

Scottish National Investment Bank plc

Terms of Reference for the Remuneration and Nominations Committee

1 Purpose

- 1.1 Pursuant to the Scottish National Investment Bank Act 2020 (the "**Act**") and the Articles of Association (the "**Articles**") of the Scottish National Investment Bank plc (the "**Bank**"), the Shareholder Relationship Framework Document (the "**SRFD**") provides that the remuneration of the Bank's directors and employees is to be determined by the Bank's board of directors (the "**Board**"), subject to any direction from the Scottish Ministers (being the Bank's sole shareholder (the "**Shareholder**"). The "**Group**" is comprised of the Bank and its wholly owned subsidiary companies.
- 1.2 The primary purpose of the Remuneration and Nominations Committee (the "**Committee**") of the Bank is, therefore, to oversee the management of pay and reward practices across the Bank and to make recommendations to the Board in relation to the development and implementation of pay and reward policies and practices and, where applicable, their approval by the Shareholder.
- 1.3 In addition, the Committee also has responsibilities in relation to: (i) the appointment of non-Executive Directors to the Board (ii) the appointment and removal of Executive Directors to and from their position on the Board (or their executive positions), (iii) ensuring appropriate plans are in place for orderly and diverse succession planning for the Board, senior management and other key roles within the Bank, and (iv) ensuring that an annual evaluation of the Board occurs.

2 Duties

- 2.1 The role of the Committee is to assist the Board to fulfil its responsibility to the Shareholder to ensure that:
 - 2.1.1 an appropriate Pay and Reward Framework for the Group has been developed by the Bank and the 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. The Shareholder expects that the Board, acting through this Committee, shall implement the Pay and Reward Framework. With respect to remuneration and incentives, the Shareholder's interest is primarily in ensuring that remuneration levels and incentives:
 - 2.1.1.1 are designed to promote the long-term success of the Bank and to drive the delivery of the activities and objectives described in the SRFD;
 - 2.1.1.2 are structured to link a significant proportion of the remuneration of the members of the Bank's Executive Leadership Team (i.e., those individuals comprising the Bank's Executive Committee) ("**Executive Leadership Team**") and investment staff to the performance of the Bank;
 - 2.1.1.3 are aligned with the objectives set out in the SRFD;
 - 2.1.1.4 deliver good value for money for the Scottish Government as a whole; and

- 2.1.1.5 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.
- 2.1.2 executive remuneration is aligned with the Bank's purpose and values and linked to delivery of the Bank's long-term strategy;
- 2.1.3 the Pay and Reward Framework is implemented allowing the Committee to:
 - 2.1.3.1 approve individual salaries for each of the Executive Leadership Team;
 - 2.1.3.2 operate the Bank's Long-Term Incentive Programme ("**LTIP**") in accordance with the rules of the scheme including (but not limited to):
 - (a) defining the membership of the executive team and investment roles for the purposes of determining eligibility to participate in the LTIP;
 - (b) specifying the performance conditions against which corporate performance will be measured;
 - (c) varying or waiving performance conditions in certain circumstances;
 - (d) determining whether, and to what extent, the performance conditions have been satisfied and taking this and affordability into account determine the level of LTIP allocation at the end of the performance measurement period;
 - (e) 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;
 - (f) making decisions to withhold or adjust individual LTIP awards or allocations in response to an unacceptable standard of performance and/or behaviours inconsistent with the Bank's values;
 - (g) applying malus and clawback provisions in line with the agreed LTIP rules; and
 - (h) agreeing when and if to award "good leaver" status on cessation of employment and determining any pro rating of relevant LTIP awards or allocations.
- 2.1.4 in setting salaries for the Executive Leadership Team and in making operational decisions in relation to the LTIP, account is taken of all factors that it deems necessary including relevant legal and regulatory requirements and the provisions of the UK Corporate Governance Code ("**the Code**");
- 2.1.5 the Pay and Reward Framework is implemented for all employees of the Group, including monitoring equal pay risk and ensuring pay decisions are fair, transparent and in compliance with equality legislation and employment good practice;

- 2.1.6 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
- 2.1.7 it consults with the Shareholder on material matters relating to severance payments, settlement agreements and redundancy schemes.
- 2.2 With respect to the LTIP, the Committee will propose to the Board annually the LTIP performance conditions and any material changes to be made to the rules of the LTIP for that year. When the Board has agreed the performance conditions and, if any, changes to the rules, the Committee will recommend such conditions and changes to the Shareholder and obtain the written consent of the Shareholder to the conditions and any such changes.
- 2.3 The Committee shall obtain the prior written approval of the Shareholder to any material variation or amendment of any of:
 - 2.3.1 the Group's grade framework and pay ranges;
 - 2.3.2 the agreed principles of the Mission Contribution Reward Scheme;
 - 2.3.3 the terms and conditions of employment (including pension arrangements and notice periods) for any member of the Executive Leadership Team; and
 - 2.3.4 the daily fee rates for non-Executive Directors which will be in accordance with, and observing any limits in, the Articles.
- 2.4 The Committee will recommend to the Board, to allow it to confirm to the Shareholder that it considers that:
 - 2.4.1 the Group continues to operate its remuneration policy in line with the rules agreed with the Shareholder;
 - 2.4.2 the Group's remuneration practices are appropriate when compared to its Missions and financial performance; and
 - 2.4.3 the Group's remuneration arrangements are appropriate and proportionate when balancing cost and incentivisation.
- 2.5 The Committee will ensure that the principles of the Fair Work Framework and the four pillars of Transparency, Equality, Diversity and Inclusivity underpin the design of all of the Group's employment policies, processes and procedures, including those relating to grading and pay.
- 2.6 The Committee will ensure that the Bank carries out an Equal Pay review at such timing and frequency to be agreed with the Shareholder, but at least every four years.
- 2.7 The Committee will ensure that the Bank has in place and keeps under review appropriate development plans for members of the Executive Leadership Team.
- 2.8 The Committee will ensure that the Bank has in place, and will keep under review, an appropriate orderly and diverse succession plan for:
 - 2.8.1 the Bank's regulated public appointments, being all non-Executive Directors of

- the Board, in consultation with the Shareholder, and
- 2.8.2 the positions of the Chief Executive Officer, Chief Financial Officer, and other members of the Bank's Executive Leadership Team, and
- 2.8.3 other key roles across the Group,

promoting diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

- 2.9 The Committee will in respect of the nomination of new or replacement non-Executive directors to the Board (as and when they occur):

- 2.9.1 consider and oversee nominations,
- 2.9.2 make recommendations to the Board, and the Shareholder, as appropriate,
- 2.9.3 develop and agree, with the Shareholder, the marketing strategy and approach, most appropriate for each appointment, and
- 2.9.4 agree, with the Board and the Shareholder, a recruitment and assessment panel (and any desirable skill set required in respect of an independent panel member), with a member or members of the Committee participating as a panel member as agreed appropriate,

at all times subject to (a) Scottish Minister's approval and in accordance with an appointments process agreed, from time to time, between the Bank and the Shareholder, and (b) the Articles.

- 2.10 The Committee will in respect of the nomination of new or replacement Executive directors to the Board (as and when they occur):

- 2.10.1 consider and oversee, in consultation and collaboration with the Chair of the Board, nominations,
- 2.10.2 make recommendations to the Board, as appropriate,
- 2.10.3 agree, with the Chair of the Board, the marketing strategy and approach, most appropriate for each appointment, and
- 2.10.4 agree, with the Chair of the Board, a recruitment and assessment panel (and the approach to assess and consider the suitability of candidates) with a member or members of the Committee participating as a panel member as agreed appropriate,

at all times subject to (a) final endorsement by the Scottish Ministers in accordance with 2.11, and (b) the Articles.

- 2.11 The appointment or removal of an Executive director of the Board from their executive position and/or directorship on the Board will be recommended to the Shareholder by the Board.

- 2.12 The Committee will ensure that an annual evaluation of the Board takes place, considering its composition, diversity and how effectively members of the Board work together to achieve the objectives of the Bank. The Senior Independent Director will ensure that an annual appraisal of the Chair of the Board takes place and that input into such appraisal is obtained from the

Shareholder.

- 2.13 The Committee will review and approve significant policies developed by the People and Culture department.
- 2.14 On a member of the Group obtaining financial regulated status (e.g., FCA authorisation), the Committee will oversee any significant matters arising as a result of that regulated status, to the extent they may impact on the Group's employees and/or policies developed by the People and Culture department, including (but not limited to) oversight (at least annually) that 'fit and proper' assessments have been undertaken by the Group appropriately.

3 Membership

- 3.1 The Committee shall comprise at least three members. The Chair of the Board may serve on the Committee as a member but not as Chair of the Committee if he or she was considered independent on appointment as Chair of the Board.
- 3.2 All other members of the Committee shall be independent non-Executive Directors. Members of the Committee shall be appointed by the Board, in consultation with the Chair of the Committee (the "**Committee Chair**").
- 3.3 Appointments to the Committee shall be for a period of up to three years, which may be extended, provided the Committee member still meets the criteria for membership. Notwithstanding the foregoing, pursuant to the Act, no person may hold the office of non-Executive Director for a cumulative period exceeding 8 years. The Committee Chair shall review membership of the Committee annually, as part of the annual performance evaluation of the Committee.

4 Secretary

The Bank's Company Secretary, or their 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, one of whom must be the Committee Chair or nominated deputy chair.

6 Meetings

- 6.1 The Committee shall meet at least twice a year and otherwise as required.
- 6.2 Questions arising 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 second or casting vote.
- 6.3 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive Officer, the Executive Director of People & Culture and external advisers may be invited to attend for all

or part of any meeting, as and when appropriate and necessary and with the agreement of the Committee Chair. The Committee Chair shall have the discretion to decide who, other than Committee members, shall attend and address Committee meetings.

- 6.4 No person shall participate at a meeting of the Committee (or during a relevant part) at which any part of their remuneration is being directly discussed or participate in any recommendation or decision specifically concerning their remuneration.
- 6.5 The secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.6 Meetings of the Committee may be conducted when the members are physically present together or in the form of either video or audio conference.
- 6.7 A resolution in writing and signed by all 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.
- 6.8 Email communication may on occasion be used to transact Committee business at the discretion of the Committee Chair.

7 Notice of meetings

- 7.1 Meetings of the Committee shall be called by the secretary of the Committee at the request of the Committee Chair.
- 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.

8 Minutes of meetings

- 8.1 The secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 8.2 Draft minutes of Committee meetings shall be circulated within three weeks to all members of the Committee.
- 8.3 Final signed copies of the minutes of the meetings of the Committee shall be maintained for the Bank's records.

9 Annual general meeting

The Committee Chair should attend the annual general meeting to answer any Shareholder questions on the Committee's activities.

10 Appointment of Consultants

- 10.1 To help it fulfil its obligations the Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary at the expense of the Bank but within any budgetary restraints imposed by the Board.

- 10.2 The Committee will be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee.

11 Reporting responsibilities

- 11.1 The Committee Chair shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 11.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 11.3 The Committee shall ensure that provisions regarding disclosure of information, including pensions, as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Code, are fulfilled and produce a report of the Bank's remuneration policy and practices to be included in the Bank's annual report and ensure each year that it is put to the Shareholder for approval at the annual general meeting of the Bank. If the Committee has appointed remuneration consultants, the annual report of the Bank's remuneration policy should identify such consultants and state whether they have any other connection with the Bank.
- 11.4 Through the Committee Chair, the Committee shall ensure that the Bank maintains contact with the Shareholder, and provides all information requested by the Shareholder to the Shareholder in respect of remuneration.

12 Other matters

The Committee shall:

- 12.1 Where relevant, act in accordance with the Articles and other provisions of the Bank's constitution;
- 12.2 Have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
- 12.3 Be provided with appropriate and timely training, both in the form of an induction program for new members and on an on-going basis for all members;
- 12.4 Give due consideration to laws, regulations and any published guidelines or recommendations regarding the remuneration of directors of listed and non-listed companies including but not limited to the provisions of the Code;
- 12.5 Arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval; and
- 12.6 Require that the remuneration, of whatsoever nature, of all the directors, senior management and employees of the Bank and other members of the Group is paid or made to the relevant individual personally and not to a service bank or other vehicle, and that all applicable tax and national insurance contributions are paid in respect of such remuneration.

13 Authority

The Committee is authorised by the Board to obtain, at the Bank's expense, outside legal or other professional advice on any matters within its terms of reference.

These Terms of Reference became effective on **25 May 2022**