

1 Introduction

- 1.1 The Scottish National Investment Bank Act 2020 (the "Act") mandated the establishment of the Scottish National Investment Bank plc (the "Bank").
- 1.2 The Act includes provisions with respect to the nature of the Bank's establishment and its conduct, in particular regarding certain matters which must be included in its articles of association (and the entrenchment of certain of those matters), the Bank's operations and the application of certain public bodies legislation to it.
- 1.3 The Bank is a public limited company incorporated in Scotland, the sole shareholder of which is the Scottish Ministers (the "Shareholder").
- 1.4 This shareholder relationship framework document (the "Framework Document") has been drawn up by the Bank and the Shareholder to outline the conduct of the relationship between the Bank and the Shareholder, including measures to ensure the appropriate financial controls over public funds and to ensure the administrative and operational independence of the Bank. Related to this, the Bank and the Shareholder have also agreed a financial memorandum (which confirms the application of the Scottish Public Finance Manual, with such clarifications and exemptions as are included in that financial memorandum with respect to the Bank and its Group and includes the Delegated Authorities (as defined below)) (the "Financial Memorandum"), relating, amongst other things, to the provision, use and control of public funds.
- 1.5 The Bank has been assessed as a public body classified to central government. For administrative purposes, the Bank will be classified as a non-departmental public body and that the Bank will be identified as such in the Scottish Government's national directory of public bodies.
- 1.6 The overarching vision for the Bank is to provide finance and to act to catalyse private investment, particularly in the areas of innovation and the move to a low carbon, high-tech, connected, globally competitive and inclusive economy in Scotland.
- 1.7 This Framework Document is to apply to the Bank and, as applicable, to any members of its group from time to time, being, for these purposes, its subsidiaries and/or its subsidiary undertakings, such terms being as defined in sections 1159 (a "subsidiary") and 1162 (a "subsidiary undertaking") of the Companies Act 2006, respectively (collectively, the "Group").
- 1.8 The primary, day-to-day contact for the Bank will be officials from the Shareholder Unit of the Scottish Government, acting on behalf of the Shareholder.
- 1.9 This Framework Document describes certain parameters within which the Bank and its Group are expected to operate and comply; certain responsibilities of the Shareholder; and the expected interaction between the Bank and the Shareholder, all of which articulate the

Bank's operational and administrative independence. This Framework Document also includes the Bank Operational and Administrative Independence Undertaking.

- 1.10 The Bank, including via its Group, shall make commercial investments as an investor of patient capital in line with its Missions (as defined below). Furthermore, in order for the Bank to seek to achieve its Missions, it is the acknowledged intention of the Shareholder and the Bank that the funding of the Bank shall evolve over time and it is the acknowledged goal of the Shareholder and the Bank that the Bank shall be capable of being classified in future as a "public finance corporation" rather than as a "non-departmental public body." Without prejudice to the Act and paragraph 6.5 below, the Shareholder and the Bank agree that the Bank shall, acting in consultation with the Shareholder, work towards achieving a financial position and an appropriate regulatory status for the Bank and its Group such that they shall be in a position to manage third party capital along with Shareholder capital and to access the debt capital markets.

2 Bank Strategic Framework

- 2.1 The Bank, and the Shareholder's one hundred per cent. ownership interest in it, have a core "Strategic Framework" comprising: the Act; the Bank Articles (as defined below); the Missions (as defined below) and the Strategic Missions Reports (as defined below); the Investment Strategy (as defined below); the Business Plan (as defined below); the Risk Framework (as defined below); and the Balanced Scorecard (as defined below), which will inform reporting by the Bank. The development and updating of the Investment Strategy, the Business Plan and the Risk Framework by the Bank, and its consultation with the Shareholder with respect to them, on and subject to the terms of paragraph 8 below, constitute the basis for the Bank's operational and administrative independence.
- 2.2 Pursuant to the Act, the Shareholder is to set the strategic missions for the Bank (those missions, which may be amended from time to time being the "Missions"), which describe the socio-economic or environmental challenges that the Bank is to seek to address and how, in the opinion of the Scottish Ministers, addressing those challenges relates to the Bank's Objects (as defined below).
- 2.3 The Act also includes:
- 2.3.1 specific requirements on the Shareholder to consult in relation to the Missions;
 - 2.3.2 provisions regarding the Bank's ability to make proposals to the Shareholder to consider changes to the Bank's Missions; and
 - 2.3.3 provisions requiring the Bank to prepare missions reports to the Shareholder (each such report being, a "Strategic Missions Report").

- 2.4 On and subject to the terms of the Act and the Bank Articles (as defined below), the Bank shall prepare and update a balanced scorecard to assist in the preparation of the Reports (as defined below) required to be prepared under the Act (the "Balanced Scorecard").
- 2.5 The Bank shall have the goal of seeking to achieve its Missions through the Bank Activities and the Operating Principles as outlined in paragraphs 3 and 4 below, respectively.

3 Bank Activities

- 3.1 The Bank's main and ancillary objects (the "Bank Objects") are prescribed in the Act and set out in its articles of association (the "Bank Articles").
- 3.2 It has been agreed that the Bank (including its Group as applicable) shall:
- 3.2.1 conduct its activities on a commercial basis and in a manner which the board of directors of the Bank (the "Bank Board") considers will or is likely to achieve the Bank Objects and to fulfil its Missions;
 - 3.2.2 act as the holding company of its Group with respect to any subsidiaries or subsidiary undertakings of the Bank, from time to time;
 - 3.2.3 develop a consistent and concise corporate narrative for the Bank and proactively share a common corporate culture across its Group;
 - 3.2.4 monitor and procure compliance of its Group with this Framework Document, in particular, with the best practice of applicable corporate governance, and any other agreed strategic objectives or policies;
 - 3.2.5 seek to deliver a positive rate of return over the long term, taking into account any Target Rate of Return (as defined below), once set, on and subject to the terms of paragraph 5.1.4 below;
 - 3.2.6 prepare and sign-off the annual report and accounts of the Bank, for publication after they are laid before the Scottish Parliament; and
 - 3.2.7 on and subject to the terms of section 11 (Confidentiality) below, provide the Shareholder with information in respect of its Group upon request,
- (the strategic priorities described in this paragraph 3.2 (as amended, updated or replaced from time to time) are referred to in the remainder of the Framework Document as the "Bank Activities").

3.3 In connection with the achievement of the Bank's purposes as stated in the Banks Objects and the achievement of the Missions:

3.3.1 the Group is to operate within and conduct its activities in accordance with, the Bank Activities;

3.3.2 the Operating Principles as described in paragraph 4 (Operating Principles) below, and defined in paragraph 4.2, are to apply to the conduct of the activities of the Group; and

3.3.3 the Group is to conduct its activities in accordance with the Financial Memorandum.

4 Operating Principles

4.1 The Bank shall:

4.1.1 operate in accordance with the Act (including, without limitation, applicable public bodies legislation applied to the Bank by the Act) and within the Bank Objects as set out in the Bank Articles and as included in the articles of association of any other members of the Group, as applicable;

4.1.2 operate in accordance with this Framework Agreement;

4.1.3 have its registered offices and key operations in Scotland;

4.1.4 act in a manner consistent with the Business Plan, the Investment Strategy and the Risk Framework (in each case, as defined below);

4.1.5 effectively steward the capital and other resources provided to the Bank by Scottish Ministers;

4.1.6 use the Balanced Scorecard (as defined below) to assist in preparing the Reports required pursuant to the Act;

4.1.7 operate in accordance with applicable financial services legislation and regulatory standards, noting that it is intended that the Bank (and/or one or more members of its Group) shall become FCA authorised and the Bank shall from the date hereof endeavour to follow industry "best practice" with respect of its compliance and regulatory standards, aiming to act, to the extent practicable, as if the Bank and/or its Group were an FCA authorised institution;

4.1.8 operate consistently with the terms of any applicable State aid approval relating to the Bank, its activities ("State Aid Approval") and any relevant EU or other State aid rules or subsidy controls applicable to the Bank (together with State Aid Approval, the "State Aid/Subsidy Requirements") from time to time;

- 4.1.9 conduct its affairs in a manner which seeks to promote equality, diversity, inclusion and, subject to section 11 below (Confidentiality), transparency;
 - 4.1.10 conduct its affairs in a manner which seeks to comply with the Scottish Government's National Performance Framework and Open Government Partnership commitment;
 - 4.1.11 conduct its affairs in a manner which complies with its Ethical Investment Policy (as defined below);
 - 4.1.12 conduct its affairs in a manner which complies with its Gender Equality Strategy (as defined below);
 - 4.1.13 on and subject to the provisions of the Act, comply with any fair work direction issued to it by the Scottish Ministers;
 - 4.1.14 support effective operation of (including by the provision of information to) the Advisory Group (as defined below) to be established and maintained by Scottish Ministers;
 - 4.1.15 support and assist a Reviewer (as defined below) appointed by the Shareholder to undertake a review of the performance of the Bank; and
 - 4.1.16 take account of reviews of the performance of the Bank commissioned by the Shareholder on and subject to the terms of the Act and any Best Value reviews which may be undertaken from time to time by Audit Scotland.
- 4.2 The principles described in paragraph 4.1 (as amended, updated or replaced from time to time) are referred to in the remainder of the Framework Document as the "Operating Principles."

5 Shareholder Responsibilities

- 5.1 The Shareholder shall:
- 5.1.1 set the Missions for the Bank as further noted at paragraph 2.2 above and on and subject to the terms of the Act;
 - 5.1.2 agree the budget for the Bank, seek to secure necessary Parliamentary approvals as may be required, and provide access to funds;
 - 5.1.3 having consulted with the Bank Board, set applicable delegated authorities for the Bank on and subject to the terms of paragraph 6 below;
 - 5.1.4 set a target rate of return for the Bank (a "Target Rate of Return") at an appropriate time, taking into account a written recommendation as to that Target Rate of Return from the Bank Board;

- 5.1.5 input into the annual appraisal of the Chair (as defined below), by means of the Director General for Economy providing his or her views to the Bank's Senior Independent Director, the latter being the person who shall conduct the annual appraisals of the Chair;
 - 5.1.6 take all reasonable steps, as requested by the Bank, to assist it in complying with its State Aid obligations, including with respect to communicating with the European Commission and the United Kingdom government as necessary;
 - 5.1.7 make board appointments, including regulated non-executive board appointments under the requirements of the Commissioner for Standards in Public Life in Scotland in consultation with the Bank (as described below);
 - 5.1.8 provide written approvals with respect to the Long Term Incentive Plan (the "LTIP") on and subject to the terms of paragraph 9.10 below;
 - 5.1.9 seek to secure derogation for the Bank (and, as applicable, its Group) under the Fiscal Framework arrangements between the Scottish Government and HM Treasury; and
 - 5.1.10 lay the accounts of the Bank (together with the annual report) before the Scottish Parliament.
- 5.2 Pursuant to the Act, the Shareholder will establish and maintain an advisory group to provide it with advice in relation to the Bank's objects, conduct and performance (the "Advisory Group") and also, at least every five years, to appoint a person to undertake a performance review of the Bank and its Group (the "Reviewer").

6 Financial Principles

Delegated Authorities

- 6.1 The consent of the Shareholder shall be required before the Bank or any member of its Group shall make any individual new investment (whether in debt or in equity) or individual new financial commitment in excess of £50 million (the "Investment Delegated Authority Limit"). The Investment Delegated Authority Limit shall not be reviewed annually.
- 6.2 A schedule of delegated authorities which (i) states the Investment Delegated Authority Limit on and subject to the terms of paragraph 6.1 above; and (ii) sets out the other delegated authorities, as agreed between the Bank and the Shareholder, which shall be reviewed annually, shall be appended to the Financial Memorandum (the "Other Delegated Authorities").
- 6.3 The Delegated Authorities provide the Bank with the authorities it requires for financial and investment activity without the need to refer back to the Shareholder. The Bank shall obtain

the Shareholder's prior written approval before entering into any undertaking to incur any expenditure that falls outside of these delegations.

Managing taxpayer resources and value-for-money

6.4 The Bank and its Group shall manage taxpayer resources efficiently and will seek to ensure value-for-money for the Scottish Government as a whole.

Borrowing

6.5 Neither the Bank nor any member of its Group shall incur borrowings (other than ordinary course overdrafts) from anyone other than the Scottish Ministers.

7 Other policies

Procurement policy

7.1 The Bank will put in place, resource and comply with, a procurement policy for itself and its Group that reflects best practice and is in compliance with applicable procurement law

Tax Policy

7.2 In addition to any other policies the Bank Board considers necessary, the Bank and its Group shall have (and shall conduct its activities in accordance with) a tax policy which is agreed in writing with the Shareholder and which aligns with applicable tax law and regulation. The Bank and its Group shall consider the impact of taxation matters in the context of its activities.

Balanced Scorecard

7.3 On and subject to the terms of the Act and the Bank Articles, the Bank shall prepare and update the Balanced Scorecard to underpin the Reports required to be prepared under the Act. The Bank shall make the methodology which underpins the Balanced Scorecard available to the Shareholder and other key stakeholders, including the Advisory Group and any Reviewer.

Ethical Investment Standards Policy

7.4 The Bank shall prepare and keep updated an appropriate ethical investment standards policy (the "Ethical Investment Policy").

Gender Equality Strategy

7.5 On and subject to the terms of the Act and the Bank Articles as they apply with respect to the Bank's approach to gender equality, the Bank shall prepare and keep updated an appropriate gender equality strategy document (the "Gender Equality Strategy").

Reports

- 7.6 On and subject to the terms of the Act, the Bank shall prepare the following reports (the "Reports"):
- 7.6.1 an annual calendar-year missions report to the Scottish Ministers (each one, a "Strategic Missions Report") on the first day of each financial year, unless other provisions in the Act apply;
 - 7.6.2 investment performance reports to the Scottish Ministers within a reasonable period every year after the end of the financial year, (each one, an "Investment Performance Report"), taking account of the information, manner of reporting or format that the Shareholder may specify;
 - 7.6.3 biennial gender equality strategy reports to the Scottish Parliament (each one, a "Gender Equality Strategy Report") with the first report to be provided by November 2022; and
 - 7.6.4 equal pay reviews to the Scottish Ministers (each one, an "Equal Pay Review"), at a timing and frequency to be agreed between the Bank and the Shareholder, but at least every 5 years.

Incorporation of subsidiaries and subsidiary undertakings

- 7.7 The Bank and/or its Group shall be entitled to incorporate subsidiaries or incorporate or establish subsidiary undertakings, provided, however, that the Bank has obtained the Shareholder's prior written consent before any such incorporation or establishment (as applicable).

8 Business Plan, Investment Strategy and Risk Framework

Business Plan

- 8.1 The Bank's executive team will develop and update a business plan for the Bank and its Group (the "Business Plan"), shall consult with the Shareholder in respect of it and shall take account of the Shareholder's views. Other than in the first year of operation, the Business Plan will cover the current financial year and at least three future financial years and will include the Bank's financial and budget requirements.
- 8.2 The Business Plan shall be reviewed and approved by the Bank Board on an annual basis and otherwise as necessary to take account of any additional or amended obligations or responsibilities assumed by the Bank and its Group which are material in nature.

Investment Strategy

- 8.3 The Bank Chief Executive Officer (the "CEO") and executive team will develop and update an investment strategy for the Bank and its Group (the "Investment Strategy") and shall consult with the Shareholder in respect of it.
- 8.4 The Investment Strategy shall be reviewed and approved by the Bank Board on an annual basis and otherwise as necessary to take account of any additional or amended obligations or responsibilities assumed by the Bank and its Group which are material in nature.

Risk Framework

- 8.5 The Bank shall develop and update, in respect of its Group, risk appetite statements (the "Risk Appetite Statements") and a risk management framework (the "Risk Management Framework") (with the Risk Appetite Statements and the Risk Management Framework being, collectively, the "Risk Framework"), in respect of risks relevant to the activities and exposures of the Bank and its Group, including risks associated with making and divesting investments, the assessment and mitigation of those risks and the Bank and its Group's associated structures, controls, processes and procedures. The Bank shall consult with the Shareholder in respect of the Risk Framework.
- 8.6 The Risk Framework shall be subject to review and approval by the Bank Board on an annual basis and otherwise by the Bank Board as necessary to take into account any changes that it deems relevant, including but not limited to the activities of the Bank and its Group, the investment environment, and regulatory guidelines and requirements (which, even if the Bank and its Group does not conduct regulated activities, shall be applied on a "best practice" basis to the extent appropriate and practicable).

9 Shareholder relationship and governance and accountability

Corporate governance

- 9.1 The Bank shall operate a corporate governance framework that, so far as practicable and in the light of the other provisions of this Framework Document or as otherwise may be agreed with the Shareholder, accords with best practice corporate governance. In particular (but without limitation), the Bank shall comply with the provisions of The UK Corporate Governance Code (the "Corporate Governance Code") from time to time other than in respect of matters concerning relations with shareholders (given that the Shareholder is the sole shareholder in the Bank), or specify and explain any non-compliance in its annual report.

Board appointments and senior management

- 9.2 Regarding the composition of the Bank Board as per and subject to the Bank Articles (from time to time) as applicable or with respect to the Group (as applicable):
- 9.2.1 the Bank Board shall comprise between nine and thirteen directors, at least two thirds of which (including the Chair of the Bank Board (the "Chair") and the Senior Independent Director) shall be non-executive directors;
- 9.2.2 non-executive director appointments to the Bank Board are public appointments by Scottish Ministers overseen by the Commission for Ethical Standards in Public Life in Scotland;
- 9.2.3 all members of the Bank Board shall be made aware and given training on the duties and responsibilities set out in "On Board - A guide for Board Members of Public Bodies in Scotland (April 2015)";
- 9.2.4 executive director appointments to the Bank Board shall be overseen by the Bank and recommended by the Nomination Committee (as defined below) and, in accordance with the Bank Articles, subject to the prior written approval of the Shareholder;
- 9.2.5 the role of the Senior Independent Director will include, amongst other things, serving as intermediary for the other directors where necessary and being available to discuss concerns the Shareholder has which normal channels of communication with some or all of the Chair, the Chief Executive Officer and the Chief Financial Officer have failed to resolve. The Senior Independent Director shall also act as intermediary between the Bank and the Shareholder, or the Bank and the portfolio Accountable Officer or the Bank and Scottish Ministers, if concerns cannot be resolved through other channels;
- 9.2.6 no appointment or removal of a director of the Bank to or from an executive position shall be made without the prior written consent of the Shareholder;
- 9.2.7 no appointment or removal of a director of any member of the Group (other than the Bank itself) shall be made without the prior written consent of the Shareholder, provided that such consent shall not be required in respect of the appointment or removal of a director of a member of the Group (other than the Bank itself) if the person who is proposed to be so appointed or removed was an employee of any member of the Group or a director of any member of the Group (including the Bank) at the time such person was proposed or removed as a director of the relevant member of the Group; and
- 9.2.8 the Senior Independent Director on the Bank Board shall ensure that appropriate appraisals are made of the effectiveness of the Chair as noted at paragraph 5.1.5 above.

Board Committees

- 9.3 Pursuant to the Act and the Bank Articles, the Bank Board shall constitute an audit committee (the “Audit Committee”), a risk committee that will also deal with conflicts matters (the “Risk Committee”) and a remuneration committee (the “Remuneration Committee”) of the Bank Board. Each such committee shall be chaired by a non-executive director and the respective remit of each such committee, contained in its applicable terms of reference shall relate to Bank and its Group as a whole (the “Terms of Reference”).
- 9.4 The Bank Board shall also constitute a valuation committee (the “Valuation Committee”) of which the Chair and at least one other non-executive director shall be members.
- 9.5 The Bank Board may also constitute such other committees of the Bank Board as it may determine shall be required from time to time. By way of illustrative example and, without prejudice to the terms of the Act pursuant to which the Shareholder shall appoint members of the Board of the Bank, the Bank Board intends for a board committee, most likely its Remuneration Committee, to make recommendations in line with the Corporate Governance Code to the Shareholder on a range of relevant nominations matters including, without limitation, succession planning for all directors and the appointment of any director to executive or other office.
- 9.6 A representative of the Shareholder may attend any or all meetings of the Board and its Board Committees in an observer capacity. The Shareholder shall receive all board and committee papers and minutes of Board and Board Committee meetings.

Board expenses

- 9.7 Remuneration (daily fees), allowances and expenses paid to non-executive directors of the Bank have been agreed with the Shareholder in line with the Scottish Government [Pay Policy for Senior Appointments](#). These allowances and expenses also apply to directors of other members of the Bank's Group unless they are employees of the Bank or another member of the Bank's Group. Any changes to the Bank's arrangements for Board remuneration, allowances or expenses must be agreed in advance by the Shareholder.

Remuneration and incentives

- 9.8 A Pay and Reward Framework for the Bank has been developed by the Bank and its Shareholder to provide the necessary flexibility to recruit and retain appropriately skilled employees, while maintaining the principles and approach of the Public Sector Pay Policy in Scotland.
- 9.9 The Shareholder expects that the Bank Board, acting through its Remuneration Committee, to implement the Pay and Reward Framework. The Bank Board's responsibilities shall include:

- 9.9.1 approving individual salaries for all members of the Bank’s executive team pursuant to the Pay and Reward Framework;
- 9.9.2 operating the LTIP including:
- (a) defining membership of the executive team and investment roles for the purposes of determining eligibility to participate in the LTIP;
 - (b) assessing performance against the agreed criteria and determining the level of LTIP allocation at the end of the performance measurement period;
 - (c) reviewing LTIP allocations at the end of the sustained performance period and any decisions to adjust or withhold allocations on the basis of inadequate or unsatisfactory corporate performance;
 - (d) any decisions to withhold or adjust individual LTIP awards or allocations in response to behaviours inconsistent with the Bank’s values;
 - (e) applying *malus* and clawback provisions in line with the agreed LTIP rules; and
 - (f) agreeing when and if to award “good leaver” status on cessation of employment and determining any pro-rating of relevant LTIP awards/allocations;
- 9.9.3 in setting salaries for the Bank executive team and in making operational decisions in relation to the LTIP, taking into account all factors that it deems necessary including relevant legal and regulatory requirements and the provisions of the Corporate Governance Code;
- 9.9.4 implementing the Pay and Reward Framework for all employees of the Bank, including monitoring equal pay risk and for ensuring pay decisions are fair, transparent and in compliance with equality legislation and employment good practice;
- 9.9.5 ensuring that the Bank participates in the annual Public Sector Pay Process and that it takes account of any rules or constraints set out in the relevant annual Public Sector Pay Policy when uplifting pay ranges and/or awarding pay progression increases; and
- 9.9.6 consulting with the Shareholder on material matters relating to severance payments, settlement agreements and redundancy schemes.
- 9.10 With respect to the LTIP, the Shareholder shall provide on an annual basis its prior written approval with respect to:
- (a) the criteria to be used each year by the Remuneration Committee in determining the performance of the Bank under the terms of the LTIP for that year; and
 - (b) any material changes to be made to the rules of the LTIP, from time to time;

in each case further to written recommendations to the Shareholder by the Remuneration Committee of the Bank;

9.11 Any material variation or amendment of any of:

9.11.1 the Group's grade framework and pay ranges;

9.11.2 the Mission Contribution Reward Scheme;

9.11.3 the terms and conditions of employment (including pension arrangements and notice periods) for any executive team member of the Bank; and

9.11.4 the daily fee rates for non-executive directors,

shall require the prior written consent of the Shareholder and be in accordance with, and observing any limits in, the Bank Articles as applicable.

9.12 On an annual basis the Bank Board, on the recommendation by the Bank's Remuneration Committee, shall confirm to the Shareholder that it considers that:

- (a) the Group continues to operate its remuneration policy in line with the rules agreed with the Shareholder;
- (b) the Bank's remuneration practices are appropriate when compared to its Missions and its financial performance; and
- (c) the Bank's remuneration arrangements are appropriate and proportionate when balancing cost and incentivisation.

9.13 With respect to remuneration and incentives, the Shareholder's interest is primarily in ensuring that remuneration levels:

- (a) are designed to promote the long-term success of the Bank and to drive the delivery of the activities and objectives described in this Framework Document;
- (b) are structured to link a significant proportion of remuneration for executive team members and investment staff to the performance of the Bank;
- (c) are aligned with the objectives set out in this Framework Document;
- (d) deliver good value for money for the Scottish Government as a whole; and
- (e) take account of remuneration levels for comparable roles within the employment market in Scotland and in other UK public development banks, as well as Public Sector Pay Policy in Scotland.

Accounting and audit requirements

- 9.14 The Bank and its Group shall produce accounts in accordance with statutory requirements. The Financial Memorandum sets out other relevant provisions regarding accounting and audit matters.
- 9.15 The Bank shall include a corporate governance statement in its directors' report as though it were a company to which paragraph 7.2 of the Disclosure Guidance and Transparency Rules applies.
- 9.16 The Auditor General for Scotland will audit the Bank's accounts and those of its Group, or appoint a third party auditor to audit them. The Bank, its Group and its auditor will share the audit reports and any other outputs in respect of the audit process and the audit reports and the management letters, with the Shareholder promptly after any relevant audit.
- 9.17 The Bank will also facilitate any Value for Money examinations that the Auditor General may wish to carry out.
- 9.18 The Bank Board shall ensure that there is appropriate internal audit for the Bank and its Group. The internal audit function (including if outsourced) will report to the Audit Committee and will consider issues relating to the Bank and its Group's delivery of the objectives set out in this Framework Document, in particular, matters relating to the strategy, performance and risk management.
- 9.19 Subject to law and applicable regulation, the Bank will ensure timely provision of internal audit information to the Scottish Government's Internal Audit Director, even if the Bank's internal audit function is outsourced.

Accountable Officer

- 9.20 The Permanent Secretary of the Scottish Government as the Principal Accountable Officer will designate the Chief Executive Officer of the Bank as the Accountable Officer for the Bank (and all subsidiaries within its Group) under the Public Finance and Accountability Act 2000. As such, the Chief Executive will be personally answerable to the Scottish Parliament for the discharge of his or her functions. This is set out in the [Memorandum to Accountable Officers for Other Public Bodies](#). The Bank's Accountable Officer will work closely with the Portfolio Accountable Officer, their counterparty in the Scottish Government, who will have oversight of funds that are made available to the Bank.
- 9.21 The Chief Executive Officer, as a director of the Bank and/or other members of the Group owes legal duties pursuant to the Companies Act 2006 and other applicable legislation. Such other legislation may include, without limitation, applicable financial services legislation including where the Bank and/or any member of its Group undertakes activities regulated by the Financial Conduct Authority.

10 State aid, financial regulation and compliance with law

State aid

- 10.1 The Shareholder expects the Bank to ensure that the activities of the Bank and its Group comply at all times with all applicable State Aid/Subsidy Requirements. The Bank will maintain operational policies and procedures and obtain suitable third party expertise that will advise the Bank, in particular in respect of individual investments as may be required, so as to ensure compliance with State Aid/Subsidy Requirements.
- 10.2 The Bank must operate a Complaints Process pursuant to the State Aid approval in respect of the Bank, and take the necessary steps, subject to law, to ensure the process is properly communicated and displayed on its website.

Regulatory

- 10.3 Aspects of the Bank's and its Group's activities may become subject to the Financial Conduct Authority Rules (the "FCA Rules") or guidance or principles, the Prudential Regulation Authority Rules (the "PRA Rules") or guidance or principles and/or other applicable laws or regulations. The Bank's Board will be responsible for the Bank's and its Group's appropriate compliance in this regard.

Compliance with law

- 10.4 The Shareholder acknowledges and agrees that if there is any conflict between the contents of this Framework Document and any applicable legislation or regulations including, without limitation, the FCA Rules or guidance or principles, the PRA Rules or guidance or principles, applicable public bodies legislation, or other applicable laws or regulations ("Laws and Regulations"), then, to the extent of their legal applicability, those Laws and Regulations shall prevail with respect to the Bank, its Group and the Bank Board together with the board(s) of any other members of the Bank's Group together with its or their respective other officers, employees, agents or consultants.

11 Confidentiality

- 11.1 The Shareholder and the Bank acknowledge and agree that the maintenance of appropriate legal and commercial confidentiality in respect of third party information held by the Bank and its Group will be a crucial factor in complying with its legal and regulatory obligations. The Bank shall be responsible for its stewardship and management of such information held by the Bank and its Group. Without prejudice to the foregoing, the Bank shall comply with its legal obligations in respect of Freedom of Information matters which apply to it and seek to uphold the highest standards of transparency while protecting the confidentiality of commercial information.

- 11.2 Where the Bank or its Group or any of its or their respective directors, officers, employees, consultants, agents and advisers receive information in relation to which it or they is/are subject to a duty of confidentiality or other legal or regulatory obligations then, save as required by applicable law or as required by a court of competent jurisdiction or any regulator which has competence with respect to the Bank and/or its Group to compel the disclosure of certain information, the Bank and its Group shall not be obliged to disclose such confidential information to the Shareholder or any other person in breach of any such obligations.
- 11.3 The Bank has prepared a suite of information governance documents (as may be amended from time to time) the purpose of which is to facilitate appropriate and legally compliant ways of working for the Bank and its Group such that the Bank can appropriately and accurately provide necessary information to the Shareholder and the public in satisfying its legal duties including, amongst other things, publishing the Reports, whilst protecting the commercial confidentiality of counterparties of the Bank and its Group and complying with its legal and/or regulatory obligations.

12 Revision of this Framework Document

- 12.1 The Shareholder and the Bank Board agree that they shall work together in good faith to review this Framework Document when necessary, it being noted that the Bank and/or a member of its Group becoming FCA authorised being the anticipated first time at which such a review will be required, and, in any event, at least every 2 years unless both the Shareholder and the Bank Board agree in writing that a longer review period is acceptable.
- 12.2 Any amendment, update or replacement of any provision of this Framework Document must be consistent with:
- (a) the Bank Objects;
 - (b) any State Aid Requirements;
 - (c) applicable law or regulation; and
 - (d) any requirements of the Financial Conduct Authority or the Prudential Regulation Authority or any other applicable regulatory body.

13 Publication

- 13.1 The Bank shall publish this Framework Document and the Financial Memorandum (including the Delegated Authorities) and any subsequent amendments on its website.
- 13.2 The Bank shall also publish the following documents (and any subsequent amendments) on its website in due course and in compliance with any applicable time requirements as may apply:
- 13.2.1 the Bank Articles;
 - 13.2.2 its Missions;
 - 13.2.3 its annual report and accounts;
 - 13.2.4 the Reports;
 - 13.2.5 a substantial summary of its Business Plan;
 - 13.2.6 a substantial summary of its Investment Strategy;
 - 13.2.7 a substantial summary of its Risk Framework;
 - 13.2.8 its Tax Policy;
 - 13.2.9 a statement regarding its Ethical Investments Policy;
 - 13.2.10 a statement regarding its Gender Equality Strategy;
 - 13.2.11 its Publication Scheme with respect to Freedom of Information matters; and
 - 13.2.12 terms of reference adopted by the Bank Board for its board committees.

14 Status of Framework Document

- 14.1 This Framework Document should be interpreted in the light of the Bank Articles, the articles of association of any relevant member of its Group and Scots company law and is without prejudice to the statutory and other rights and obligations of the Shareholder, the Bank or any other member of its Group.

This Framework Document is dated November 2020.

Annex A

Bank Operational and Administrative Independence Undertaking

1. Unless otherwise defined below, capitalised terms used in this Annex shall have the meaning given to such terms in the Framework Document drawn up by the Bank and its Shareholder.

Undertakings

2. In its capacity as the sole shareholder of the Bank, the Shareholder is committed to giving the Bank Board freedom to operate the Bank and its Group in seeking to achieve its purposes as stated in the Act, the Bank Objects, the Strategic Framework and the Bank Activities. The Bank and its Group shall have operational and administrative independence to identify, design and deliver specific investments, or any category of investments, based on its own assessment of how to achieve the Business Plan and, more broadly, its Missions. The Shareholder:
 - A. shall not interfere in day-to-day operational or commercial matters or decision-making by the Bank or its Group which are undertaken within Delegated Authority limits (where applicable) and respect the commercial and legal confidentiality of its operations;
 - B. subject to the terms of this Framework Document, shall not give any instruction to the Bank or its Group to implement, or prevent the Bank or its Group from implementing, any specific investments or category of investments;
 - C. shall not exercise its rights as shareholder in a manner which is inconsistent with this paragraph; and
 - D. shall allow the Bank and its Group freedom to allocate resources and budgets within its control, (together, (A), (B), (C) and (D) being the “Company Operational and Administrative Independence Principles”).
3. The Shareholder shall not give any instruction to the directors of the Bank or its Group, which would be contrary to any State Aid Requirements applicable to the Bank or its Group.

Right to raise reservations

4. Subject to paragraph 3, if the Shareholder gives any instruction to the Bank to undertake an action or an instruction to procure that the Bank or any member of its Group undertakes an action that the CEO, the directors of the Bank or the directors of any member of its Group required to undertake any such action (an “Affected Company”) reasonably believe (in the case of an Affected Company, by providing written notice to the Bank) would or may require the Bank or any relevant Affected Company (as applicable) to undertake an action that would:

- A. infringe the requirements of propriety or regularity or obligations of legal and/or commercial confidentiality;
- B. not represent good value for money for the Scottish Government as a whole;
- C. be of questionable feasibility or is unethical;
- D. be contrary to the Bank Objects or would result in the Affected Company being in breach of its objects;
- E. be contrary to the Missions;
- F. result in the directors of the Company or any relevant Affected Company being in breach of their legal duties to the relevant company or otherwise in their legal or regulatory obligations; and/or
- G. not be in the best interests of the Bank or any relevant Affected Company for any other material and demonstrable reason,

then the Bank Board, acting through the CEO, may make their reservations in respect of such matter clear to the Shareholder in writing (a “Reservation Notice”).

- 5. If the Shareholder, after receiving a Reservation Notice, nevertheless instructs the Bank to proceed, or to procure that any Affected Company shall proceed, with the matter the subject of the Reservation Notice (an “Instructed Matter”), then the CEO shall:
 - A. seek a written instruction to undertake such Instructed Matter from the Shareholder, (a “Written Direction”) with any oral instruction from the Shareholder (an “Oral Direction”) being confirmed promptly in writing;
 - B. upon receipt of a Written Direction or an Oral Direction:
 - C. inform the Bank Board who shall undertake the Instructed Matter or procure that the Instructed Matter shall be undertaken by any relevant Affected Company;
 - D. copy the Written Direction or any Oral Direction confirmed in writing to the Auditor General for Scotland and the Scottish Parliament, under publication arrangements agreed by the Shareholder;
 - E. if asked, explain the Shareholder’s course of action; and
 - F. arrange for the existence of the Written Direction or any Oral Direction confirmed in writing to be published (unless the Shareholder has directed in writing to the Bank that the matter must be kept confidential or unless the Bank considers that the matter is confidential).

Exceptions

6. The Bank Operational and Administrative Independence Principles shall only apply if and to the extent that the activities of the Bank or any Affected Company are:
 - A. consistent with the Act, the Bank Articles, the Operating Principles, the Bank Activities and the Financial Memorandum;
 - B. compliant with the State Aid Requirements and the other specific requirements imposed upon the Bank and its Group pursuant to the Framework Document; and
 - C. notwithstanding the Company Operational and Administrative Independence Principles, in addition to any matters which are expressly stated to be subject to the prior approval of the Shareholder in the Framework Document or the Bank Articles, any conduct which is inconsistent with the Bank Articles (including with respect to the achievement of the Bank's purposes as stated in the Bank Objects or the Bank Activities), the Operating Principles, or the State Aid Requirements shall require the prior written approval of the Shareholder.