values;
- Communications;
- Internal accountability;
- Risk management; and
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

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Confirmation of independence

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

We have reviewed all non-audit services provided to the Group and its controlled parties in the financial period to date and identified those that may have a bearing on our independence.

Facts and matters related to the provision of non-audit services that may bear upon our independence, are set out in the table.

Analysis of Non-audit service for the year ending 31 March 2026 is as follows.

Disclosure: Audit related Services/Other Assurance	Description of scope of services	Principal threats to Independence	Safeguards applied	Basis of fee [i.e. fixed/time and materials / contingent]	Value of services delivered in the year ending 31 March 2026 £000	Value of services committed but not yet delivered £000
CASS audit for Scottish Investments Limited (SIL), for the period ending 31 March 2026.	Reporting on CASS assurance engagements as required by the regulator.	Self-review & Management - In relation to reporting on regulatory returns, we consider that as the work involved is closely related to the work performed in the audit, the threats to independence are clearly insignificant. The self-review threat that could arise in relation to these services (if the subject matter is subsequently significant for our audit) is also limited. A management function threat could also exist.	Given the threats to independence are clearly insignificant, safeguards need not specifically be applied. KPMG does not design or implement internal controls or make any accounting judgements within the financial statements, therefore we do not audit our own work. Management retain responsibility for any decisions made in relation to these areas and we do not take part in any implementation activity. Self-review and management function related threats are therefore mitigated.	Fixed Fee	20	21

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Confirmation of independence

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Board of Directors.

Fee level

We do not consider that an objective, reasonable and informed third party would conclude that it is probable that our independence would be compromised by the level of the audit fee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Group and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully



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KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement

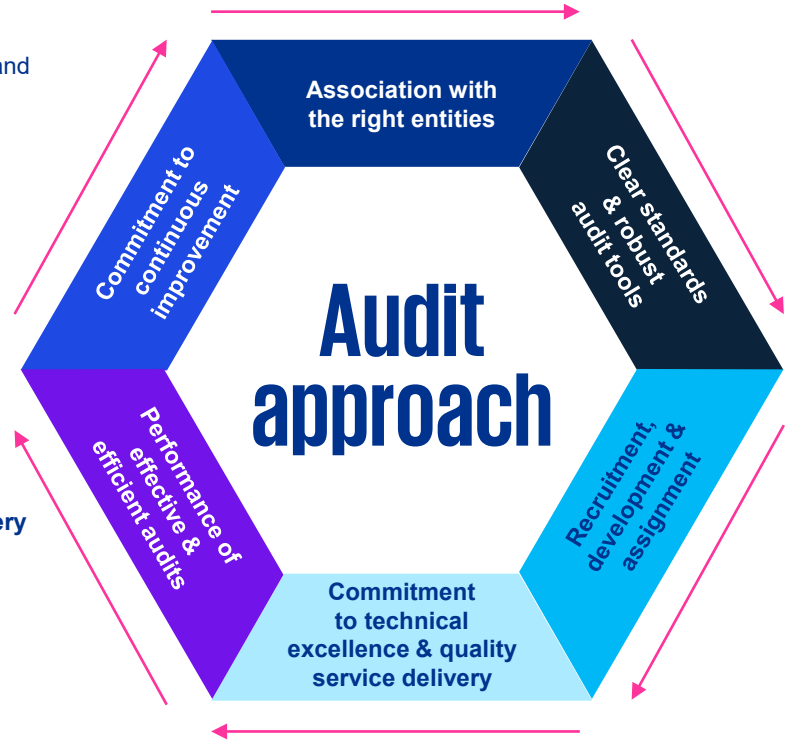
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



Association with the right entities

- Select entities within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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Group audit

Overview of the work to be performed at components *

Projected FY26 results

£45.5m

Extrapolated P1-6 consolidated revenue

32% vs 2025

£692.3m

Consolidated assets

10% vs 2025

£6.7m

Extrapolated P1-6 consolidated loss before tax

89% vs 2025

Our planned audit procedures cover 83% of Group revenue



We plan to perform audit procedures in relation to components that accounted for the following percentages:



* The only component in scope is SNIB plc.

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Newly effective accounting standards

Standards	Expected impact				Effective for years beginning on or after			Early adoption permitted
	High	Moderate	Low	None	01 Jan 2025	01 Jan 2026	1 Jan 2027	
Lack of exchangeability (Amendments to IAS 21) *The Effects of Changes in Foreign Exchange Rates*				○	✓			✓
Amendments to the Classification and Measurement of Financial Instruments – Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures***				○		✓		✓
Annual Improvements to IFRS Accounting Standards – Amendments to: • IFRS 1 *First-time Adoption of International Financial Reporting Standards;* • IFRS 7 *Financial Instruments: Disclosures and it's accompanying Guidance on implementing IFRS 7*; • IFRS 9 *Financial Instruments*; • IFRS 10 *Consolidated Financial Statements*; and • IAS 7 *Statement of Cash flows*			●			✓		✓
IFRS 18 *Presentation and Disclosure in Financial Statements***			●				✓	✓
IFRS 19 *Subsidiaries without Public Accountability: Disclosures***			●				✓	✓
Contracts Referencing Nature-dependent Electricity - Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures				○		✓		✓
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*) *				○		TBD*		✓

*The effective date for these amendments was deferred indefinitely. Early adoption continues to be permitted.
**Not yet endorsed by the UK Endorsement Board

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Audit Scotland Code of Audit Practice

The Code of Audit Practice sets the framework for public audit in Scotland. It outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and the Accounts Commission and describes the scope of public audit in Scotland. This is set out on the following pages.

The Code of Audit Practice has four areas used to define the wider audit scope. These are financial management, financial sustainability, vision, leadership and governance and use of resources to improve outcomes.

Our audit will take the above areas into account in its execution.

Responsibilities of management
Financial Statements
Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for: • preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate Council; • maintaining proper accounting records; and • preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. Further, it is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely. Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions. Audited bodies are responsible for providing the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.

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Audit Scotland Code of Audit Practice (cont.)

Responsibilities of management
Prevention and detection of fraud and irregularities
Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
Corporate governance arrangements
Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including Audit Committees or equivalent) in monitoring these arrangements.
Financial position
Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to: • such financial monitoring and reporting arrangements as may be specified; • compliance with any statutory financial requirements and achievement of financial targets; • balances and reserves, including strategies about levels and their future use; • how they plan to deal with uncertainty in the medium and longer term; and • the impact of planned future policies and foreseeable developments on their financial position.
Best Value, use of resources and performance
The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

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Audit Scotland Code of Audit Practice (cont.)

Responsibilities of auditors
Appointed auditor responsibilities

Auditor responsibilities are derived from statute, this Code, ISAs, professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities. These are to:
• undertake statutory duties, and comply with professional engagement and ethical standards;
• provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions;
• review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns;
• notify the Auditor General when circumstances indicate that a statutory report may be required;
• participate in arrangements to cooperate and coordinate with other scrutiny bodies (local government sector only);
• demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies:
  • effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;
  • suitability and effectiveness of corporate governance arrangements; and
  • financial position and arrangements for securing financial sustainability.
Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.

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Audit Scotland Code of Audit Practice (cont.)

Responsibilities of auditors
General principles
This Code is designed such that adherence to it will result in an audit that exhibits these principles.
Independent
When undertaking audit work all auditors should be, and should be seen to be, independent. This means auditors should be objective, impartial and comply fully with the FRC ethical standards and any relevant professional or statutory guidance. Auditors will report in public and make recommendations on what they find without being influenced by fear or favour. Our independence confirmation letter (page 16) discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff. We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.
Proportionate and risk based
Audit work should be proportionate and risk based. Auditors need to exercise professional scepticism and demonstrate that they understand the environment in which public policy and services operate. Work undertaken should be tailored to the circumstances of the audit and the audit risks identified. Audit findings and judgements made must be supported by appropriate levels of evidence and explanations. Auditors will draw on public bodies' self-assessment and self -evaluation evidence when assessing and identifying audit risk.
Quality focused
Auditors should ensure that audits are conducted in a manner that will demonstrate that the relevant ethical and professional standards are complied with and that there are appropriate quality-control arrangements in place as required by statute and professional standards.

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Audit Scotland Code of Audit Practice (cont.)

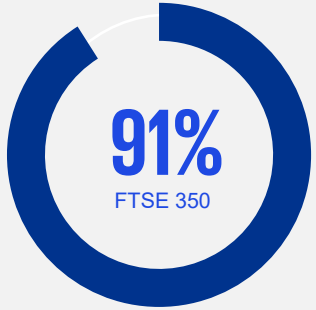
Responsibilities of auditors
Coordinated and integrated
It is important that auditors coordinate their work with internal audit, Audit Scotland, other external auditors and relevant scrutiny bodies to recognise the increasing integration of service delivery and partnership working within the public sector. This would help secure value for money by removing unnecessary duplication and also provide a clear programme of scrutiny activity for audited bodies.
Public focussed
The work undertaken by external audit is carried out for the public, including their elected representatives, and in its interest. The use of public money means that public audit must be planned and undertaken from a wider perspective than in the private sector and include aspects of public stewardship and best value. It will also recognise that public bodies may operate and deliver services through partnerships, arm's-length external organisations (ALEOs) or other forms of joint working with other public, private or third sector bodies.
Transparent
Auditors, when planning and reporting their work, should be clear about what, why and how they audit. To support transparency the main audit outputs should be of relevance to the public and focus on the significant issues arising from the audit.
Adds value
It is important that auditors recognise the implications of their audit work, including their wider scope responsibilities, and that they clearly demonstrate that they add value or have an impact in the work that they do. This means that public audit should provide clear judgements and conclusions on how well the audited body has discharged its responsibilities and how well they have demonstrated the effectiveness of their arrangements. Auditors should make appropriate and proportionate recommendations for improvement where significant risks are identified.

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2025 AQR results

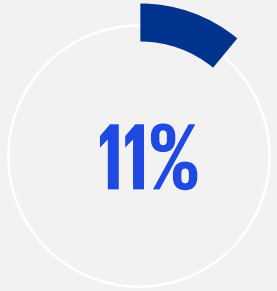




Percentage of our audits rated ‘good’ or ‘limited improvements required’ by AQR.



KPMG audits rated ‘good’ or ‘limited improvements required’ by QAD.



Proportion of AQR scope audit engagements reviewed.

The FRC published reports on the findings of AQR and QAD 2023/24 inspection of KPMG and the other tier 1 firms (which largely covered years ending between August 2023 and March 2024) on 15 July 2025

Key findings	Our response	Good practice identified
Estimates “Improve the quality and consistency of the audit of estimates in the valuation of investments and provisions.”	A targeted programme to support engagements which have estimates with certain characteristics has been initiated. Alongside this, we continue to invest in our training and culture programmes to reinforce the behaviours expected, including consistent application of a critical thinking mindset and the extent of evidence expected.	At an engagement level areas of good practices were identified including: • Risk assessment and planning including bribery & corruption, climate and provisions; • Audit of provisions; • Audit of impairment • Use of specialists; • Group audit oversight; and • Stand-back assessment. Good practices were identified in various areas at the firm level including identification of SOQM deficiencies, component auditors compliance with the ethical standards, the continued roll out of the Ethics Programme and the development and use of new technology.
Consolidation and other journals “Improve the quality of the audit of consolidation and other journals.”	Enhanced guidance and continuation of a centrally led process designed to challenge the journals approach at an engagement level, together with additional targeted training are helping us to reduce the recurrence of findings in this area.	

The Audit Quality Review (AQR) team of the Financial Reporting Council (FRC) undertakes independent inspections of the overall quality of the audit work of those UK audit firms that audit listed and other major public interest entities. The AQR inspections involve a number of file reviews at each firm visited. The result of these file reviews are summarised into three main categories as follows:

- Good or limited improvements required;
- Improvements required;
- Significant improvements required



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Understanding of IT



Summary

The release of ISA 315 (UK) revised brought an increased focus on Understanding of IT in the audit, and it continues to be an area of focus.

Stakeholders now expect auditors to not only understand IT in detail, but also to consider the impact of the findings from their risk assessment procedures on their planned audit approach.

Why is Understanding of IT so important?

Businesses continue to embrace increasingly complex and sophisticated IT systems and place more and more reliance on automated IT processing not simply for a competitive advantage, but also for "business as usual" operations.

This increased reliance means that to effectively audit accounts, balances and transactions, auditors are required to understand and challenge more around how those IT system and process work.

Therefore, Understanding of IT is a crucial building block of our audit strategy and influences our planned audit approach at every stage.

This is true regardless of whether controls reliance is planned or the audit is expected to be fully substantive in nature.

What kind of things might we identify?

As part of our risk assessment procedures, we perform:

- An assessment of the formality, or otherwise, of certain financially relevant IT processes
- An evaluation of the design and implementation of related general IT controls
- An evaluation of the design and implementation of automated process level controls

As a result of these procedures, we may identify IT control deficiencies or IT process informalities that may have an impact on our planned audit approach.

Additionally, we may identify findings related to the wider control environment or threats to the accuracy or completeness of the information used by both entity management and auditors alike.

What does this mean for our audits?

Auditors are being asked to consider the findings from their risk assessment procedures over IT in relation to the planned audit approach.

The findings may impact any area of the audit, however there are three main areas of focus where we anticipate that most impact as a result of identifying IT deficiencies or IT process informality;

- Increased risk to data integrity
- Additional fraud risk factors
- Additional high-risk criteria to be used in journals analysis

It is important to understand that these findings may have an impact regardless of planned reliance on automated controls and general IT controls.

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