

UK Infrastructure Bank

Enterprise-wide Risk Management Framework

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Introduction

This document summarises the UK Infrastructure Bank's ("UKIB") Enterprise-wide Risk Management Framework ("ERMF"), which is aimed at providing a coherent foundation for effective risk management and overarching guidelines for governing its risks. The ERMF is required by UKIB's Framework and Financial Framework Documents and is approved annually by the Board and by HM Treasury (the "Shareholder") before the end of each financial year. It will also be subject to regular internal audit review.

Purpose & Risk Management Strategy

Purpose and overview of the Bank

UKIB has been established to provide infrastructure finance in support of two key government policy objectives (the "Strategic Objectives"), its purpose is:

- 1) To help tackle climate change from an infrastructure perspective, particularly meeting the government's net zero emissions target by 2050; and
- 2) To support regional and local economic growth through better connectedness, opportunities for new jobs and higher levels of productivity.

Under its Operating Principles and Investment Principles set out in the Bank's Framework Document, the Bank also has to achieve a "triple bottom line": maximising its policy impact and crowding in private finance (additionality), whilst producing the return required by the Shareholder. The ERMF accommodates the relevant requirements of the Framework Document and Financial Framework. The purpose of the risk management strategy and framework is to support the achievement of the objectives of the Bank by providing a consistent approach to the management of the universe of risks that UKIB faces.

Risk Management Strategy

The risk management strategy is to establish and embed a risk management framework to enable the risks to the Bank's objectives to be managed in as simple and as effective a way as possible. It will foster a risk-aware culture and provide the necessary reporting to provide assurance that key risks are managed within the appetite set by the Board.

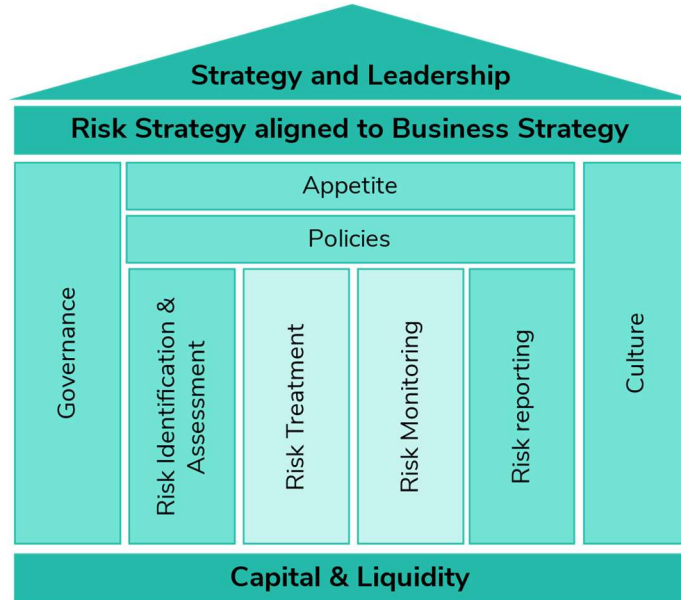
The Risk and Compliance function will achieve this through facilitating and overseeing the management of risks associated with the activities that the Bank undertakes and the products and services it provides to its customers.

The risk management strategy components are derived from and are in alignment with government guidance and standards for a public body, including Cabinet Office functional standards and Treasury's Orange Book guidance on risk management. The Risk Management Strategy and Framework will be subject to regular Internal Audit review in line with Internal Audit good practice.

Risk Management Framework

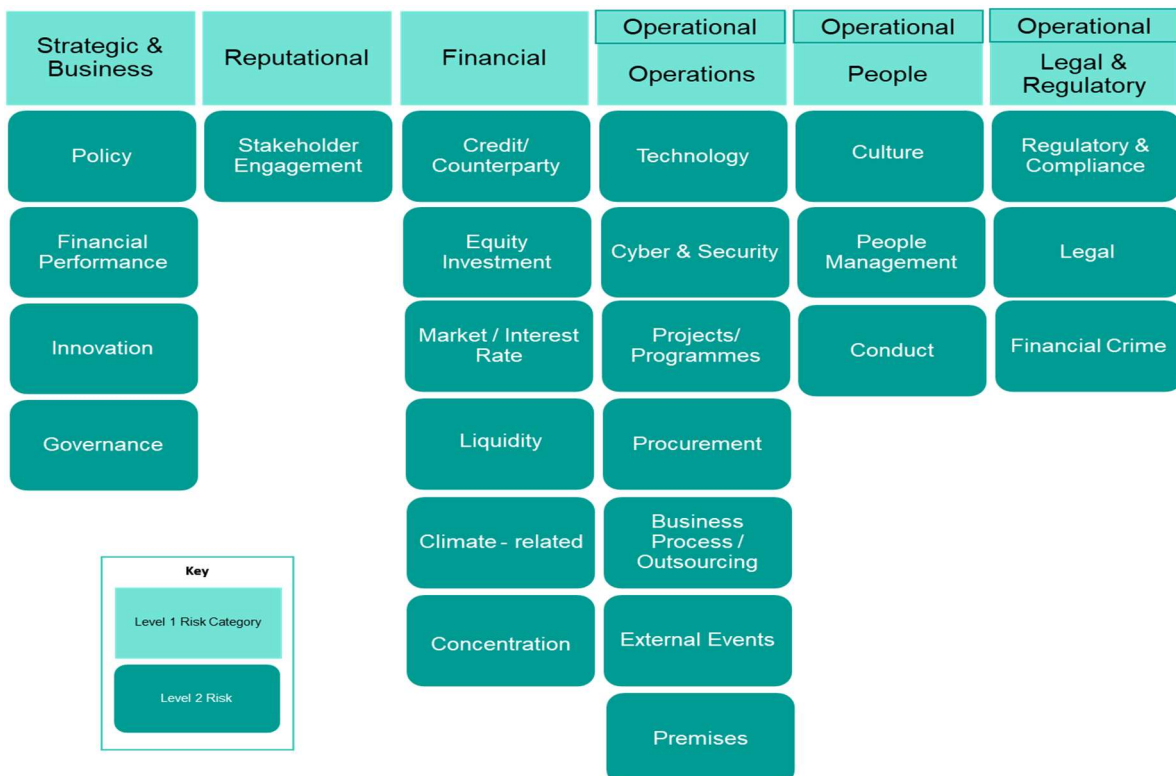
Framework overview

The ERMF supports the consistent and robust identification and management of opportunities and risks across the Bank. It can be summarised by the following diagram.



Risk Taxonomy

The risk taxonomy outlines the key areas of risk that the Bank is exposed to: six higher, level one risk categories and 24 level two sub-categories (see below). For the key sub-categories of risk, the Board sets a risk appetite that determines the boundaries that should not be exceeded. Within those categories, specific individual risks can then be identified, assessed and managed at a granular level on the Bank’s corporate and functional risk maps and registers.



Risk Category	Definition
Strategic & Business	Strategic & Business risk relates to threats that may inhibit the delivery of the Bank's business strategy. Strategic & Business risk can also arise from setting an inappropriate strategy, unclear plans, priorities or accountabilities.
Reputational	The risk of damage to the Bank's reputation from adverse events, poor execution, or repeated failures. This includes stakeholder engagement risk.
Financial	Financial risk comprises market risk (including interest rate risk), credit risk, equity investment risk, liquidity, counterparty and climate-related financial risks. These component risks may result in poor returns from investments, failure to manage assets/liabilities or to obtain value for money from the resources deployed, thus constraining the Bank's balance sheet. Failure to manage financial risks within approved appetite could trigger breach of other key risks including Strategic & Business and Reputational.
Operational - Operations	Operational risk is the risk of loss (or gain) resulting from inadequate or failed internal processes, people and systems or from external events which impact the operations of the Bank.
Operational - People	The risk of failure to attract and retain suitable and sufficient resource to achieve the Bank's objectives and to build a positive culture.
Operational - Legal & Regulatory	The risk of breaching laws and regulations, breaching contracts, and the potential for legal disputes. This category includes the risk of the Bank's services being used for money laundering or terrorist financing, and the risk of fraud against the Bank.

Governance, Roles and Responsibilities

Oversight

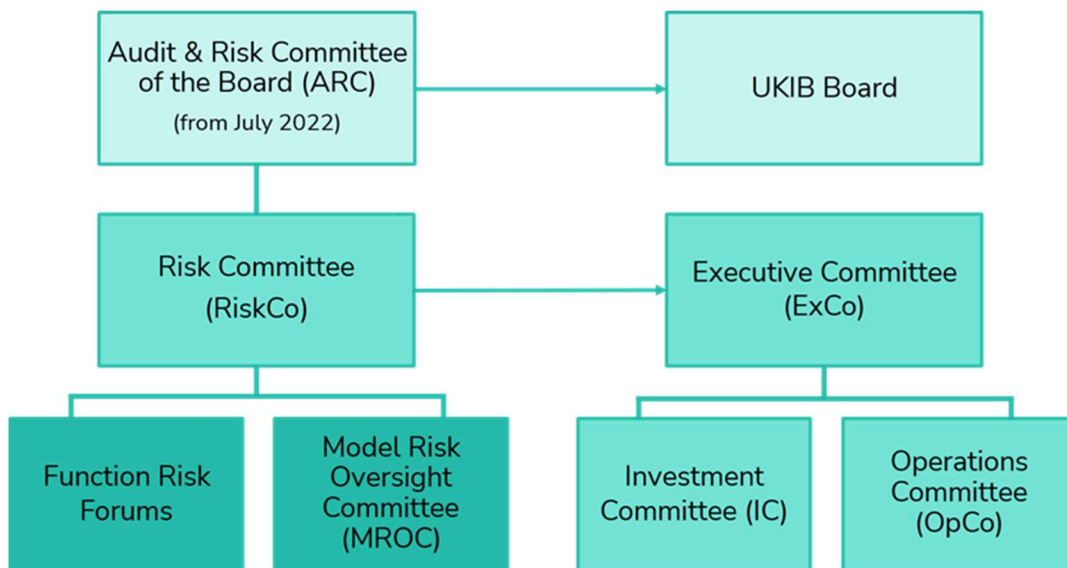
The Board is responsible for the effective management of risk. The setting of risk appetite and the approval of risk management policies are matters reserved for the Board. The Audit & Risk Committee of the Board oversees the key risks and provides advice and challenge to the reporting of risks, controls and actions to manage risk within Board risk appetite.

The Risk Committee (“RiskCo”) is a sub-committee of the Executive Committee (“ExCo”). It is responsible for reviewing the risk management strategy and frameworks, risk profile, and risk appetite on behalf of the ExCo, which may direct further risk-taking or greater mitigation of risk exposures. ExCo may also endorse risk acceptances within defined limits.

ExCo also has other sub-committees such as the Investment Committee, the Model Risk Oversight Committee and the Operations Committee which are governance forums for their respective areas.

Other risks not having separate governance committee arrangements are discussed in the RiskCo and escalated if necessary.

Committee Structure for Risk Management



The Three Lines of Defence

The Bank operates a three lines of defence model whereby:

- The first line of defence has direct accountability for risk decision-making and risk management, implementing and managing appropriate controls and escalating matters proactively to the second line promptly when needed.
- The second line is responsible for both facilitating the risk management process and providing oversight and challenge to the effectiveness of risk decisions taken by management.
- The third line of defence is the independent assurance provided to the Audit & Risk Committee by Internal Audit.

The ownership of risks and controls lies with the first line of defence. Colleagues in the first line are responsible for identifying, assessing, measuring, treating, monitoring and reporting on risks to the achievement of the Bank’s objectives and purpose. The second line sets the framework and

methodology to be followed. It then guides and coaches the first line in the performance of its responsibilities, facilitating the processes, providing oversight that they are happening appropriately and efficiently, and providing challenge to test the quality and robustness of first line risk assessments, controls, and actions.

UKIB maintains an internal audit function that constitutes the third line of defence and that reports to the Audit and Risk Committee of the UKIB Board. It reviews the risk management framework on a regular basis as well as performing detailed reviews of specific areas of risk in line with the internal audit plan approved by ARC.

Risk Appetite

The Board has set the risk appetite for UKIB. A risk appetite statement articulates the level of residual risk that the Bank is willing to take or tolerate in achieving its Strategic Objectives.

The overarching risk appetite is stated as follows:

“We will take the risks necessary to achieve our policy ambitions, the required financial return and impact outcomes as defined by the shareholder. We will do this within the constraints of being a publicly owned arm’s length body.”

The above statement is further clarified by a suite of risk appetite statements, one for each significant level two category of risk that the Bank faces. For each risk appetite statement, there are measures that monitor adherence to the Board’s risk appetite with thresholds indicating at what point the Bank is operating outside of each respective appetite statement and where immediate action may be required. Adherence to risk appetite statements is monitored and reported monthly via a suite of Key Risk Indicators to RiskCo, ExCo, ARC and the Board. The shareholder will receive reporting on adherence to risk appetite as part of the Quarterly Shareholder Meeting, however UKIB will report any incidence of a breach to UKGI/HMT as soon as practicable after internal escalation.

Risk Culture

The Bank is consciously building its own unique culture, a combination of public and private sector ways of working, with responsibilities aligned to the FCA Senior Managers & Certification Regime and FCA Principles as considered applicable, as well as the Orange Book. These clarify responsibilities for managing and overseeing risk and for providing independent assurance. UKIB expects that management and all employees understand and champion both the basis for risk management and the operating practices laid out in the ERMF.

UKIB aims to build a risk-aware culture by designing and embedding good practice risk management through communication and training regarding the Bank’s strategy and activities. A key part of this is to establish ownership of risks and controls across the Bank and the ability of staff to escalate matters without fear of any adverse consequences.

Training and Awareness

Training in risk management concepts underpins the effective management of risk. A training needs assessment will be performed to identify the training needs (for example on risk management, controls, risk system etc). As part of the needs assessment, the most appropriate way to deliver the training is also considered. Awareness is maintained by raising issues and imparting relevant news as part of the Bank's weekly communications.

Prudential Oversight

The Bank will retain sufficient risk-bearing capacity so as to constitute a remote ongoing risk exposure to the Shareholder. It will ensure this by conducting stress testing to estimate the expected decline in the amount of capital and liquidity at a specified confidence level within a chosen time horizon. This would help demonstrate UKIB's liquidity and capital remains sufficient in severe yet plausible scenarios, results of which will be reported to the Shareholder annually.

Risk Data and Management Systems

UKIB acknowledges the importance of ensuring that accurate data underpins the quality of risk management decision-making. The Bank has procured a central Risk Management System ("CAMMS") owned by the Head of Operational Risk. CAMMS meets the needs of the Bank today and is scalable for future needs. It will be the vehicle through which risk capture, risk monitoring and risk reporting is delivered.

Environmental, Social, Resilience and Governance

The Bank's Strategic Objectives of helping to tackle climate change and supporting regional and local economic growth are aligned to managing Environmental, Social, Resilience and Governance ("ESRG") risk. Meeting those objectives will primarily be achieved through the lending and investment decisions UKIB makes. UKIB has an Impact Framework to assess both the opportunities and risks of any potential investment, including ESG screening. In addition to effective investment the Bank must also manage the impact of its day-to-day operations on the environment.

UKIB will report on its climate-related financial risks in line with the Taskforce on Climate-related Financial Disclosures.

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