

# **Scottish National Investment Bank plc**

## **Terms of Reference for the Risk Management and Conflicts Committee**

## **1 Constitution**

- 1.1 Pursuant to the Scottish National Investment Bank Act 2020 (the "**Act**"), the Scottish National Investment Bank plc (the "**Bank**") must have a Risk Committee and the Committee must be chaired by a non-executive director.
- 1.2 The Risk Management and Conflicts Committee (the "**Committee**") was constituted as an independent committee of the Board on establishment of the Bank, in accordance with the articles of association of the Company (the "**Articles**"). The procedures of the Committee shall at all times be compatible, and consistent, with the provisions of the Articles.

## **2 Role of the Committee and scope**

- 2.1 Pursuant to the Act, the function of the Risk Committee is to review the Bank's risk management systems.
- 2.2 In discharging its function, the Committee shall also assist the board of directors of the Bank (the "**Board**") in fulfilling its oversight responsibilities by providing independent review and assessment of:
  - 2.2.1 The Bank's attitude to and appetite for risk;
  - 2.2.2 The Bank's risk management framework and systems;
  - 2.2.3 How risks are reported both internally and externally, together with the format and frequency of reporting;
  - 2.2.4 How risks are assessed and quantified;
  - 2.2.5 How conflicts of interest are managed; and
  - 2.2.6 The processes for compliance with laws, regulations, codes of practice and prevention of fraud.

## **3 Membership**

- 3.1 The Committee shall comprise at least three members. Members of the Committee shall be appointed by the Board, on the recommendation of the Remuneration and Nomination Committee and Chair of the Committee (the "**Committee Chair**").
- 3.2 All members of the Committee shall be independent non-executive directors. The Committee as a whole shall have competence relevant to the business of the Committee. The Chair of the Board shall not be a Chair of the Committee but may be invited to attend its meetings.
- 3.3 Appointments to the Committee shall be for a period of up to four years, which may be extended, provided the director still meets the criteria for membership of the Committee.
- 3.4 The Committee Chair shall review membership of the Committee annually, as part of the annual performance evaluation of the Committee.
- 3.5 The Board shall appoint the Committee Chair. In the absence of the Committee Chair and/or his or her appointed deputy at a committee meeting, the remaining members present shall elect one of themselves to chair the meeting. Any person nominated to chair the Committee must be a member of the Committee.

- 3.6 Only Committee members and the Secretary have the right to attend Committee meetings. However, the Chief Executive Officer, Chief Risk Officer (“CRO”) and Internal Auditor will be invited to attend meetings of the Committee on a regular basis and the Committee Chair shall have the discretion to decide if others should be invited to attend all or part of any meeting as and when appropriate.

#### **4 Secretary**

The Bank's Company Secretary, or his or her nominee, shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration of the relevant issues.

#### **5 Quorum**

The quorum necessary for the transaction of business at a Committee meeting shall be two members.

#### **6 Meetings**

- 6.1 The Committee shall meet at least four times a year and otherwise as required.
- 6.2 Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Bank's governance, including the Chair of the Board, the Senior Independent Director, the Chief Executive Officer, the CRO, the Chair of the Audit Committee, the internal audit lead partners and the Chair of any regulated subsidiary board.
- 6.3 Meetings of the Committee may be conducted when the members are physically present together or in the form of either video or audio conference.
- 6.4 Decisions at a meeting shall be decided by a majority of votes. In the case of an equality of votes, the Committee Chair shall have a casting vote.
- 6.5 A resolution in writing, circulated with at least two business days' notice, and signed by a majority of Committee members will be as effective as a resolution passed at a Committee meeting. Any written resolution shall be tabled and noted at the next meeting of the Committee.
- 6.6 The Committee Chair shall attend the Company's annual general meeting or be available at least annually to answer any shareholder questions concerning the Committee's activities.

## **7 Notice of meetings**

- 7.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of the internal audit partner if they consider it necessary.
- 7.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other person required to attend, no later than five working days before the date of the meeting. Supporting papers shall be sent to committee members (and to other attendees as appropriate) at the same time. All documentation shall be sent in electronic form.

## **8 Minutes of meetings**

- 8.1 The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance and any conflicts of interests declared by the members of the Committee.
- 8.2 Draft minutes of Committee meetings shall be circulated to the Committee Chair and once reviewed, to all members of the Committee.
- 8.3 Final approved minutes of the meetings of the Committee shall be available to the other members of the Board unless, exceptionally, it is determined by the Committee Chair that it is not appropriate to do so. Final signed copies of the minutes of the meetings of the Committee shall be maintained by the Secretary.

## **9 Duties**

The Committee shall, unless required otherwise by regulation, carry out the duties detailed below for the Bank, its subsidiary undertakings (save where a subsidiary is required by law and/or regulation to carry out some or all of the duties for itself having due regard to the approach taken by the Bank in such areas) and the group as a whole, as appropriate:

### **9.1 Risk Appetite, Tolerance and Strategy**

- 9.1.1 Advise the Board on the Bank's overall risk appetite, tolerance and strategy, and the principal and emerging risks the company is willing to take in order to achieve its long-term strategic objectives;
- 9.1.2 Advise the Board on the design and implementation of the Bank's policy framework and review and approve any policies allocated to the Committee in accordance with the policy framework;
- 9.1.3 Advise the Board on the likelihood and the impact of principal risks materialising, and the management and mitigation of principal risks to reduce the likelihood of their incidence or their impact;
- 9.1.4 Advise the Board on the risk aspects of proposed changes to strategy and strategic transactions including acquisitions or disposals, focussing in particular on the implications for the risk appetite, tolerance and strategy of the Bank, and taking independent external advice where appropriate;
- 9.1.5 Advise the Board on any proposed new products, investment structures or regulatory permissions, in particular on the risk implications, taking independent external advice where appropriate; and

- 9.1.6 Ensure that the Board discussion and input on all risk matters is reflected appropriately in the Bank's risk management and internal control systems or any related documentation.

## 9.2 **Narrative Reporting**

The Committee shall carry out the following duties to assist the Board in fulfilling its reporting responsibilities in the annual report:

- 9.2.1 Monitor and review the effectiveness of the Bank's risk management and internal control systems;
- 9.2.2 Review the Bank's procedures to manage or mitigate principal risks and to identify emerging risks, to assist in the Board's assessment of principal and emerging risks;
- 9.2.3 Review and assess the Bank's risk appetite and any associated stress testing;
- 9.2.4 Evaluate the Bank's principal risks, to be taken into account by the Board when assessing the Bank's financial prospects; and
- 9.2.5 Review and approve the statements to be included in the annual report concerning risk management and internal controls, in consultation with the Audit Committee with regard to their responsibilities relating to reporting on audit and internal controls.

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

Taking account of management reporting and any internal audit reporting, the Committee shall oversee and seek suitable assurance regarding:

- 9.3.1 the overall risk exposures of the Bank, including but not limited to operational, legal, regulatory, financial crime, investment, and strategic risks to the business model;
- 9.3.2 the adequacy and effectiveness of the Company's processes, policies and procedures (including any risk limits) to manage risk and the internal controls framework including the design implementation and effectiveness of those systems;
- 9.3.3 the ability of the Bank's risk management and internal controls systems to identify the risks facing the Bank and enable a robust assessment of principal risks;
- 9.3.4 the Bank's capability to identify and manage new emerging risks and any risk trends;
- 9.3.5 the effectiveness of particular controls, in consultation with the Audit Committee with regard to its responsibilities relating to internal audit and internal financial controls;
- 9.3.6 the effectiveness of the Bank's operational governance and risk management framework to satisfy itself as to the design and completeness of the framework relative to the Bank's activities and risk profile. In performing this assessment, the committee shall:
- a) propose to the Board principles and policies and the Risk Management framework which support the Bank's overall risk appetite;
  - b) advise the Board on the Bank's preparedness in terms of adhering to best practice to ensure appropriate limits, procedures, controls and operational governance are in place for controlling all aspects of risk; and
  - c) oversee that corrective action is taken when necessary.

- 9.3.7 the Bank's ability to reduce the likelihood of principal risks materialising and the ability to minimise impact on the business of risks;
- 9.3.8 the adequacy of the Bank's information and technology infrastructure, policies and procedures to identify and mitigate risk in this area including but not limited to technology risk and/or cyber risk;
- 9.3.9 the adequacy of the processes and procedures to enable the Bank to comply with freedom of information legislation and requests made under such legislation;
- 9.3.10 the policies and procedures to identify and register actual or potential conflicts of interests and monitor the adequacy of arrangements put in place to manage conflicts;
- 9.3.11 the adequacy and security of the company's arrangement for its employees, contractors and external parties to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action and the Committee Chair shall act as the Bank's Whistleblowing Champion;
- 9.3.12 the adequacy of procedures for detecting fraud and systems and controls for the prevention of bribery, including "know your client" processes, with reports on non-compliance;
- 9.3.13 the adequacy and effectiveness of the Bank's anti-money laundering systems and controls, with annual report from the Money Laundering Reporting Officer;
- 9.3.14 the adequacy and effectiveness of the Bank's data protection policies and processes with regular reporting from the Data Protection Officer;
- 9.3.15 the adequacy and effectiveness of the compliance function, with regular reports;
- 9.3.16 any breaches of the Bank's policies, authorities or risk limits and the adequacy of proposed action by management, in consultation with the Audit Committee with regard to its responsibilities relating to internal financial controls and accounting policies;
- 9.3.17 the adequacy and effectiveness of the Bank's risk management function and ensure it has adequate resources and appropriate access to information to enable it to perform in accordance with the relevant professional standards;
- 9.3.18 the CRO's right of direct access to the Chair of the Board and to the Committee;
- 9.3.19 the role and effectiveness of the internal audit function in the overall context of the Bank's risk management system. Approve the internal audit plan as it relates to the Bank's risk priorities;
- 9.3.20 the adequacy of reporting submitted by Scottish Investments Limited in relation to SIL's regulated activities on behalf of the Bank and advise the Board on any related risks that may arise from time to time; and
- 9.3.21 in relation to sustainability and ESG:
  - a) the process in place to monitor current trends, developments, emerging risks, practices and frameworks relevant to the Bank and advise the Board on implementing any consequent changes;
  - b) the systems and controls for collection and management of information, including climate-related data; and
  - c) the information used to prepare the related statements and disclosures, including but not limited to the climate-related disclosures and modern slavery statement.

## **9.4 Reward**

The Committee shall:

- 9.4.1 monitor the appropriateness of the Bank's values and culture and reward systems for managing risk and internal controls and the extent to which the culture and values are embedded at all levels of the Bank; and
- 9.4.2 with regard to the Long-Term Incentive Plan ("LTIP"):
  - a) monitor and assess performance against the LTIP performance conditions for any conditions allocated to the Committee; and
  - b) provide input to the Remuneration and Nominations Committee on any risk matters that should be taken into account by that committee when assessing company or individual performance in accordance with the LTIP performance conditions and the LTIP rules.

## **10 Reporting responsibilities**

- 10.1 The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 10.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3 The Committee shall compile a report on its activities to be included in the Bank's annual report and accounts. The report should meet the requirements of the UK Corporate Governance Code and also explain any non-compliance with the relevant provisions of the UK Corporate Governance Code.
- 10.4 The Committee shall also formally report to the Board on the results of its own periodic effectiveness review.
- 10.5 The Committee, through its Chair, will report to the Board matters that should be brought to the attention of the Board including instances where the Committee has been unable to reach full agreement together with any recommendations which require Board approval or action.

## **11 Other matters**

The Committee shall:

- 11.1 have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
- 11.2 be provided with appropriate and timely training, both in the form of an induction program for new members and on an ongoing basis for all members;
- 11.3 give due consideration to all relevant laws, regulations, the provisions of the UK Corporate Governance Code and published FRC guidance and any other rules, as appropriate;
- 11.4 oversee any investigation of activities which are within its terms of reference;
- 11.5 work and liaise as necessary with other Board committees ensuring interaction between

committees and with the Board is reviewed regularly, taking particular account of the impact of risk management and internal controls being delegated to different committees;

- 11.6 ensure that a periodic evaluation of the Committee's own performance is carried out; and
- 11.7 at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## **12 Authority**

The Committee is authorised to:

- 12.1 request the attendance of any employee at a meeting of the Committee as and when required and/or seek any information it requires of the Bank in order to perform its duties;
- 12.2 obtain, at the Bank's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- 12.3 delegate any matter or matters to a sub-committee or person as it deems appropriate; and
- 12.4 have the right to publish in the Bank's annual report, details of any issues that cannot be resolved between the Committee and the Board.

These Terms of Reference were reviewed and approved by the Board of Scottish National Investment Bank plc on **5 December 2024**

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