Annual Report and Accounts 2022

The Scottish National Investment Bank plc

Company number SC677431

Annual Report and Accounts
2022

Contents

Scottish National Investment Bank plc is wholly owned by Scottish Ministers
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Image above: Talmine, Sutherland
Cover image: Balmedie Beach, Aberdeenshire

The Bank's Vision

To be a perpetual investment fund for Scotland that has a greater than £2 billion mission aligned investment portfolio demonstrating economic, societal and environmental returns. An established, regulated financial institution that is managing and leveraging third party capital having demonstrated a path to new markets and technologies.

Scottish National Investment Bank plc (the Bank) provides investment to support growth in the Scottish economy by investing in innovation and accelerating the move to a net zero emissions, high tech, connected, globally competitive and inclusive economy. In addition to delivering mission impacts, the core principles of its investment strategy are:

- The Bank will seek to invest in projects or businesses requiring up to £50 million of investment to support their growth or development
- Investment may take the form of debt, fund or equity investment
- The Bank will be a patient investor, providing long-dated investment to businesses and projects connected with Scotland
- The Bank will seek to generate commercial returns on its investments to support the Bank becoming financially self-sustaining
- In the longer term, it is intended that both profit from the Bank's investment activities and repaid capital will be reinvested in businesses and projects across Scotland to create a perpetual investment fund for the Bank's Shareholder on behalf of the people of Scotland
- It will seek to attract private sector funds to co-invest alongside its public sector capital

Performance Highlights

Financial Highlights

Ramping up of investment activity with investment capital deployed of

£129.3 million

in the year

(2021: 4 month period: £22.9 million)

Successful build of the Banks's team with

61 employees

at 31 March 2022

(31 March 2021: 30)

Accelerated income generation of

£1.9 million

in the year

(2021: 4 month period: £0.4 million)

Portfolio Highlights

100%

of the businesses and projects directly invested in follow Fair Work First principles

30 R&D partnerships reported across the portfolio – with 36 patents granted in reporting period

57%

average supply chain spend

of investee companies which flows to other companies having a presence in Scotland

99%

of homes built through Bank investment to date are rated EPC – Energy B

£439.8 million

committed alongside Bank investments since launch

Staffa, near Isle of Mull

Strategic Report

"The Bank has demonstrated its ability to be a catalyst for private investment into businesses and projects aligned to its missions, committing £141.9 million of investment in the year, and establishing the Bank as a credible financial institution within Scotland's finance community."

Sarah Roughead
Interim Chief Executive Officer

Chairman's Statement

The Bank was established in November 2020 to focus on three grand and inter-related societal challenges faced within Scotland – the climate emergency, place-based inequality and innovation challenges. Since then, it has become clear that these issues have only become more significant. The economy has changed dramatically in less than two years since our launch, with global events causing an unprecedented squeeze on living standards due to high inflation, and the continuing urgency of the climate emergency, an unprecedented situation exists which we must work hard to address.

The Bank is playing its part in this through the adoption of our missions – Net Zero, Place and Innovation – and has started to deliver towards its high aspirations in this, its first, full financial year. The Bank is a young business and it is also highly ambitious – our long-term investment in businesses and projects that have, at their heart, a focus on these missions will, in turn, contribute to a prosperous, fairer and greener Scotland. The Bank is aligned with the Scottish Government's National Strategy for Economic Transformation (NSET) and its ambition for a more productive and innovative Scotland. This has been a year in which investment activity has ramped up and tangible impacts are manifesting themselves with our portfolio. Our role is not to displace private sector investment, but instead to crowd in private capital. We act as a catalyst to encourage investment in businesses or projects in the private and third sector in which it may otherwise be challenging to obtain funding. These businesses make a valuable contribution to tackling the societal and environmental challenges that Scotland faces.

In order to act as a catalyst for investment, we must show that commercial returns can be made through these investments to enable us to build a perpetual fund for Scotland, reinvesting returns that we make into other businesses and projects. We may not make a return from every investment, given our higher risk appetite as a development bank – that is entirely normal – but any risk we take is based on the measured judgement of our team of expert investors, who are driven by the strong sense of purpose we have as a mission focused organisation, supported by our experienced and independent Board. Importantly, every business and project in which the Bank invests will enable non-financial mission impacts to be delivered alongside expected commercial returns. It is also important that net returns across the whole portfolio are positive, allowing the Bank to demonstrate appropriate stewardship of public capital.

We are a non-political organisation that is operationally independent of the Scottish Government. We take all our own investment decisions and as Chair and as a Board we are responsible for the decisions we make. The missions were set with cross-party support and we continually seek to engage with a broad range of stakeholders across political, corporate and civic Scotland to understand and influence policy as it relates to our missions, and the economy and environment in which we are working. Our relationships with the enterprise agencies are important, and we have worked to build these relationships during the year. Our visibility within the business and investment community needs to continue to develop, and we will be focused on this in the next year to ensure we can support growth in Scotland. Key engagement themes relate to:

- the investment and capability building around business scale-up for small and medium-sized enterprises (SMEs)
- ensuring Scottish businesses harness the supply chain opportunities provided by Scotwind
- creating investable opportunities within the decarbonisation of heat, which is an under invested and vitally important element of the journey to Net Zero

Our vision for 2030 is to be a perpetual investment fund for Scotland that has a greater than £2 billion mission aligned investment portfolio demonstrating economic, societal and environmental returns. An established, regulated financial institution that is managing and leveraging third party capital having demonstrated a path to new markets and technologies. This year we will be working to shape our vision for 2030 so that we can continue to build the foundations for the business we want to become.

Finally, I would like to give my heartfelt thanks to the team of passionate individuals who work at the Bank and record my thanks to the Bank's first CEO, Eilidh Mactaggart, for the contribution she made to the successful launch during her tenure. I would also like to express thanks to Sarah Roughead who has stepped into the CEO role very successfully. Building an organisation that has such an important role to play is no mean feat, and since the launch of the bank we have recruited an energetic and highly professional team who are doing their best work against a difficult backdrop, in a start-up development bank launched during a pandemic. I have personally taken great pleasure in seeing the evolution of the Bank to this stage. We look forward to growing our investment portfolio and mission impact.

Willie Watt
Chairman

Chief Executive Officer's Review

The Bank has successfully laid excellent foundations to enable the delivery of its missions. The Bank has continued to build its team and embed its operations against a backdrop of continued uncertainty and disruption caused by the COVID-19 pandemic, and it has been a huge achievement to recruit a diverse, talented team, increasing from 30 to 61, all of whom are aligned with the Bank's missions and are passionate in achieving great outcomes for Scotland.

The Bank has demonstrated its ability to be a catalyst for private investment into businesses and projects aligned to its missions, committing £141.9 million of investment and leveraging a further £327 million in the year, establishing the Bank as a credible financial institution within Scotland's finance community. Even more importantly, these investments are taking us closer towards our ambition of supporting the development of a fairer, more sustainable economy through long-term investment in Scotland.

Missions and Impact

The Bank's three missions are more important than ever.

COP26 increased focus on the global climate emergency and enabled the Bank to lead discussions on the role of development banks in supporting the just transition to net zero. The Bank considers its Net Zero Mission as a common theme across all its investments, and as such will continue to take climate change into consideration in every investment. The Bank's £30 million investment in Aberdeen Harbour during the year is a good example of this, strengthening Aberdeen's position as a key hub for the UK's large-scale energy transition efforts.

The Bank has invested diversely in different sectors and geographies across Scotland. Our investments in Highland Coast Hotels and Lothian Broadband Group show the contrasting types of companies the Bank is supporting, and how investment can increase equality of opportunity for people and communities across Scotland.

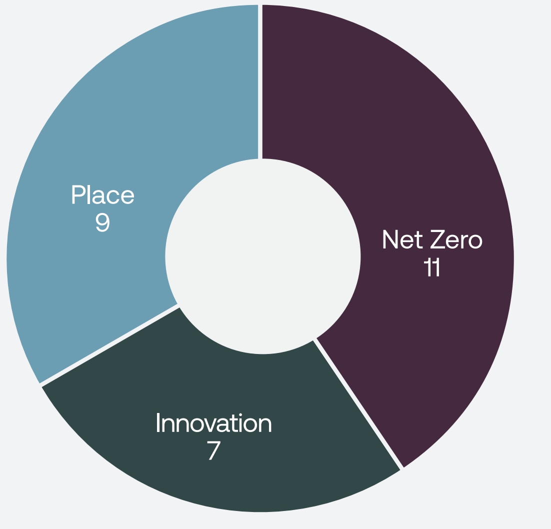
The Scottish Government's recently published National Strategy for Economic Transformation underlined the importance of developing Scotland's entrepreneurial ecosystem. The Bank's investments to date have demonstrated its ability to contribute to that development, as its Innovation mission is explicitly designed to support a more productive and innovative Scotland. The Bank's investment in IndiNature, as an example, enables scale-up of production at a new manufacturing facility in Jedburgh, creates new long-term jobs and scales its innovative product range, which in turn contributes to additional growth in the Scottish economy.

The Bank has developed its approach to supporting the advancement of equality, diversity and inclusion. We have prepared our initial Equality strategy, which we will continue to enhance in years to come, as we are able to increasingly influence and encourage the Bank's investments to consider equality, diversity and inclusion as important factors in growing their businesses. The Bank will determine clear measurement targets over the next year so that it can demonstrate ongoing progress.

Investment and financial performance

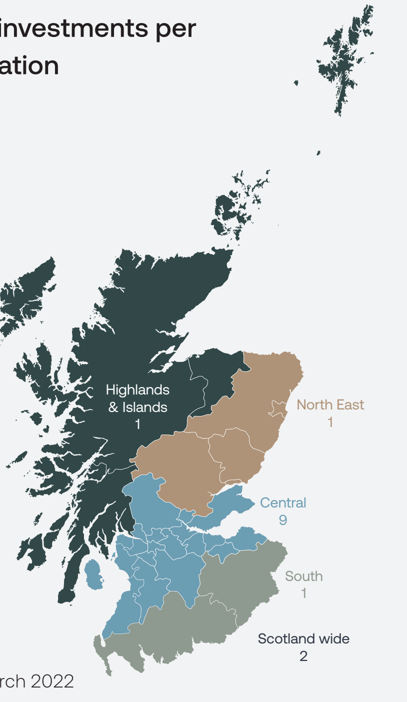
The Bank is ramping up its investment activity having committed £141.9 million investment in the year in 12 businesses and projects in Scotland and across all three missions. The deployment of £129.3 million of investment capital in the year has strengthened the Bank's balance sheet; increasing net assets from £31.4 million to £165.4 million at year end. The Bank's investments range from £1 million to £50 million, and differ in investment type – debt, equity and fund investments. This mixture of investment type demonstrates that there is both diversity and volume of opportunity for the Bank to consider in mission aligned commercial investment.

Number of investments by mission alignment (primary and secondary)



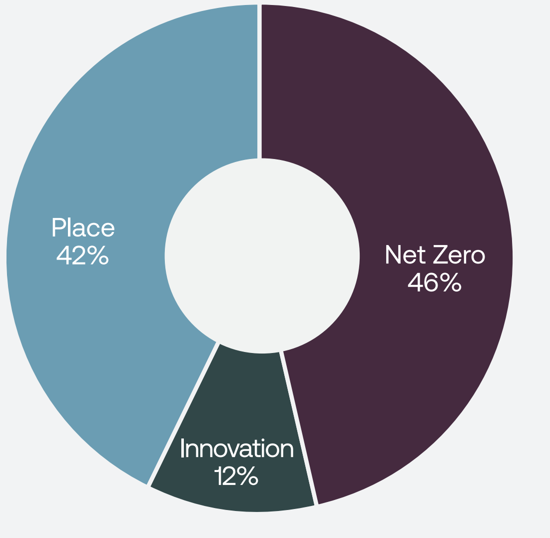
Correct at 31 March 2022. Some investments are aligned to two or even three missions, hence total exceeds number of investments.

Number of investments per primary location



Correct at 31 March 2022

Committed investment by (£) mission alignment (primary and secondary)



Correct at 31 March 2022

Chief Executive Officer's Review continued

Significant recruitment was undertaken in the year to build capacity of the investment team and the Bank has been committed to establishing an investment pipeline and portfolio of the right quality and mission alignment. This, together with embedding professional investment processes and ensuring compliance with State Aid obligations, is testament to the hard work of the team. The Bank is in good stead to further deliver mission aligned investment in the year to come as a result.

All investments have been made on a commercial basis as a cornerstone investor or funding investment gaps due to complex risk profiles, unproven technologies or in new markets. The Bank increased investment income to £1.9 million from £0.4 million in the year taking its first steps towards financial self-sustainability and demonstrating the Bank's ability to act commercially. The Bank has co-invested alongside a broad range of private sector investors, acting as a catalyst to leverage additional capital. It is widely recognised that this additional private capital is necessary to address the grand challenges facing Scotland, to which the missions of the Bank contribute.

As a development Bank, we are required to take increased risk with investments to prove the commercial viability of new markets and technologies, or to bridge an investment gap where the risk is perceived to be too high for private sector investors. Whilst the increased risk is compensated for through the potential increased returns, there will inevitably at times be businesses or projects that fall below expectations in terms of investment return. An unrealised loss of £3.4 million has been recognised in the year, largely due to the early valuation profile of fund investments where unrealised losses are entirely expected followed by capital appreciation in latter years. In respect of the investments that have been made to this point, the portfolio is performing in line with expectations and we look forward to working closely with the portfolio to enable growth and impact.

The Bank's increasingly positive reputation and external engagement activities over the year led to significant levels of inward enquiry, and we therefore have a healthy pipeline of opportunities. In the next year, we will also be taking an increasingly active investment origination approach, while continuing to encourage inbound enquiries. I am pleased to note this momentum has been realised in our expanding portfolio in FY22/23.

Recent global events are already impacting, and will continue to impact, significantly on the Scottish economy. Specifically, the Bank has put in place processes for assessing exposures of its investments, pipeline and partners to emerging risks. The Bank is mindful of the implications of these events and others, including recent inflationary rises, on the Bank's investment portfolio and pipeline, and will seek to monitor closely and address issues early.

The Bank is committed to becoming financially self-sustaining whereby operational costs of the Bank will be covered by investment income on a cash basis in the business plan period. This has been a year of continued build and recruitment and as such administrative costs increased from £2.9 million to £9.7 million, reflecting not only the full year equivalent of costs for the part prior period but the size of the Bank required to deliver its high ambitions. The Bank has developed a culture of financial prudence and seeking value for money, allowing the Bank to achieve savings to budget in the year.

Ecosystem Engagement and Insights

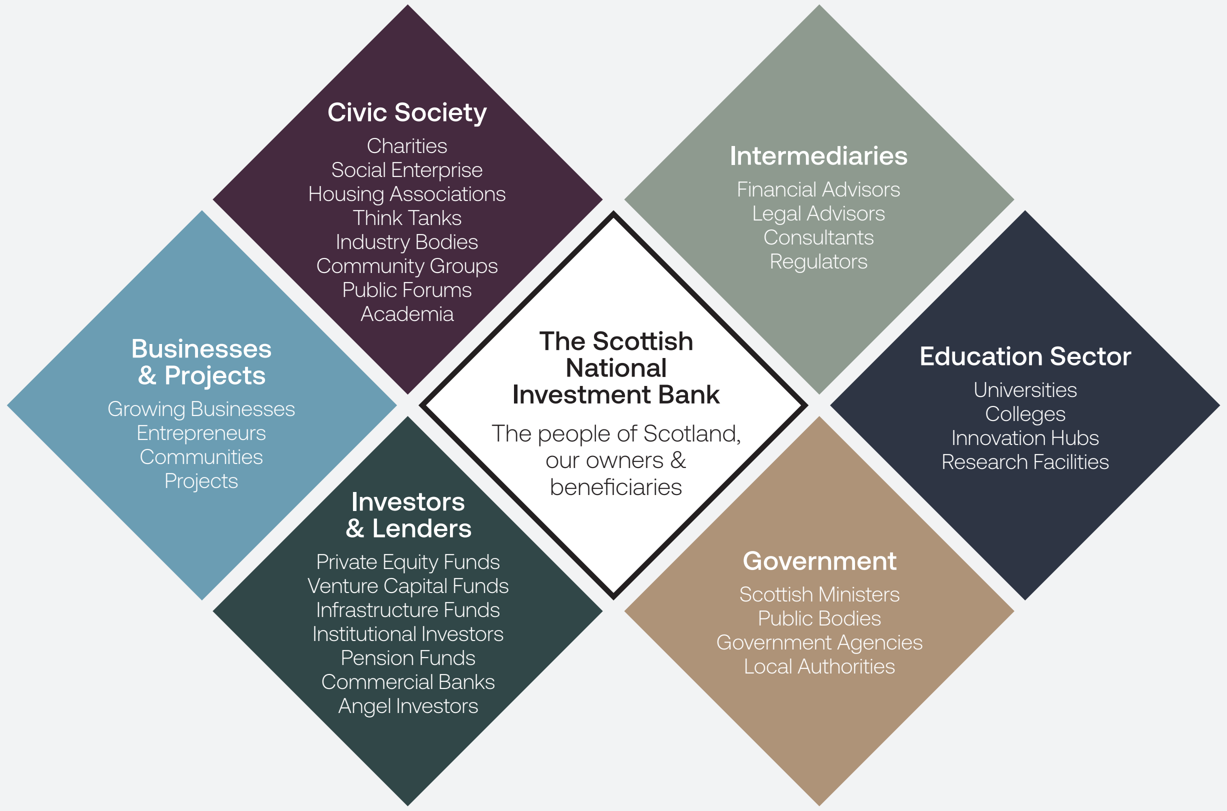
Building awareness of the Bank and its remit has been a priority in this financial year. A significant number of engagement events were undertaken with the Bank's many stakeholders, and work done to establish relationships with partners across the public and private sector. The Bank is benefitting from these interactions, with over half the investment pipeline sourced as a direct result and having worked with a variety of co-investors to leverage in private capital on completed investments.

Hosting 'Development Banks and Green Finance for a Just Transition' at COP26 was a highlight of the Bank's engagement. It presented an opportunity to highlight the importance of the Bank's missions and the need to work collaboratively across the financial ecosystem, from enterprise agencies to private investors. Speaking with a series of global development banks and attending 35 events further highlighted these messages and built global relationships from which the Bank will foster and gain insight.

Part of the Bank's engagement strategy is to develop insights into new markets and technologies and build understanding about the societal challenges that are at the core of the Bank's missions. The Bank developed eight research pieces in the year, exploring topics ranging from the retrofit challenge to hydrogen SMEs; and in the coming year we will publish thought pieces to engage debate and give insight.

As our portfolio and networks grow, the Bank aims to offer deeper insights, working as a conduit between both policy makers and business leaders, and this, together with continuing to increase awareness of the Bank in the wider ecosystem, will be an area of focus for next year.

Stakeholders



Chief Executive Officer's Review continued

People and Culture

At the heart of any successful organisation is its people, and we are privileged to have a passionate, diverse, and purpose driven team. Beyond recruiting a team of talented individuals in the year, the Bank has developed its initial Equality strategy, which includes commitments with regards to its own employment practices. We have welcomed the opportunity to align our employment practices with the Fair Work principles, which gives opportunity for effective voice, development and wellbeing to our team.

Establishing effective employee voice channels has been a priority, including the creation of a 'Team Voice' representative forum, and active engagement with the growing Bank team through pulse surveys. The team voice forum has enabled employees to explore topics such as preferred hybrid working practices, team learning and development and wellbeing plans, and it provides valuable insight as the culture of the Bank develops. The team defined its values during the year, and these are demonstrated in our interactions both internally and with the Bank's external stakeholders.

Our Values

Governance and Risk

The Bank made considerable progress over the year towards achieving the desired FCA regulatory status to support the Bank's future growth, and will progress this further in the short term. A robust risk management framework and all essential policies and procedures have been developed and refined in the year.

Internal audit provided critical independent review of the Bank's processes and controls, and the Bank established its own IT infrastructure and operating platform, which was delivered both on time and within budget.

Outlook

Reflecting on the past year, what I have seen is a shared ambition and excitement, from a variety of stakeholders, in supporting the Bank in delivering its missions. I have been impressed by the commitment and passion of the team who will, I am sure, make the Bank a leading voice in the Scottish financial ecosystem. In the year ahead the Bank will have an increased focus on active origination, look to be progressive in applying its equality and impact reporting measures, and report insights widely.

The Bank was ambitious in its objectives for its first full financial year and I am proud of what the team has achieved. I would like to take this opportunity to thank them. The infrastructure we have put in place will support the development of the Bank as a financially self-sufficient, perpetual investment fund for Scotland. The Bank is well positioned to achieve its strategic objectives and to continue to deliver environmental, social and financial returns for the people of Scotland.

S. Roughead

Sarah Roughead
Interim Chief Executive Officer

The Bank's Business Model

The Bank is Scotland's first development bank. Its aims are to deliver patient, mission impact investment to support the development of a stronger, fairer and more sustainable Scottish economy.

Bank Structure

The Bank has been established and funded by the Scottish Government on behalf of the people of Scotland. Development banks typically seek to invest where this investment can make a meaningful contribution to the development of a country's economy. The Scottish National Investment Bank's approach is to target its patient capital commercial investment into businesses and projects that align with its missions and where this investment can lead to further investment from other sources such as private sector finance.

The Bank is a non-departmental public body (NDPB), an organisation wholly owned by the Scottish Government but which is not a government department and which operates independently from Scottish Ministers. The Bank has ambitions to become a public corporation which, amongst other considerations, manages third party capital and is financially self-sustaining.

The Bank is in the unusual position of being both a public body and an unlisted public limited company (plc) and therefore has the reporting requirements of both the Scottish Government and a non-publicly traded company. The Bank has three legal entities in its structure: The Scottish National Investment Bank plc, a holding company for the group; Scottish Investments Limited (SIL), the company through which all investments are made: and Scottish Investments Services Limited (SISL) the operational services company to the group.

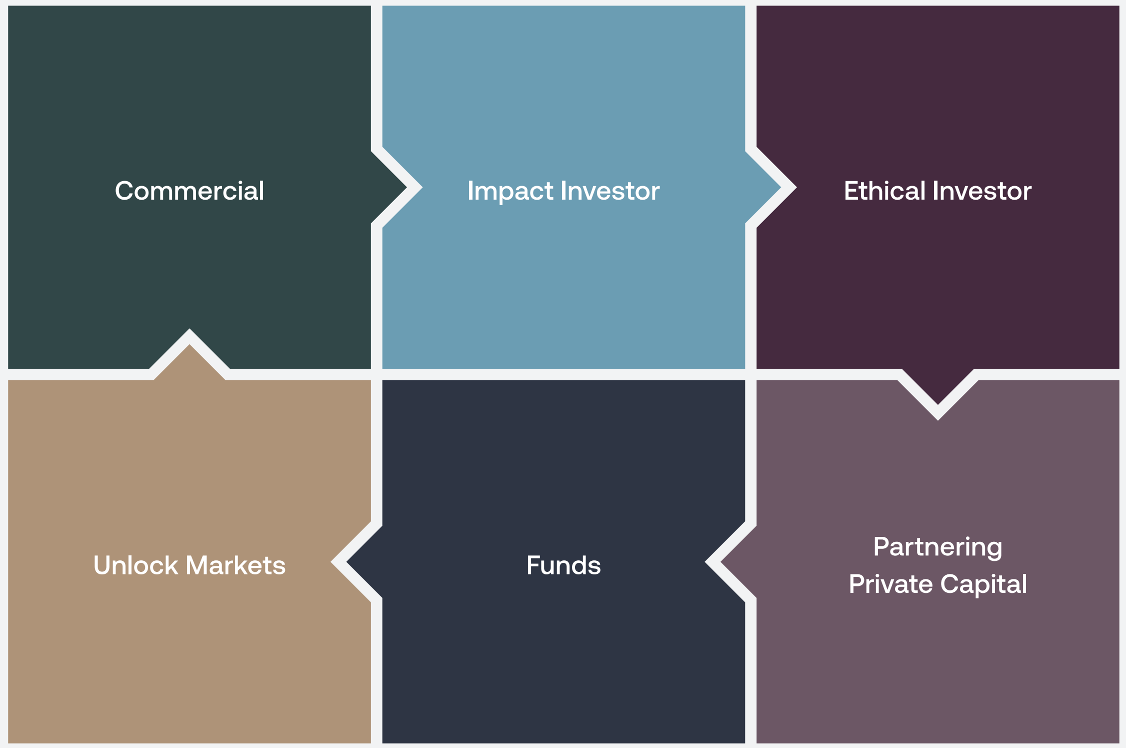
In setting the Bank's strategic missions, it was recognised by Scottish Ministers that the financial and non-financial returns from the Bank's investments will be achieved over the long term, reflecting the nature of its missions. Therefore the Bank's investment activity is designed to provide both a commercial return to its Shareholder, on behalf of the people of Scotland, as well as the social, environmental and economic returns delivered by its mission impacts.

Investment is the primary method the Bank will use to deliver on its missions. We will also seek to influence policy around our missions. This will be complemented by delivery of thought leadership and insights on topics relevant to the Bank's missions and its investments. These insights will support the Bank as a conduit between the public and private sector.

The Bank will work alongside private, public and third sector partners and will seek to attract private sector funds to co-invest alongside its public capital wherever it can. The Bank's missions provide a clear long-term strategic direction for its investment activity.

The Bank's Missions

What the Bank does:



Strategic Objectives and Key Performance Indicators (KPIs)

The Bank's strategic objectives seek to build the foundations of the perpetual institution that the Bank aspires to become: an institution providing investment to support the creation of a fairer, more sustainable economy in Scotland.

1. Missions and Impact	2. Investment and Financial Performance	3. Ecosystem Engagement and Insights	4. People and Culture	5. Governance and Risk

The Bank's objectives in these respects are complementary and mutually reinforcing. Delivering progress in each area is important to ensure that the ambitions of the Bank to deliver against its missions and to become a perpetual investment institution in the Scottish economic landscape are realised.

1. Missions and Impact

The Bank's ambition is to support Scotland in addressing three grand challenges facing Scotland – climate emergency, place-based opportunity and demographic change – through the missions it has been set:

- **Achieve a Just Transition by 2045** - Invest in rebalancing our economy towards leadership in sustainable technology, services and industries.
- **Extending equality of opportunity through improving places by 2040** - Invest in places and regeneration to reduce inequality, and improve opportunities and outcomes for people and communities.
- **Harnessing innovation to enable Scotland's people to flourish by 2040** - Invest in innovation and industries of the future for a healthier, more resilient, and productive population.

The Bank seeks to make positive mission impacts in all its investments. As such, it will focus on ensuring that it not only delivers a commercial return on its investments, but that its investments will deliver positive social, environmental and economic impacts.

Evidence (and attribution) of impact will become evident in the longer term and investment impact will be demonstrated through regular publication of impact data and investment case studies.

The Bank will help drive positive change and embed a culture within the Scottish investment community that values equality, diversity and inclusion, and the creation of high-quality fair employment.

Strategic impact objectives and KPIs linked to each of the Bank's missions are detailed on pages 27 to 29.

2. Investment and Financial Performance

The Bank has been established to invest in commercially viable businesses and projects that support the delivery of the Bank's missions and help to build a fairer and more sustainable Scottish economy. In addition to delivering socio-economic returns, the Bank invests to achieve returns from capital appreciation and investment income, including fees, interest and dividends.

The Bank will seek to act as a catalyst for private investment into businesses and projects aligned to the Bank's missions, creating a multiplier effect of the Bank's capital and investment into Scotland as a whole.

The Bank's strategic objectives are to:

- Commit over £2 billion of mission aligned investment that is actively managed to best support its investee companies through their growth and development
- Recycle investment returns and profits in the next generation of business and projects, creating a perpetual institution
- Become financially self-sustaining whereby investment income covers all operational costs on a cash basis
- Manage and leverage third party capital as a regulated institution to further enhance the impact of the Bank

3. Ecosystem Engagement and Insights

As a public development bank, the Bank occupies a privileged position. Its ecosystem spans both the public and private sectors, as well as the third sector, academia and organisations that can influence policy and public opinion such as think tanks. Therefore it is crucial that the Bank works effectively across this broad community.

The Bank's strategic objectives are to:

- Be a trusted partner in the investment ecosystem
- Have a positive reputation as a collaborative partner
- Be recognised as a valuable source of thought leadership offering insights to market, policymakers and regulators

Strategic Objectives and Key Performance Indicators (KPIs) continued

4. People and Culture

The Bank is committed to promoting equality through its own employment practices and has welcomed the opportunity to align our employment practices with the Fair Work First principles, which gives opportunity for effective voice, development and wellbeing to our team. The Bank's first Equality Strategy will be published in 2022 and will include its approach, policies and processes as an employer.

In making its investments the Bank will seek to promote and encourage the businesses and projects it invests in to consider equality and diversity in their employees and boards. The Bank will also seek to contract with suppliers that are aligned with the Bank's missions and demonstrate that they promote equality, diversity and inclusion.

The Bank's strategic objectives are:

- To be a role model for achieving Equality in Scotland and making positive impact through its Equality Strategy
- To be a great place to work and is able to recruit and retain the skills and expertise needed to deliver its missions through lived values and purpose.

5. Governance and Risk

Realising the Bank's ambition to become a key part of the economic landscape will require it to continue to develop and build the trust of its ecosystem. Continuing to deliver a high standard of governance is crucial to establishing the Bank as a credible, risk-aware and regulated institution.

As a financial institution, the Bank's risk, governance and compliance frameworks are critical. The Bank assesses its future risk to success and achievement of its strategic objectives through its Risk Management Framework set out on page 62.

The Bank's strategic objectives are:

- To be a regulated entity that is governed and has the reputation of a trusted, credible, financial institution
- To have a robust infrastructure of risk, controls and processes and to embed and promote a risk aware culture throughout the team.

The focus for this financial year has been to build on the foundations laid by the Bank in its inaugural year, demonstrating clear progress against its medium term strategic objectives. This was achieved through producing an aligned set of challenging operational objectives and targets in agreement with the Board. Progress against these is reported in the form of a balanced scorecard as set out in the Shareholder Relationship Framework Document and The Scottish National Investment Bank Act 2020. Progress has been categorised in this financial year using the following range:

- Strong Progress
- Good Progress
- Satisfactory Progress
- Progress Required

On this basis, the Bank has critically evaluated its progress against strategic objectives as shown in the next section.

Balanced Scorecard

The Bank has designed a balanced scorecard that demonstrates the economic, social and environmental impacts it is delivering for Scotland. It is recognised that delivering these objectives requires a strategic and long-term approach. The ambition for the balanced scorecard goes beyond measuring investment impact, as it provides a set of measures of progress across the Bank's wider operations, both financial and non-financial. The Bank will report regularly on its investment activities, the delivery of its missions and its contribution to the advancement of equality and diversity in Scotland. The balanced scorecard provides a framework for reporting on progress against the Bank's strategic objectives and, on an annual basis, measures performance against corporate objectives.

Balanced Scorecard continued

Balanced Scorecard FY21/22

Mission and Impact

Performance: **GOOD**

Performance indicators:

- Recruitment of experienced impact investment team
- Investments enable and demonstrate delivery of Bank's missions
- Develop Bank's Gender Equality Strategy
- OPIM and IRIS+ embedded, and non-financial reporting delivered
- Mission-level KPIs agreed and investment team processes in place
- Impact data received from investee companies
- Mission Report published
- Bank reports Scope 1 and Scope 2 GHG emissions

In FY21/22 the Bank recruited its Impact Assessment and Reporting team and has established the processes and metrics by which these non-financial metrics will be defined and tracked for each investment. The impact of these investments will take many years to become evident in most instances, reflecting the fact that our missions have long timescales.

The Bank's mission report was published on 1 April and the Bank successfully measured and reported its Scope 1 and 2 GHG emissions. Whilst progress has been made, further work is required to embed OPIM and IRIS+ principles in the forthcoming year.

Balanced Scorecard FY21/22

Investment and Financial Performance

Performance: **GOOD TO STRONG**

Performance indicators:

- Capital committed across high quality debt, fund and equity investments
- Bank investments acting as a catalyst within the market
- Portfolio delivers commercial returns in line with budget and market factors
- Income achieved in line with budget; progress towards financial self-sustainability
- Costs managed appropriately and in line with budget
- Approval of Ethical Investment Policy

The Bank committed £141.9 million of investment and deployed £129.3 million; ramping up its investment activity and strengthening the Banks net assets from £31.4 million to £165.4 million in the year. Significant recruitment was also undertaken in the year to build capacity within the investment team. Whilst below the ambitious budget of £200 million set by Scottish Government the Bank was committed to establishing an investment pipeline and portfolio of the right quality and mission alignment and ensuring the Bank complied with its State Aid obligations throughout the year.

Embedding professional investment processes in the year has been critical to the Bank, particularly in its role as a development Bank where investments are likely to have higher risk profiles. These factors in addition to the bespoke nature and funding profile of each investment make annual investment budgeting a challenge. The Bank has been successful in acting as a catalyst to leverage in private capital on an investment-by-investment basis, with £327 million invested alongside the Bank during the year.

Portfolio management has been developed to actively manage and support the Bank's investee companies through their growth and development. This oversight includes regular meetings with management, monitoring and review of reports issued, and quarterly reporting to the Bank's Board.

The ethical investment policy was approved by the Board and the Annual Report and Accounts filed and laid before parliament. The Bank's financial performance is detailed on pages 54 to 59.

Balanced Scorecard continued

Balanced Scorecard FY21/22

Ecosystem Engagement and Insights

Performance: **GOOD**

Performance indicators:

- Successful engagement with both public and private sectors
- Awareness and understanding of the Bank enhanced through positive engagement with the media
- Growing and enhancing the Bank's reputation by the development of social media channels
- Developing Policy and Insights function, leading to initial 'Expert Insight' publication
- Develop Engagement, Marketing and Insights plan
- Information Publication Plan developed

In the year there has been a significant amount of capability establishment. The Bank has prioritised raising awareness and understanding of its activities amongst its ecosystem and has engaged extensively with its public sector partners in particular. This will support effective collaboration across the public sector and ensure the Bank can contribute its insights to policy and regulatory development.

The Bank will also look to widen and deepen its engagement across the private sector, building on the extensive engagement with businesses and projects through its investment origination function. The Bank will look to increase its engagement with industry on the barriers to investment and on emerging opportunities. The Bank will become more networked, as it looks to share its insights, learn from others, and collaborate more widely.

Balanced Scorecard FY21/22

People and Culture

Performance: **GOOD**

Performance indicators:

- Recruitment of Bank team
- Development of Internal Equality Strategy
- Bank's values are clear, communicated and embedded
- Effective employee voice channels in place

Since the launch of the Bank, we have recruited an energetic and highly professional team who are doing their best work against a difficult backdrop, in a start-up development bank launched during a pandemic. The Bank has focused on creating the right culture and values within its team to support the creation of a stable, trusted, long-term regulated institution supporting the Scottish economy. The Bank has established a number of initiatives to support the continued development of its team and to create an inspiring place for its team to flourish. Over this past financial year, the Bank has defined its Values, which are incorporated in all of its activities and which will be embedded in the next financial year.

These are:

- Missions at its Heart
- Passionate and Progressive
- Working in Partnership

The Bank is incredibly proud of the team it has established since its launch, in particular its overall gender balance and notably its Board and Executive Team, and of developing a diverse team of people.

Balanced Scorecard continued

Balanced Scorecard FY21/22

Governance and Risk

Performance: **GOOD**

Performance indicators:

- Control environment operationalised and reviewed
- Functional MI suite in place
- Authorisation and regulatory status
- Mandatory Risk and Compliance training delivered
- Risk Management Framework and Risk Appetite statements approved
- Investment risk monitored and evaluated

The Bank has created a robust infrastructure of risk, controls, processes and procedures, and will continuously improve and seek to reinforce these controls and continue to embed and promote a risk aware culture throughout the Bank's team.

In FY21/22 the Bank formalised its Risk Management Framework, developed an associated suite of MI and rolled out mandatory training as part of embedding a risk aware culture.

Progress has been made towards the Bank's regulatory authorisation, although submission to the regulator was not achieved in the year and is expected in FY22/23.

Milarrochy Bay, Loch Lomond

Impact Investing

Impact investing

Introduction

The Bank's missions have been designed to address the grand challenges facing Scotland – the climate emergency, place-based inequality, and demographic productivity change.

The Bank's investment focus is therefore on businesses and projects across Scotland that drive innovation to enable an economy that reflects 21st-century needs and demographic trends, accelerate the move to net zero emissions and reduce place-based inequality; investing capital to support a greener, more globally competitive and inclusive economy.

This section provides a summary of the Bank's approach to impact management and an overview of the Bank's impact performance for the 2021 calendar year as well as an outlook to the impact the Bank aims to enable in the future through its existing portfolio of investments.

The Bank's Impact Framework

Mission Impact

The Bank's missions offer a clear strategic direction and focus for its investment activity. They are outcome orientated and set out the impact that the Bank's investments are designed to enable over the longer term. The Bank has much to contribute but acknowledges the scale of the challenge and the need to work with broader investment community, public policy and finance, as well as third sector projects, to achieve necessary scale and impact.

In addition to its direct investment activity, the Bank also invests in private sector funds to deliver impact at scale and extend the reach of its impact in areas that may otherwise be difficult to penetrate or effectively manage due to the need for technical or specialist expertise. For example, the Bank is delivering Place Mission impacts through its investment in PfP Capital's Mid-Market Rent Fund (PfP), which enables people to remain within their communities more easily through the provision of affordable housing. Similarly, its cornerstone investment in the Gresham House Forest Growth & Sustainability Fund has enabled the Bank to support significant potential net zero impact (and broader natural capital benefits) in an area that requires niche and specialist skills to ensure effective investment management.

For the Bank, impact investing goes well beyond the more traditional Environmental, Social and Corporate Governance (ESG) risk management principles of 'do no harm' to proactively enable positive impact at an investment and ecosystem level through the way we invest and advise. All investments are assessed against financial returns and risk, including ESG, but critically against mission impact and additionality, ie, specific impact contribution that the Bank is enabling as an investor.

To support the development of an Impact Framework against which mission and wider impact performance can be determined, the Bank has distilled a set of Mission Impact Objectives for each of its three missions.

Net Zero

Mission	Impact Objective	Illustrative Key Performance Indicators*
Net Zero Achieve a Just Transition by 2045 Leader in sustainable technology, services and industries that specifically drive for less than 1.5^{C} warming / promote net zero	1. To catalyse investment in businesses and projects connected to Scotland that support the shift to a net zero economy and / or provide employment and training opportunities for those currently working in Greenhouse Gas (GHG) intensive industries. 2. To increase Scottish based expertise in technology, services and industries that: a) Accelerate decarbonisation. b) Mitigate climate change through capturing GHGs from the atmosphere. c) Ameliorate the effects of climate change. 3. To grow the circular economy within Scotland by 2045. 4. To ensure that the Bank's portfolio is net zero by 2045.	◆ GHG emissions ◆ GHG emissions mitigated / reduced / avoided ◆ Renewable energy generated for use / sale ◆ Energy conserved ◆ Waste reduced ◆ % Recycled materials

*KPIs will be determined on a case-by-case basis and directly linked to anticipated changes occurring as a result of Bank investment.

Impact investing continued

Place

Mission	Impact Objective	Illustrative Key Performance Indicators*
Place Place-based regeneration Reduction in inequality Improved outcomes for people and communities	1. To enhance the natural and built environment of Scotland through utilisation of undervalued space and the regeneration and restoration of built and natural environments (including use of natural capital and nature-based solutions). 2. To improve by 2040 physical and digital connectivity across Scotland to increase access to services (including health care and education), training and employment opportunities, and greenspace. 3. To increase the supply of high-quality affordable homes and support the transition to Net Zero for existing homes with corresponding sustainable infrastructure by 2040. 4. To invest in businesses and projects that promote high quality place-based employment and training opportunities. 5. To invest in businesses and projects that provide community benefit and support local supply chains.	◆ Measures to enhance the sustainability of affordable housing (for example energy efficiency, public open space and connectivity to broadband) ◆ Extent of brownfield land benefitting from uplift as result of investment ◆ Extent of habitat and biodiversity that is enhanced via investment ◆ Extent and impact of supply chain spend in Scotland as a consequence of investment

*KPIs will be determined on a case-by-case basis and directly linked to anticipated changes occurring as a result of Bank investment.

Innovation

Mission	Impact Objective	Illustrative Key Performance Indicators*
Innovation Innovation and Industries of the future Healthier and resilient population Increased productivity	1. To grow the Scottish innovation ecosystem, supporting Scotland's ambition to match the best performing OECD countries by 2040. 2. To increase investment in the scaling of disruptive and transformational technologies and discoveries to meet changing demographic needs. 3. To develop technology that mitigates and protects against future risks to human welfare, wellbeing and environmental resilience.	◆ Annual R&D spend (as % of total budget) ◆ Number of patents issued ◆ Sales of new-to-market and new-to-enterprise innovations as % of turnover ◆ % of revenue/profit from new products or services introduced ◆ % of females (or under-represented demographics) in technical roles ◆ Active support to networks mentoring, and other measures that enable, the broader innovation community in Scotland

*KPIs will be determined on a case-by-case basis and directly linked to anticipated changes occurring as a result of Bank investment.

Impact investing continued

Employment, Equalities and Fair Work

The Bank supports the Scottish Government and OECD view that a fair and equal society and a wealthier, greener economy are mutually reinforcing. Whilst many of the Bank's investments will sustain existing jobs and facilitate job creation through both direct employment and investment in supply chains, the focus of the Bank's employment impact is in ensuring that investments offer high-quality fair employment. It is therefore committed to using its investment capital across all three missions to help drive positive change and embed a culture within the Scottish investment community that values equality, diversity, inclusion and fair work. To monitor its performance in this area, the Bank collects employment data in line with the Fair Work First* principles.

The Bank has a clear responsibility to help tackle the structural issues that lead to inequality of access to finance. A more diverse business population will in turn diversify the future pipeline of businesses that seek, and are eligible for, Bank investment; the Bank will continue to seek mission-aligned investment opportunities that aim to address the access to finance issues experienced by those who are underrepresented in the Scottish investment landscape.

There is a role for the Bank not just through the investments it makes today, but in how it actively supports equality in business. This includes actions such as:

- Recently establishing a partnership with Investing Women Angels (IWA) to develop the concept and plans for a new fund to support the growth of female-founded businesses across Scotland
- Hosting networking and information events targeted at supporting businesses led by underrepresented groups
- Building an evidence base of the impact of inequality on access to investment and using this to directly inform activities across the Bank
- Development of thought leadership papers that provide underrepresented groups with information and case studies on ways to overcome the barriers they face
- Roundtables with representatives of different groups to hear perspectives, identify barriers and co-create solutions

Climate Risk Assessment and Reporting

During FY22/23, the Bank will adopt the Task Force for Climate-related Financial Disclosures (TCFD) framework and will begin to report formally on these disclosures in the following reporting period. In conjunction, the Bank is designing a Net Zero Strategy that will apply to both its internal operations and external investment activity. These initiatives will strengthen the Bank's ability to manage its carbon accounting obligations and understand, quantify and manage climate-related risks within its own activity and its investment portfolio.

This is a relatively new and evolving area. The Bank will be progressive in its approach and continue to work with the businesses and projects it invests in to support them in developing their own capability around GHG reporting and net zero ambitions.

The regular collection of emission-related data and energy metrics at business and project level will allow the Bank to track emissions associated with its investments over time. This data will assist the Bank in its investment decisions and portfolio management, helping to ensure that it is able to meet the mission impact objective of achieving a net zero portfolio by 2045.

*Fair Work First: guidance to support implementation – gov.scot (www.gov.scot)

Theory of Change

The Bank's focus is on patient capital to help solve long-term challenges. This means that for many of the Bank's investments the intended mission impact is often not demonstrable in the near term and in some instances may only become evident after the period of its investment. Given this lag time between investment and expected impact, the Bank applies a Theory of Change (ToC) model for each investment to illustrate how its actions and capital support the delivery of mission impacts over the longer term.

The model is comprised of four key pillars:

Theory of Change model

Activity	Outputs	Outcomes	Mission Impact
Bank activity to support impact delivery	Immediate change as a result of investment	Short to medium-term change that follows from outputs and contributes to impact	Longer-term change identified in the missions

Performance Indicators

To demonstrate the progress on objectives, the Bank has developed a broad suite of KPIs and reporting metrics that capture the breadth of the intended mission impact and sectoral diversity across the portfolio. The metrics, which are informed by existing industry standards, enable both the Bank and its investee businesses and projects to understand how its investments enable environmental and social benefits for the people of Scotland over time. These measures are also designed to demonstrate progress towards the Scottish Government's National Performance Framework and UN Sustainable Development Goals.

In addition to investment specific KPIs, the Bank collates information based on a common set of metrics for all its investment activity so it can assess impact and progress at a portfolio level. This will include the collation of data around employment practices, GHG emissions and investee's ability to monitor, manage and report their own non-financial impacts.

It is clear that companies and projects that demonstrate positive environmental and social impacts generate business advantage – through the recruitment and retention of staff resource and cost efficiencies in production, investor sentiment and supply chain assurance. The Bank has an important role to play in helping investees integrate impact performance and reporting in their business practices and strategies – in a world where environmental and social performance is increasingly seen as part of the role of business.

The creation of a consistent set of measures within the Bank enables a review of impact at a portfolio and mission level, providing benchmarking and comparator data that can be used with investee companies to support their own development and impact awareness and communication.

Impact investing continued

Assessing Impact

The Bank has integrated the internationally recognised 'Operating Principles for Impact Management' (OPIM)* into its investment processes to ensure impact is considered, monitored and reviewed throughout the lifecycle of all of its investments. The Bank intends to become a Signatory to OPIM during FY22/23.

Each investment proposition that the Bank receives is initially assessed through a mission impact lens. Once mission fit is established, the Bank considers all investment opportunities against the five dimensions of impact identified by the Impact Management Project.** This is an industry recognised framework which supports a consistent approach to assessing impact scale and potential within investment decision making. The five dimensions are:

1. **What** – what outcome the enterprise is contributing to, whether it is positive or negative and how important the outcome is to stakeholders
2. **Who** – which stakeholders are experiencing the outcome and how underserved they are in relation to the outcome
3. **How much** – how many stakeholders will experience the potential outcomes and impact, what degree of change will they experience and how long they will experience the outcome for
4. **Contribution** – whether and how the Bank's investment will result in outcomes that were better than what would have occurred otherwise
5. **Risk** – the likelihood that impact will be materially different than expected.

This process, alongside individualised ToC models, helps the Bank to identify the type, scale and beneficiaries of the investment, alongside understanding the specific contribution it is adding. The Bank uses this data to assess the performance of its investments at an individual and portfolio level and to consider any ESG risks that require ongoing management or mitigation.

*Invest for Impact | Operating Principles for Impact Management (impactprinciples.org).
**Home – Impact Management Project.

UN Sustainable Development Goals

All the investments the Bank makes support the delivery of the UN's Sustainable Development Goals, with the mission focus specifically contributing to delivering the following six goals:

The Bank's Approach to Impact Assessment

First Step	Investment process	Investment agreement	Portfolio
Define and confirm mission fit	Impact thesis for every investment: ◆ What impacts? ◆ Who benefits? ◆ How much benefit/impact? ◆ What contribution does the Bank make? ◆ What risks to impact?	Incorporating impact requirements (risk and opportunity) in investment and reporting requirements	Support investee companies in integrating environment and social practices (such as GHG reporting and enabling a more diverse and inclusive workforce) and impact reporting

Operating Principles for Impact Management

Define the process through which impact can be demonstrated over the course of an investment, provide an internationally recognised framework and will be independently verified on a regular basis to provide credibility on approach to impact.

Investment Impact – 2021 Portfolio Overview

The Bank aims to be a world-class impact investor, enabling impact through the investments it makes and inspiring other investors to adopt similar thinking and ambition in their investment strategies and plans to help address Scotland's grand challenges.

2021 Bank Portfolio:

Seven of the nine investments reported were held for under six months of the impact reporting period (1 Jan 2021 - 31 Dec 2021).

- £156.9 million committed in total by the Bank since launch to the impact period end
- £430 million additional investment committed alongside Bank investments from inception to the impact reporting period end

Impact investing continued

2021 Portfolio Impact Reporting*

Net Zero

- £17.4 million Bank commitment across four businesses
- £63 million Bank commitments across two Funds
- £152.2 million additional commitment leveraged into Fund vehicles alongside bank investments

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

Outputs in 2021

- **Four businesses** are contributing to the achievement of a Just Transition
- Equivalent of **94 homes powered through tidal energy** (additional turbines planned which are expected to increase capacity of the Shetland Tidal Array)
- **17 Electric Vehicle (EV) charging points installed** across nine Scotland wide locations
- **6,000ha land acquired** for forestry through GHFGS
- Development of Gresham House Forest Charter outlining verifiable commitments and targets relating to sustainable forest management

Outcomes (medium-term)

- **New training and employment opportunities** for those currently working in the oil and gas industry
- **Reduced carbon footprint within domestic and commercial buildings** through the utilisation of new energy-efficient technology
- Development of **Electric Vehicle charging infrastructure across Scotland**
- **100% of forests** will be certified in line with international sustainable forest management standards
- **850,000 homes forecasted to be powered by renewable energy** through Asper
- **1.5 million tonnes of carbon forecasted to be sequestered** through GHFGS activity over 20 years
- **12,800 kilotons of emissions avoided** forecast through Asper

Impacts (longer-term)

- A Just Transition is achieved by 2045
- Scotland's economy contributes to and is aligned to global GHG emission reduction targets and goals by 2045
- Scotland is internationally recognised as a leader in sustainable technology services and industry

Place

- £40 million Bank commitment
- £45.3 million additional commitments leveraged

11 SUSTAINABLE CITIES AND COMMUNITIES

15 LIFE ON LAND

Outputs in 2021

- **288 of a planned 1,500 homes built** and available for mid-market rent
- **99% of homes** built rated EPC – Energy B
- **4.8ha of existing brownfield land** has been invested in and upgraded

Outcomes (medium-term)

- **Increased access to affordable, high quality** family homes
- **Reduced domestic energy use** supporting net zero agenda
- Strengthened local community through **greater provision of affordable housing**
- **Improved urban landscape** through land regeneration

Impacts (longer-term)

- The physical and built environment in Scotland is valued, protected, enhanced and enjoyed
- Scotland's communities are inclusive, empowered, resilient and safe
- Improved quality of life and mental wellbeing for Scotland's population
- Growth of 20-minute neighbourhoods

*Investments reported include those nine of the 11 commitments made, for which Impact reporting has been supplied through to 31 December 2021.

Impact investing continued

2021 Portfolio Impact Reporting* continued

Innovation

- £13.5 million Bank commitment
- £21.9 million additional investment leveraged alongside Bank interest

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Outputs in 2021	Outcomes (medium-term)	Impacts (longer-term)
• **36 Patents granted across** portfolio in reporting period • **30 R&D partnerships reported** across the portfolio, which includes Scottish Universities • **Innovation investments contribute to the creation of products that support delivery of net zero** ambition	• **Growth of innovative businesses** operating at scale across Scotland • Growth in product development and launch within Scotland • **Growth of innovation networks and Scottish Hubs** and associated knowledge exchange activity • **Increased training and employment opportunities** in the Scottish innovation sector • **Increased productivity** at national level	• Scotland's economy is recognised globally as sustainable, productive, competitive and entrepreneurial • Scotland has a healthier and more resilient population • Scotland has domestic based expertise to solve challenges • Scotland is internationally recognised as a leader in innovation and technology including net zero

Across the Portfolio

- **57%** – average **supply chain spend** of investee companies, which flows to other companies having a presence in Scotland
- **100% of direct investee's HQ based in Scotland**
- **Two investments** have not provided impact reports in the year, the total commitment is £23 million in addition to the above

*Investments reported include those nine of the 11 commitments made, for which Impact reporting has been supplied through to 31 December 2021.

Employment, Equalities and Fair Work

8 DECENT WORK AND ECONOMIC GROWTH

Outputs in 2021	Outcomes (medium-term)	Impacts (longer-term)
100% of the businesses and projects directly invested in: • Offer flexible working practices • Pay at least the Real Living Wage to all employees • Have no zero-hour contracts • Offer training opportunities to all employees	• Increased opportunities for high quality training and employment across sectors and associated supply chain • Increased awareness and adoption of Fair Work First principles within Scottish businesses • Increased engagement within the Scottish workforce through development of appropriate channels for effective employee voice • Increased awareness and promotion of equality, diversity and inclusion within the businesses and projects the Bank invests in, and the wider Scottish investment ecosystem	• Scotland has a fairer and more equal society, meeting its Fair Work and Business National Performance Outcome • Higher skilled Scottish workforce through greater training opportunities • A more secure workforce through reduced use of zero-hours contracts • Improved standard of living through increased application of the Real Living Wage • The gender pay gap is reduced and Scottish workplaces are more diverse and inclusive

Investment Impact – 2022 (January – March)

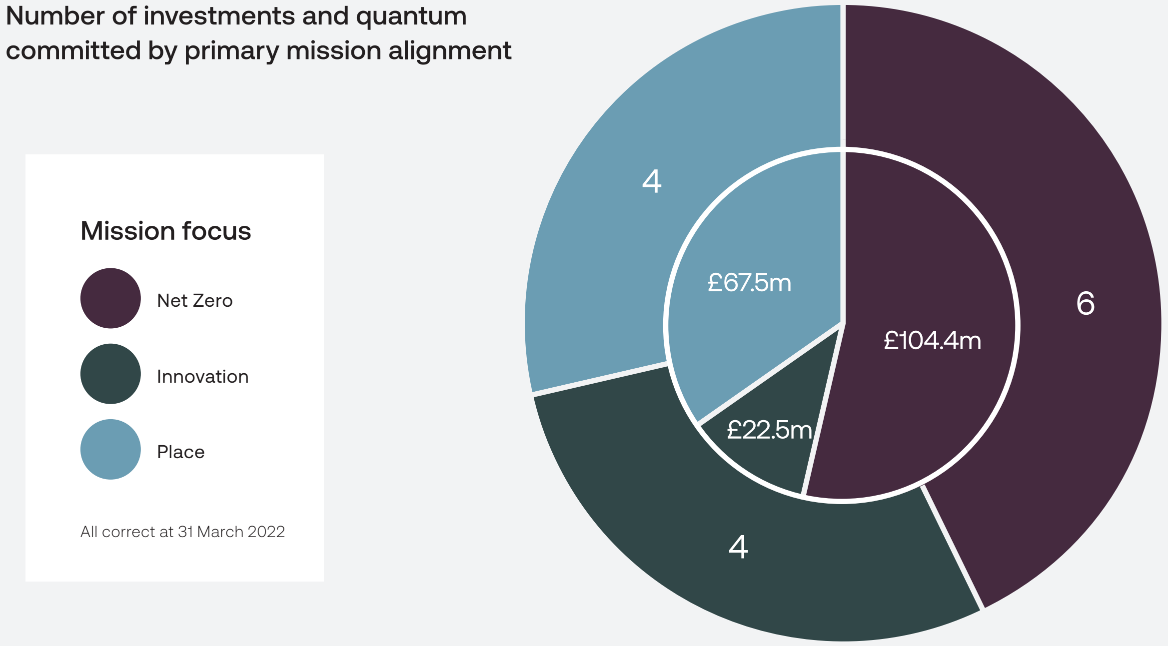
We present a summary of investments made in Q1 2022 below, which have been included in the table opposite for completeness.

- Three investments made (Highland Coast Hotels, Aberdeen Harbour and Travelnest)
- £37.5 million committed by the Bank
- £9.6 million additional investment leveraged alongside Bank investment

Impact investing continued

The performance data presented below captures the Bank's investment impact from inception to 31 March 2022*

Number of investments and quantum committed by primary mission alignment



Time to evidence mission impacts

Investment size	Within 5 years	5 to 15 years	Beyond 15 years
£30 million plus		Aberdeen Harbour PfP Capital	Gresham House FF
£10 to £30 million		Lothian Broadband MSquared Asper Iona	
£5 to £10 million		Highland Coast Hotels Sunamp Nova Innovation	
Less than £5 million	Travelnest R3 IoT	Strathcarron For:EV IndiNature	

*Note that investments include those made directly by the Bank into companies or projects ("Direct investments") or indirectly via a third-party fund manager ("Indirect investments"), to enable impact on behalf of the Bank.

Sustainability Reporting – Our Impact

The Bank also monitors its operational footprint (the environmental and social impacts of its offices, travel, etc), seeking to be a positive influence in the communities in which it operates, and minimising any negative environmental impact.

As a publicly funded body, it reports its compliance with Public Sector Climate Change Duty. The reporting for the FY20/21 was delivered in line with the requirements on 30 November 2021, and as such is the latest report produced by the Bank. We will deliver the FY21/22 report in November 2022.

The Bank disclosed in its FY20/21 climate change report its carbon emissions for the first few months of its operation (November 2020 – March 2021) which were primarily its pro-rata share of the electricity and gas use from its offices (24.7 tCO^{2}e) and the emissions as a result of staff home working (9 tCO^{2}e) with total emissions from all sources being 34.2 tCO^{2}e. It should be noted that the Bank recognises these emissions occurred over only part of the year and while the Bank team was growing, so would expect to see increased levels in the next financial year. The Bank continues to establish a baseline (of emissions, for example) which will allow us to manage and set targets to reduce as appropriate over time.

To encourage individuals across the Bank to support the communities in which they live, it entered into a partnership with Social Good Connect in March 2022. Social Good Connect supports employer-backed volunteering in the community, which the Bank has enthusiastically encouraged amongst its team. The Bank is also supporting and partnering with a number of organisations to further understand and address challenges of diversity and inclusion.

Investment Case Studies

Loch Drunkie, near Aberfoyle

"The Bank has committed £141.9 million investment in the year in 12 businesses and projects in Scotland, and across all three missions. The Bank's investments range from £1 million to £50 million, and differ in investment type – debt, equity and fund investments. This mixture of investment type demonstrates that there is both diversity and volume of opportunity for the Bank to consider in mission aligned commercial investment."

Sarah Roughead
Interim Chief Executive Officer

Case Study: IndiNature

IndiNature
Bio-based construction systems

Investing to decarbonise the building industry through the development of innovative, sustainably produced solutions.

Amount Committed: £3 million

Location: Jedburgh, the Scottish Borders

Case Study: In August 2021, the Bank invested £3 million in IndiNature to enable the company to establish production at a new manufacturing plant in Jedburgh in the Scottish Borders. This is the first dedicated natural fibre insulation production facility in the UK.

IndiNature uses natural hemp and flax fibres to create a range of insulation materials that can be used in domestic and commercial buildings, removing the need for synthetic insulation.

IndiNature Product Range

IndiBreathe® is a natural fibre construction insulation system made from locally grown hemp and flax which provides the basis for two initial products:

- IndiTherm®, a flexible thermal insulation batt for use in most building applications
- IndiBoard®, a semi-rigid thermal and acoustic insulating board

The company plans to expand on this range over time and holds product development registration for a range of bio-based materials.

Investment rationale and impact assumptions: The Bank's investment enables both place-based and net zero impacts. In addition to supporting the decarbonisation of the building industry, IndiNature's commitment to establish production in Jedburgh (in pre-existing industrial facilities) and to build out local supply chains for production of hemp and flax played to the Bank's place based objectives and will support economic regeneration, help create more sustainable and climate-resilient housing stock and quality local employment and training in areas where job opportunities are scarce.

Progress since investing: Active marketing during COP26 and ongoing trade shows continues to confirm strong market interest in alternative insulation products with lower embodied carbon and other circular economy benefits. The company has been granted membership of the Natural Fibre Insulation Group, an industry association promoting natural insulation products – an important reflection of both quality and credibility, which should enhance market traction.

Since the Bank invested, the Company has commissioned research on scaling up local (Scottish) production of raw materials and has been working with the Scottish Enterprise funded Carbon Saving Estimation programme to confirm and quantify the GHG savings of their products, which confirmed positive and significant GHG savings.

Work is currently under way fitting out the Jedburgh plant with the use of dozens of local contractors and engineers and an estimated local supply chain expenditure of £207,000 to date in the south of Scotland plus recruitment of three new staff and two contracted consultants on the team (as of December 2021).

Verified and Credible Greenhouse Gas savings relative to synthetic insulation materials

Using GHG accounting tools provided under the Scottish Enterprise Carbon Savings Estimation Programme, IndiNature worked with independent verifiers to demonstrate embodied GHG savings of carbon relative to synthetic insulation comparators (with the same thermal insulation performance) which confirmed that IndiTherm's product prevents the emission of c.14.19kg CO^{2}e per m3 of insulation in comparison to rockwools – partly due to the very low energy requirements of production.

Importantly, these figures do not include an estimate of biogenic carbon (the capture and storage of carbon in the product) so net GHG benefits will be greater than those indicated above; it is estimated that hemp captures 15-20 tonnes CO^{2} per hectare.

In practice, the average UK home has a carbon footprint of 50-80 tonnes when built. If IndiTherm insulation is used instead of rockwools, 4.4 tonnes of carbon can be saved per home.

The Bank is working proactively with IndiNature on the evolution of their business and sales strategies and helped bolster the Board through advice on the appointment of a Non-Executive Director (NED) with relevant sales experience in the natural fibre sector.

Case Study: IndiNature continued

IndiNature
Bio-based construction systems

IndiNature – Theory of Change Assumptions

The Bank's Investment	Immediate outputs (August – December 2021)	Medium / longer term outcomes	Ultimate impact*
In August 2021, the Bank invested £3 million. Its investment agreement included a range of ESG and impact covenants, as well as reporting commitments. The investment also leveraged an observer role and NED on the Company's Board and ongoing support and guidance on both impact reporting, business and sales strategies and governance were seen as important non-financial value add that the Bank would bring to this investment.	◆ Company confirmed long-term lease of Jedburgh production facility and began fitting out ◆ Manufacturing equipment purchased and managing 12-month fabrication timeline to build manufacturing capacity ◆ Recruitment of three staff, contracting with more than 25 local companies and 40 contractors in the south of Scotland. Recruitment reflects diversity and inclusion policy and IndiNature equalities ambitions ◆ Commissioned research on local supply chain development and GHG savings ◆ Became a member of Alliance for Sustainable Building Products Natural Fibre Insulation Group ◆ Accreditation and Certification processes formally activated ◆ Marketing and market building around COP26 and other events (UK Government Climate Leaders Campaign, IndiNature, Zero Waste Scotland)	◆ Growth in market meets business plan projections in terms of products, employment and local (south of Scotland) supply chain development ◆ Research (with third parties such as the University of Edinburgh) confirms and continues to demonstrate environmental and social benefits of IndiNature products ◆ Adoption/emulation of similar products by others/Growth of natural fibre insulation markets ◆ Commitment to procure natural fibre insulation by Scottish and other housebuilders ◆ Scotland supply chain capacity development to deliver upwards of 2,000ha of hemp and flax production from 2024/25	◆ IndiNature and related natural fibre insulation products capture significant UK market share with production of hemp, flax and other organic inputs forming an important revenue stream for UK farmers ◆ GHG savings and thermal insulation properties recognised in UK planning policy and regulations, allowing widespread adoption and scaling of IndiNature and related natural fibre insulation products ◆ Production of raw materials proven to deliver agricultural and ecological benefits at farm level (including soil carbon sequestration) ◆ Just transition and place-based regeneration opportunities demonstrated
KPIs:** ◆ Ongoing and successful compliance with investment agreement and Board observer position	Output KPIs: ◆ GHG emission reporting (scope 1 and 2) ◆ Emissions avoided through use of IndiNature products compared to industry standard (rockwools) ◆ Solid waste management reduction and reporting ◆ Job and Fairwork data (diversity, wages, health and safety performance, working hours, etc) and supply chain impacts – including supply chain spend	Output KPIs plus: ◆ Life Cycle Assessment of total climate change benefits from production to installation ◆ IndiNature production at other UK sites (HQ remains in Scotland) ◆ R&D spend as % of revenues ◆ Positive investor sentiment to IndiNature (and related natural fibre products) ◆ Planning policy and regulations actively inclined to lower carbon/natural fibre insulation products ◆ Potential for local supply chain value add (including potential on farm initial processing to create bigger farmer revenue)	Impact KPIs: ◆ Planning controls and regulations support and enable natural fibre markets in UK ◆ Fibre crop production proven to generate material livelihood and income streams for Scottish farmers, as well as broader 'on farm' land use, sequestration and ecosystem benefits ◆ Natural fibre sector generates significant additional/new rural and building sector employment (and potentially apprenticeships that build skills and capacity) that help the sector to scale efficiently

*The ultimate impact of an investment is a combination of the company's impacts (through business operations, employment practices etc) as well as a range of broader drivers of change including public policy, investor sentiment, consumer/client decisions. The Bank's investments enable progress towards ultimate impact along with these other drivers.

**The KPIs that are selected for each investment include some that are consistent across all investments (employment, D&I and GHG emissions) and others that are based on the specifics of the investment.

Case Study: Gresham House Forest Fund

The Gresham House Forest Fund represents an investment that will deliver Net Zero and place-based benefits over time. The focus of this case study is on the place-based benefits that the Fund will enable, including sustainable timber production and woodland management that enhances Scotland's natural environment and biodiversity as well as mitigating climate change through sequestration (but in terms of primary mission the Fund is viewed as a Net Zero mission).

Amount Committed: £50 million

Location: Nationwide

Case Study: In August 2021, the Bank committed £50 million to cornerstone the new Gresham House Forest Growth and Sustainability LP ('the Fund') to enable long-term sustainable land management and timber production in Scotland.

The Bank's approach to patient capital investing is aligned with the Fund's strategy as woodland and productive forest creation necessitates a longer-term perspective before income is generated. Additional factors that limit commercial appetite for forestry investments like this include the costs of delivering public goods (such as increased biodiversity and habitat management) and higher investment risks associated with long-term investments. Thanks to the Bank's 'patient capital' mandate it is well placed to support that interim period and the broader ecological benefits the Fund is promoting. The Bank's role as a cornerstone investor also makes the Fund more attractive for other investors, including large public pension funds, and underlines our role in crowding in additional capital.

As noted, the Fund has commitments to broader environmental and social (E&S) outcomes than traditional commercial forestry managers would typically aim to deliver (which are highlighted in the Gresham House Forest Charter). The investment represented a net zero and place-based opportunity for the Bank, and a critical part of its decision to invest in the Fund related to these broader E&S benefits.

Environmental and Social Benefits the Fund Aims to Deliver

- Enhancing biodiversity through promoting a greater range of habitats including the use of site specific biodiversity plans that aim to create and manage wildlife habitats in addition to supporting populations of key species that have been identified in the area.
- Active management to sequester carbon (both through forest growth and habitat management) as well as reporting on greenhouse gas emissions and carbon sequestration.
- Sustainable forest management, promoting the growth and production of certified timber which can support the transition to a lower carbon economy by providing alternatives to carbon intensive materials with the potential for long-term carbon lock-up.
- Managing all assets to internationally recognised sustainable forestry certification standards (such as FSC and PEFC) that provide independent verification on the delivery of a range of social, commercial and environmental benefits.
- Maintaining high labour standards (including health and safety and diversity and inclusion) as well as committing to support local supply chains and employment where possible.
- Increasing community engagement (including consultation and grievance mechanisms for each asset) and additional social benefits linked to physical and mental health and wellbeing.

Investment rationale and impact assumptions: Investing via the Fund allows the Bank to leverage its capital through a larger investment vehicle which has aligned interests in terms of impact, and the technical forestry and impact / ESG skills that the Fund has in-house.

A key issue for the Bank in such circumstances is evidence of the Fund's capacity and commitment to proactively manage its capital for ESG impact, as well as commercial return.

The Bank has worked with the Fund to understand its investment decision making, including ESG due diligence of new plantation assets and ongoing site management, as well as reporting and KPIs.

Given the significant interest in natural capital investments in Scotland, both the Fund and Bank recognise the need to be explicit about E&S benefits over time. In addition, both parties wish to be proactive in listening to and responding to community views and concerns.

The growth of natural capital markets and impacts on land values and ownership in Scotland are an important consideration for the Fund and Bank. There is an estimated finance gap of £15-27 billion for investment in Scotland's natural capital over the next decade which cannot, and should not, be met by public budgets alone. This scale of investment will require responsible private capital. Both the Bank and the Fund support and endorse the Scottish Government's Interim Principles for Responsible Investment in Natural Capital which aims to optimise land use for multiple benefits and address a range of other E&S needs as this asset class evolves.

In parallel, the Bank is working with Scottish Government to explore the role of private investment in natural capital, in order to support the delivery of the National Strategy for Economic Transformation's commitment to developing a high-integrity market for natural capital investment.

ESG Targets

The Bank has worked with Gresham House to agree a suite of Key Performance Indicators which will be monitored at least annually for each forest asset, including:

- Area of forest land managed for biodiversity benefit
- Area of forest allocated to a single species, and area allocated to native species
- Number of biodiversity assessments and number of threatened species present
- Area of forest land with conservation and/or cultural heritage value and status
- The number and status of Biodiversity Action Plans that the Fund has put in place
- Data for key species at each forestry asset (typically these will be species identified during due diligence which are of conservation significance and importance)
- The extent of deciduous (native) tree planting at each site along with site specific habitat restoration and creation
- Number of interactions and initiatives with local communities and statutory agencies (as evidence of partnerships and other activities that leverage and scale conservation and natural capital targets)

Gresham House
Specialist asset management

Case Study: Gresham House Forest Fund continued

Gresham House Forest Growth & Sustainability Fund – Theory of Change Assumptions

The Bank's Investment	Immediate outputs (August – December 2021)	Medium / longer term outcomes	Ultimate impact*
In August 2021, the Bank acted as a cornerstone investor, allocating £50 million as part of a wider (ultimate) £300 million raise into the Fund. Its investment agreement included a range of ESG and impact covenants aligned with international sustainable forest management standards as well as reporting commitments. In parallel, the Bank is working with Scottish Government to explore the role of private investment in natural capital, in order to support the delivery of the National Strategy for Economic Transformation's commitment to developing a high-integrity market for natural capital investment.	◆ Business plan projections and timelines for asset acquisition, planning approval and implementation met ◆ ESG screening tool and Gresham House Forest Charter applied to woodland creation and forestry asset acquisition and management decisions ◆ Plantation management plans reflect integrated land use needs (including biodiversity, carbon sequestration, timber production, and public access) ◆ Community consultation and grievance recourse mechanism in place for each asset ◆ Forestry management plans and certification timelines agreed for each new asset ◆ Commitments to fair work discussed with counterparties (contractors)	◆ Asset management achieves commercial and biodiversity goals ◆ Carbon sequestration targets achieved ◆ Local supply chain opportunities proactively supported and enabled by the Fund ◆ Employment and contract labour targets met and availability of skilled plantation management and contractors increased in Scotland ◆ Social Licence to Operate at all assets ◆ Fund and Bank actively engaged in discourse on Natural Capital in Scotland and informing public policy debate	◆ E&S data and impact from the Fund (and other forestry managers pursuing similar models) becomes the norm for woodland management standards and reporting ◆ Timber values and demonstrable climate and biodiversity benefits (including carbon credits) underpin the business model for woodland development in Scotland ◆ Community benefits (jobs, training/skills development, access and land values) and benefit-sharing models widely evident in the sector in Scotland ◆ Production standards and regulations support broader adoption of natural capital benefits in forestry development ◆ Use of land in Scotland for natural capital purposes is seen as a legitimate and important mechanism for both managing and adapting to climate change, and for delivering equitable benefits for the people of Scotland; and investor sentiment supports and enables the growth of this asset class
KPIs:** ◆ Ongoing and successful compliance with Limited Partner Agreement including reporting and Environmental and Social Covenants	Output KPIs: ◆ GHG emission reporting (Scope 1 and 2 operational emissions) ◆ Planting rate, species diversity and other plantation management data reported ◆ Greenhouse gases sequestered ◆ Ecosystem/Biodiversity management plans in place (and data on key species/habitats reported) ◆ Forest management and certification plans developed for each asset ◆ Consultation KPIs (meetings held, grievances resolved, etc) confirm proactive engagement with local communities ◆ Contract labour employed on each asset ◆ Occupational Health and Safety data ◆ Local supply chain spend	Output KPIs plus: ◆ Confirmation on carbon sequestration (over the life of the Fund it is predicted that 1.5 million tonnes of CO^2e could be sequestered) ◆ Certification of all plantations to international sustainability standards ◆ Biodiversity enhanced (KPIs to be determined but likely to include trend data on key species and Biodiversity Action Plans) ◆ Fund evidences the impact on rural employment (through use of forest contractors) for each plantation over time	Impact KPIs: ◆ Extent of new growth broadleaf woodland ◆ Biodiversity (species and ecosystem values) data indicates progress in restoring Scotland's ecological heritage in line with national plans ◆ Jobs and skills, capacity building in the forest and land management sector more closely aligned with national demand ◆ Investment volumes in natural capital projects per year, reflective of investment demand (and commercial investors actively and responsibly investing in the asset class)

*The ultimate impact of an investment is a combination of the company's impacts (through business operations, employment practices etc) as well as a range of broader drivers of change including public policy, investor sentiment, consumer/client decisions. The Bank's investments enable progress towards ultimate impact along with these other drivers.

**The KPIs that are selected for each investment include some that are consistent across all investments (employment, D&I and GHG emissions) and others that are based on the specifics of the investment.

Case Study: R3 IoT

Investing to develop cutting edge satellite communications technology via the "Internet of Things" to offer unique end-to-end data services to the 90% of the planet that lacks traditional communications infrastructure.

Amount Committed: £1 million

Location: Glasgow

Case Study: In July 2021, the Bank invested £1 million in R3 IoT, a start-up technology company based in Glasgow. R3 IoT provides data services and analytical support to businesses operating in locations where internet access is limited or absent. This service is already proving extremely valuable to a range of infrastructure, telehealth, environmental monitoring and aquaculture needs in Scotland and elsewhere. The Bank's investment provided capital alongside other Scottish investors (including Strathclyde University and Space Capital) so that R3 IoT could double its Glasgow staff head count, further develop analytical capability and services and commercialise existing and new products and services.

Investment rationale and impact assumptions: The Bank assumed an innovation impact via this investment and has focussed on two specific areas: (i) the way in which R3 IoT supports the growth of the Scottish technology ecosystem (through recruitment, links to Tertiary education, networking and building a technology ecosystem that will attract foreign direct investment); and (ii) the impacts of R3 IoTs services in providing information that allows for better connectivity and resource use, lower GHG emissions, infrastructure resilience and safety, and healthcare benefits.

What the Bank looks for in innovation impact

The Bank's 'innovation mission' reflects a broad ambition to:

- Grow the Scottish innovation ecosystem, supporting Scotland's ambition to match the best performing OECD countries by 2040
- Increase investment in disruptive and transformational technologies and discoveries to meet changing demographic needs
- Develop technology that mitigates and protects against future risks to human welfare, wellbeing and environmental resilience

Core themes in demonstrating how we can evidence the impact of innovation investments are through the growth, reputation and resilience of Scottish innovation and technology companies. We use the Scottish Technology Ecosystem Review as a guide in selecting Key Performance Indicators that can show progress in these areas. Additionally (and specific to each investment) we look at the ways that the product or service addresses the systemic challenges facing mankind – from climate change and resource depletion to human health and welfare.

Progress since investing: Since the Bank invested, the Company has expanded from 15 to 28 members of staff, and there are strong commitments to delivering the Fair Work First Principles (the most recent impact report confirmed no zero hours contracts, payment of a Real Living Wage to all staff and active efforts to integrate diversity and inclusion into recruitment policies and practices). Given poor diversity in many technology companies in Scotland, R3 IoT has made important progress in growing a diverse workforce (10:8 gender ratio M:F). The Company has created an impact dashboard which will be used to track a range of staff impact metrics, and will be utilised internally to enhance staff engagement and productivity.

R3 IoT is also undertaking research to assess GHG emission reduction potential in the Scottish salmon aquaculture industry and is working with fire services as part of a resilient communication network for fire stations across Scotland. Additionally, R3 IoT technology is being utilised in the delivery of digital healthcare into rural areas and the digitisation of the water and utilities sector.

R3 IoT has recently been part of Scottish Government-led trade missions to the Dubai Expo and the USA where there was significant interest in its products, services and business model. Collaboration with Scottish Enterprise and Scottish Development International continues to provide important additional support as the company grows and reflects the value that different parts of the Scottish public sector ecosystem can play in the technology sector.

Case Study: R3 IoT continued

R3-IoT

R3 IoT – Theory of Change Assumptions

The Bank's Investment	Immediate outputs (July – December 2021)	Medium / longer term outcomes	Ultimate impact*
In July 2021, the Bank invested £1 million. Its investment agreement included a range of ESG and impact covenants, as well as reporting commitments. An observer role on the Company's Board and ongoing support and guidance on both impact reporting and Governance were seen as important non-financial value add that the Bank would bring to this investment.	◆ Staff growth as predicted in business plan and evidence of a strong commitment to Fair Work First Principles ◆ Patent and product launch on track (2 patents issued in reporting period) with continuing evidence of R&D spend aligned to business needs ◆ Continuing Professional Development and Scottish technology ecosystem networking ◆ Better feed and production efficiencies (and reduced GHG emissions) from Scottish aquaculture clients	Evidence of impacts as a consequence of the Bank's investment such as: ◆ R3 IoT technologies scale through adoption by a range of user groups (sensor companies, telco, application providers and end users) with concomitant scaling of impacts ◆ Successful capital and investment rounds (and evidence that R3 IoTs impacts have been a factor in these rounds) and the role that the Bank's investment played in mobilising further rounds of investment ◆ R3 IoT remains an active enabler of key tech networks and innovation communities in Scotland ◆ Data and evidence that R3 IoTs technology has generated GHG emission reductions and other impact benefits and that these are driving business growth	◆ R3 IoT technology deployed globally across key industries (including salmon aquaculture) ◆ Scottish tech ecosystem attracts significant foreign direct investment and the Bank has evolved investment strategy to reflect it has a lesser role in tech companies at a similar stage to R3 IoT
KPIs:** ◆ Ongoing and successful compliance with investment agreement and Board observer position	Output KPIs: ◆ GHG emissions (Scope 1 and 2) from offices and operations ◆ Avoided emission data from aquaculture clients ◆ ESG policy and management system (in part evidenced by accreditation as a B Corp company within 18 months of investment) ◆ Fair Work First KPIs (incl Real Living Wage, diversity, zero hours and flexible working)	Output KPIs plus: ◆ Sales of new to market and new to enterprise innovations as % of turnover ◆ % of revenue / profit from products or services introduced subsequent to the Bank's investment ◆ Royalty and licensing income ◆ Avoided emissions from deployment of technology (ie savings achieved by clients as a consequence of R3 IoT information and tech) ◆ Evidence that the Bank's investment crowded in additional and subsequent investment	Impact KPIs: Under review with R3 IoT but likely to include ◆ national level data that reflects broader/systemic changes across the technology sector (including scales and types of investment in technology investments, capacity and availability of a range of employees from diverse backgrounds and characteristics, other components of a viable tech ecosystem in Scotland such as links to tertiary education ◆ R3 IoT growth and market share

*The ultimate impact of an investment is a combination of the company's impacts (through business operations, employment practices etc) as well as a range of broader drivers of change including public policy, investor sentiment, consumer/client decisions. The Bank's investments enable progress towards ultimate impact along with these other drivers.

**The KPIs that are selected for each investment include some that are consistent across all investments (employment, D&I and GHG emissions) and others that are based on the specifics of the investment.

Financial Performance

The Bank's audited financial statements are prepared in accordance with UK adopted international accounting standards and, where appropriate, as interpreted and adapted by the 2020/21 Government Financial Reporting Manual (the 2021/22 FReM) and in accordance with the requirements of the Companies Act 2006 and directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers and can be found in full from page 129 onwards.

The Bank formally launched on 23 November 2020, these financial statements cover the Bank's first full year of operations from 1 April 2021 to 31 March 2022.

The Bank's financial performance is primarily driven by:

Investment Profile

The amount and length of investment commitment, the period over which the cash is delivered to the investee and the type and profile of fees or capital appreciation (value generated).

Investment Performance

The performance of the Bank's investments and their ability to make interest payments, capital repayments and capital appreciation on exit.

Cost Management

The Bank's ability to tightly control costs and deliver value for money. Deploying the team's time and financial resources to the greatest extent possible in delivering and supporting the income generating investment activities that will deliver the Bank's missions.

Financial Review

This year the bank has made strides towards its ambition of financial self-sustainability. Committing £141.9 million of mission-led investments against a background of a global pandemic and the building of a new team will form the building blocks of the Bank becoming a perpetual investment fund.

The Bank continued to build its team throughout the financial year with the vast majority of roles now filled and the associated infrastructure put in place in areas such as Risk, IT, Procurement, Investments and Impact analysis. This was achieved against a background of efficient income generation, prudent cost control and a value for money ethos across the business. Financial indicators for the year include:

- The Bank committed £141.9 million (2021: £52.5 million) of investment across 12 new investments. The deployment of £129.3 million investment in the year, against an ambitious budget of £200 million set by Scottish Government, has been made in the context of the need to recruit an investment team, establishing an investment pipeline and embedding professional investment processes. These investments were across all three missions and are diverse both in terms of type of investment – ie, debt, equity and funds – and also importantly, geographical location. Furthermore, the Bank investment was part of a total investment round in the financial year of £327 million demonstrating the catalytic effect of the Bank in crowding in private capital.
- The investment portfolio generated income of £1.9 million in the year (2021: £0.4 million) with £0.8 million of cash income (2021: £0.2 million) and £1.1 million of capitalised interest income (2021: £0.2 million) demonstrating the Bank's commercial investment and progress towards financial self-sustainability.
- At the year-end the Bank had a portfolio of 14 investments. The Bank's portfolio was valued at £153.4 million. These investments generated a net unrealised loss of £3.4 million (2021: gain of £3.4 million). The loss included £1.9 million of losses related to upfront fund set-up costs which are to be expected in the early years of fund investments. £0.9 million relates to capitalised interest giving rise to an equal and opposite unrealised loss, as the fair value of the investment has remained flat since acquisition. The remainder of the loss relates to underlying performance of the investee companies.
- Total operating costs of £9.7 million (2021: £2.9 million) were incurred, considerably lower than budgeted costs of £15.7 million, including savings made as a result of strong control environment and value for money principles but an increase on prior year reflecting the full year equivalent of a part prior period. The Bank continued to successfully recruit and build out its infrastructure with 61 employees at the year-end (2021: 30 employees).
- Loss after tax for the year was £8.6 million and net assets were £165.4 million as at 31 March 2022, demonstrating a strong balance sheet at the year end.

Financial Performance continued

For the year 1 April 2021 to 31 March 2022	£'000
Investment income	1,905
Net unrealised losses on revaluation of investments	(3,432)
Gross profit/(loss)	**(1,527)**
Administrative expenses	(9,677)
Operating loss	**(11,204)**
Tax credit	2,645
Loss for the year	**(8,559)**

Financial position as at 31 March 2022	£'000
Investments	153,356
Property, plant and equipment	136
Deferred tax asset	2,497
Other assets/(liabilities)	
Cash and cash equivalents	10,236
Trade and other receivables	470
Trade and other payables	(1,323)
Total net assets	**165,372**
Equity	
Share capital	149,253
General fund	16,119
Total equity	**165,372**

Income and Expenditure

In addition to delivering economic, environmental and social impact, the Bank's objective is to make a commercial return with a view to being financially self-sustainable over the medium term and hence reducing reliance on the Scottish Government to fund operational expenditure. The Bank made significant strides in this respect in the financial year with total income of £1.9 million generated through a mixture of interest and arrangement fees. As the investment portfolio grows, annual income is forecast to grow to £31.2 million by the end of the business plan period in FY25/26.

The Bank continued to embed processes to ensure a value for money culture throughout the business. The Bank has a robust procurement process with qualified staff ensuring adherence to public sector procurement rules. The Bank has strong financial governance with annual budgeting and regular reforecasting undertaken along with production of monthly management accounts. These processes helped deliver costs under budget for the year with total expenditure being £9.7 million, significantly under the budget set at the start of the year of £15.7 million. Efficient management of expenses also allowed the Bank to reduce its average creditor days to nine days as at 31 March 2022, complying with Scottish Government's prompt payment commitment (issued December 2009) of making payment of authorised invoices within 10 days.

Investment Portfolio

The Bank is a patient capital investor, which results in a gradual and long-term delivery of financial returns from most of its investment activities. The Bank invests through a range of equity, debt and fund instruments and the proportion or mix of these across its portfolio will determine the profile of the Bank's financial returns. The Bank committed to total investments of £141.9 million in the financial year to 31 March 2022 across 12 new investments. These ranged from £1 million to £50 million in equity, debt and fund investments and were made in geographical locations across Scotland ranging from Jedburgh to Aberdeen.

It should be highlighted that there is normally a delay between the commitment of funds to an investment and the related drawdown of funds. This delay is driven by the nature of the investment, for example, direct equity is most often drawn in full on day one of the commitment, whereas fund commitments are likely to be drawn over longer periods, for example, five years, and project finance debt is often drawn over a number of years.

The Bank recognises the challenges that annual budgeting and the drawdown profile of the Bank's bespoke investments bring to both the Bank and the Scottish Government. It is important that the Bank balances the challenge of annual budgeting with maintaining investment professionalism, ensuring appropriate due diligence is completed while giving potential investees the assurance that budget is available should the decision to invest be made.

Financial Performance continued

The Bank's current investment pipeline is strong and continues to evolve. The Bank aims to move to an increasingly active origination approach to investment.

The Bank classifies investments as financial instruments at fair value through the profit and loss (FVTPL) as they are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management and investment strategy. Investments are reported to the Board on this basis and investment valuations are performed quarterly and audited at the year end. Whilst reflecting fair value (the price that would be received on selling an asset in an orderly transaction between market participants at the measurement date) it exposes the Bank to volatility within its profit and loss on unrealised gains and losses on investments.

In the Bank's early years, as the portfolio is being built, this volatility will be increased and unrealised gains and losses are expected as a result of:

- Liquidity preference giving rise to gains on investment in the initial years.
- Fund net asset values reducing in early years due to the up-front fund setup and investment costs versus capital appreciation and expected gains in latter years.
- Capitalised interest giving rise to an offsetting unrealised loss, where the fair value of the investment has remained flat since acquisition.
- Portfolio company performance.

These are in line with industry and development finance expectations. In the period the Bank recognised a net unrealised loss of £3.4 million across its investment portfolio, which is in line with expectations. A breakdown of the main components of the loss are discussed on page 55. Since inception the Bank's portfolio valuation is akin to cost.

The Bank's role is to work alongside private, public and third sector partners in the wider ecosystem and seek to attract private sector funds to co-invest alongside its public capital wherever it can. The Bank not only expects to make a positive return on its investments in the medium-to-longer term but also to maximise its mission impact and accelerate investment activity in the Scottish economy as a whole.

The Bank is cognisant that recent global events will continue to impact the Scottish economy. The Bank is mindful of the implications of these events including recent inflationary rises and, as a result, we could envisage a significant increase in demand for the Bank's debt and equity investment in the second half of the year.

Overall, the Bank reported a net loss of £8.6m for the financial year. This loss was expected, given the Bank is in its infancy both in terms of the quantum of its investment portfolio and the ability of that portfolio to generate income and capital returns.

The Bank's Funding

The capital the Bank invests is provided by the Scottish Government in line with its commitment to capitalise the Bank with £2 billion over its first 10 years. Shares in the Bank are issued to Scottish Government, on behalf of the people of Scotland, in return for the value of capital funding received for investment. Over time this capital will be recycled and reinvested in the Scottish economy, creating a perpetual investment fund. In the financial year, £126.3 million of shares were issued.*

The Bank currently requires funding to run its operations and received operational funding of £9.7 million offset by £1.9 million of income, a net figure of £7.8 million in the year to cover operational costs. Funding received and not yet deployed (for investment or operational expenditure) of £10.2 million at the year end is held on the balance sheet within the general fund. Resource funding received and utilised, together with the profit or loss retained for the year, is recorded in the general fund.

There is no commitment to repay government funding. Income derived from the Bank's investment activity will support the medium-term goal for the Bank to be financially self-sustaining and in the longer term income in excess of the Bank's operating costs, together with proceeds on exit of investments, will be invested alongside its public capital in businesses and projects to support the delivery of the Bank's missions.

Outlook

The Bank is in a strong position to build upon its financial achievements to date. In the medium term the Bank aims to become financially self-sustainable through efficient income generation and cost management. The Bank will focus on building an investment portfolio in which annual investment income received covers annual operational expenditure; thereby significantly reducing the need for government support to operate the Bank over the medium term. Achieving financial self-sustainability in the budget plan period will be a key milestone in the development of the architecture of the Bank, as is the ability to act as a catalyst for private capital investment.

*The difference between this and the investment amount drawn in the year relates to an investment for £3 million made on 31 March 2022 for which shares will be issued after year end.

Risk Management

Governance structures are key to a successful organisation: they define the decision-making process upfront and establish clear roles and responsibilities and as a result this leads to a well-controlled and agile business. The Bank has embedded a strong control environment for this early stage in its development, which provides an excellent footing going forward.

In delivery of its missions, the Bank assumes a certain level of risk. A wide range of risk types are inherent in the Bank's business model and operations, and in delivering its mission impact investments. The Bank aims to effectively manage and mitigate these risks and recognises that excessive risk taking and poorly managed risks can lead to financial losses and non-financial impacts, negatively impacting the delivery of the missions over time and causing reputational damage. The Bank recognises that, as a development bank, the pipeline of potential and committed investments will carry a higher degree of risk than other investors. As such, the Bank understands its level of inherent risk and that not all investments will be profitable.

1. Risk Governance

The Board is accountable for effective risk management. In particular, the Board retains responsibility for approval of the Bank's risk strategy (including risk appetite) and for putting in place a governance structure that supports effective risk management alongside delivery of corporate objectives. Aspects of this responsibility have been delegated to the Risk Management and Conflicts Committee.

A 'three lines of defence' model has been established, which makes clear the delegated responsibilities of Board, committees, the Executive Team and employees in all areas of the Bank:

- **The first line of defence** (management and employees with investment and operational responsibilities) has primary responsibility for the identification, management and reporting of the risks incurred in the execution of strategic and operational plans on a day-to-day basis and adopting appropriate controls and activities.
- **The second line of defence** (the internal control and oversight functions) is responsible for the design of risk policies and methodologies, supporting the first line in identifying risks, monitoring performance and compliance, delivery of risk reporting and providing objective independent review and appropriate challenge to the first line of defence.
- **The third line of defence** (internal audit) provides independent and objective assurance on the robustness and appropriateness of the overall system of internal control including periodic assessment of the overall risk governance framework.

2. Risk Culture

The Board considers a strong risk management culture to be essential in enabling effective, informed, risk-based decision-making at all levels of the Bank.

The Board is embedding a risk management culture by ensuring that the Executive Team review and refresh the Bank's risk policies, strategy and risk profile through communication and employee training. It is the day-to-day responsibility of the Executive Team to ensure that the strategies for risk management are cascaded and consistently embedded in the organisational culture of the Bank.

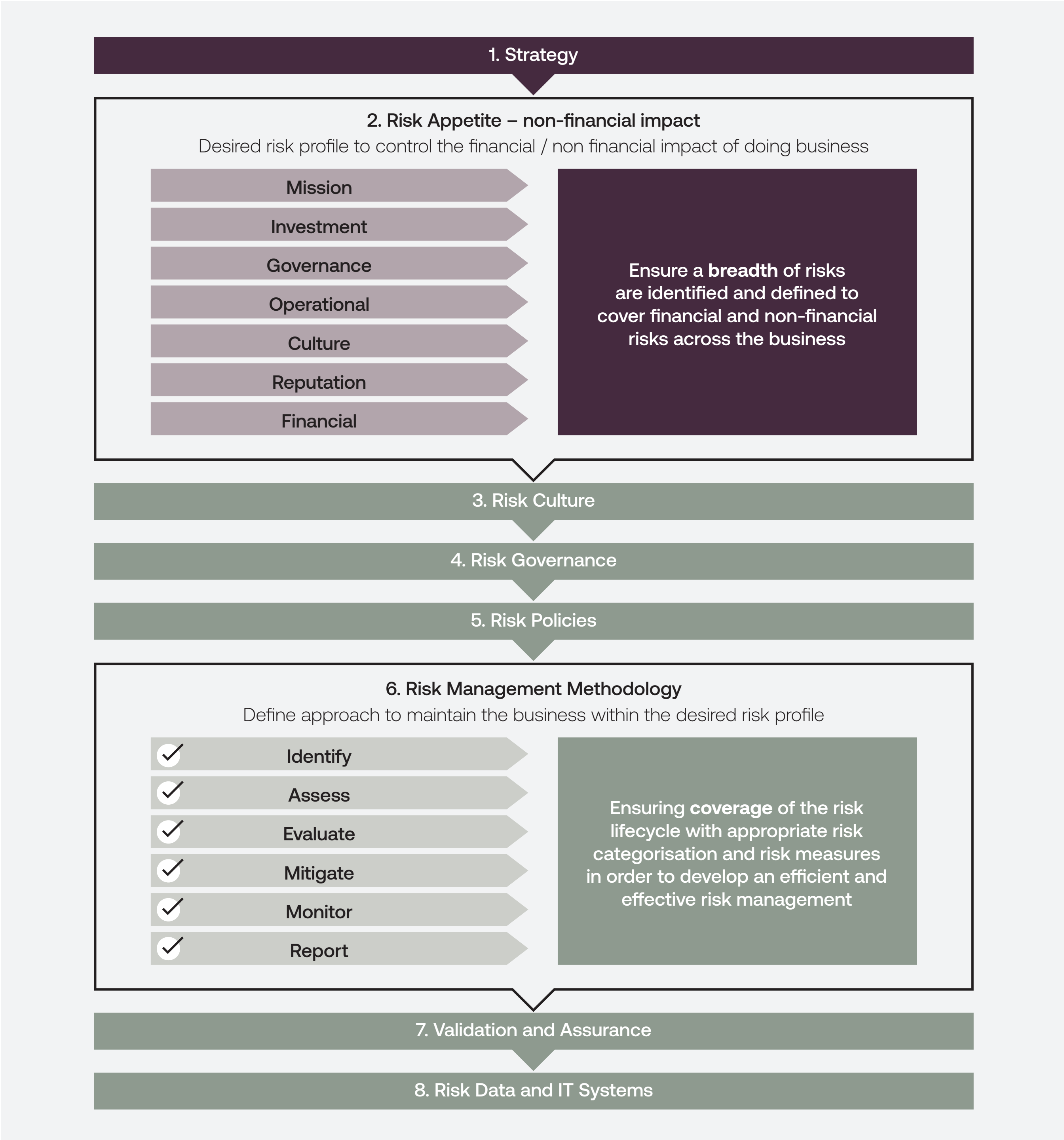
In particular:

- **Tone from the top:** The Bank's Executive Team promotes, monitors and assesses the risk culture of the Bank; considers the impact of the risk culture on the financial stability, risk profile and robust governance of the business; and makes changes where necessary.
- **Accountability:** Employees at all levels are expected to know and understand the values of the Bank and the Board's appetite for risk relevant to their role. All Bank employees are responsible for their contribution to the Bank's overall risk profile.
- **Effective communication and challenge:** Promoting an environment of open communication and effective challenge in which the decision-making processes encourage a broad range of views, allows for testing of current practices, stimulates a constructive critical attitude amongst staff members and promotes an environment of open and constructive engagement throughout the Bank.
- **Incentives:** Appropriate incentives play a key role in aligning behaviours with the Bank's risk profile, appetite and long-term interests. The Board and the Executive Team seek to reward and encourage all employees to demonstrate the right behaviours and culture, as reflected in its people and culture policies, as how the Bank's objectives are achieved are equally as important as what is achieved.
- **Collaboration:** The first and second lines of defence work in active partnership in managing the Bank's risk profile. However, the third line maintains operational independence at all times from other lines of defence.
- **Active discussion:** Risk and compliance matters are discussed as part of regular dialogue within the first line of defence. A holistic view of the Bank's risk profile is regularly reviewed and discussed at the Board's Risk Management and Conflicts Committee, amongst other governance settings.

Risk Management continued

3. Risk Management Framework

The Bank has established a framework of policies, procedures and structures to manage risk. These are described in the Risk Management Framework (RMF), which is itself subject to regular review and approval by the Risk Management and Conflicts Committee. The Bank's RMF encompasses subsidiaries, SIL and SISL.



The RMF defines the Bank's approach to risk management, from ensuring that the Bank's risk strategy reflects the organisation's overall corporate strategy, to defining the methodology for assessment and measurement of current and emerging risk.

The Governance, Legal, Risk and Compliance function maintains a suite of risk policies. These documents will be reviewed by the Risk Management and Conflicts Committee at least annually and are available to all employees.

A standard risk management methodology is in place for all risks, including guidance on identification, measurement and reporting of risk. The methodology is owned by the Head of Operational Risk and Head of Investment Risk, both of whom report to the General Counsel. Members of the Governance, Legal, Risk and Compliance team will meet regularly with risk owners and others to consider emerging risks, together with mitigation strategies, and whether such risks should be added to the relevant risk registers, in line with the requirements under the UK Corporate Governance Code 2018 (the Code).

The Executive committee regularly reviews the risk management framework taking into consideration both the Level 1 risks noted on page 65, as well as emerging risks, both internal to the Bank and at a macro economic level. The recent global events that are causing an unprecedented squeeze on living standards due to high inflation, supply chain issues and the continuing urgency of the climate emergency are considered to be emerging risks for the Bank and its investment portfolio.

The Investment Risk team designs and manages a range of key functions to enable the Bank to effectively identify, assess, manage, monitor and report on investment risk. The team's four essential functions may largely be described as being related to areas of policy, risk analysis, decision-making and ongoing diligence.

Investment Risk ensures that the Bank's investment risk policies are aligned to the Bank's investment strategy and agreed risk appetite levels, and maintains and manages the relevant frameworks and principles accordingly; as such, it plays a pivotal role at the centre of the Bank. Where deficiencies or gaps are identified it is able to intervene and manage in the first instance or escalate where necessary.

Investment Risk conducts thorough, independent risk analysis and evaluation of all investment proposals presented by the investment team, and aims to minimise the Bank's losses by identifying and measuring the key risks and mitigants present. It does this through proactive interrogation and challenge of all proposals before presentation at Investment Committee, thus maintaining a robust contribution throughout the investment process and in accordance with the Bank's Investment Risk Policy. As the Bank has a four-stage Investment Committee structure, which mirrors the evolution and development of an investment opportunity from first contact and basic outline through to a full diligence process and final investment decision, Investment Risk is necessarily engaged from the very earliest stages of potential investee contact. This ensures the operation of a 'no surprises' culture, in which Investment Risk's position is communicated clearly, key risk criteria are openly discussed and mitigants, if any, are developed over time during negotiations. In addition, Investment Risk provides subject matter expertise to support the investment team to meet their own first line risk management roles and responsibilities. The Head of Investment Risk is a voting member on all Investment Committees.

The Investment Risk team reports on the Bank's investment risk position to the Risk Management and Conflicts Committee and to the Valuations Committee on a quarterly basis and opines on the Bank's investment portfolio, specifically in relation to credit quality (debt), investment quality (equity),

Risk Management continued

concentration risk by sector, geographic diversity within Scotland, diversity with regard to missions and various operational performance metrics (timeliness of reviews and other portfolio management considerations). All investments are subject to ongoing performance review, the frequency of which depends upon an ongoing assessment of their individual quality; many investments will have financial and other information covenants which inform this process. Formal risk reviews are undertaken at least annually, and more frequently for those investments requiring greater levels of monitoring or intervention.

The Investment Risk team supports this review process from a second line of defence perspective and will reassess each investment on the same criteria and to the same high level of diligence upon which the original investment was made and ensure the continued adherence to all agreed terms and conditions.

Operational Risk (the risk of loss or non-financial impact arising from inadequate or failed processes, people, systems, or from external events) is a more qualitative risk type and cannot easily be quantified and decided in the same way that investment risk can be. Operational risk focuses on the business itself and how it operates, embedding a culture of awareness and utilising the three-lines-of-defence model to identify, measure, mitigate and report the operational risks that could impact the strategic objectives of the business.

Operational Risk work with all areas of the business, ensuring that the cyclical risk management process is followed and that risk identification and review are undertaken on a continuous basis. This allows the business to be assured that the Bank is aware of the opportunities and uncertainties that can arise through the day-to-day operation of the Bank.

Periodic assurance over the risk management framework is obtained through the internal audit function.

4. Risk Classification

Through its risk identification activities, as described in the RMF, the Bank has identified seven principal risks ('Level 1' risk type) and, within these, a larger number of more specific risks ('Level 2' risks) of particular relevance to the current and future plans of the Bank.

The Bank has articulated its appetite for each Level 1 risk. These qualitative appetite statements have been mapped to a suite of key risk indicators, designed to give management and the Board early sight of significant changes in risk profile.

During the period, the Board, through the Risk Management and Conflicts Committee, undertook the first annual review, and once again approved the Bank's RMF, including statements of risk appetite. The Bank carries out a robust assessment of the emerging and principal risks it faces, including those that would threaten its business model, future performance, solvency and liquidity, which are detailed at a high level on pages 66 to 69.

The Bank's Principal Risks

Mission Risk	Investment Risk	Financial Risk	Operational Risk	Environmental, Social & Governance	Culture Risk	Stakeholder Risk
Mission Alignment	Equity Investment Risk	Financial Management	Cyber Risk	Corporate Governance	People Risk	Shareholder Engagement
Mission Reporting	Debt Investment Risk	Financial Reporting	Business Continuity	Conduct Risk	Corporate Social Responsibility	Media and Communications
	Portfolio Risk	Funding Risk	Outsourcing and Third Party Risk	Regulatory and Legal Compliance		Marketing and Financial Promotions
	Ethical Investment Risk	Tax Risk	Employment Practice & Workplace	Financial Crime		
	Model Risk		Information and Data Governance	Climate Related Risk		
	Subsidy Control		Execution Delivery & Process			
			Fraud			

Key

- Level 1 Risk Type (dark boxes)
- Level 2 Risk Type (light boxes)

Risk Management continued

Principal and Emerging Risks and Uncertainties

Level 1 Risks	Definition	Principal Risks	Risk appetite statement	Mitigants
Mission	The risk that the type, kind, or number of investments or loans originated or held by the Bank are not sufficiently aligned to a mission or fail to deliver the desired benefits.	**Mission alignment** The Bank is exposed to the risk that its portfolio, or individual loans and investments are not aligned with or do not perform well against its Missions and/or objects.	The Bank has clear mandated objectives to make mission-oriented investments, and Mission Risk reflects the potential that investments do not deliver the expected mission related benefits. The Bank will mitigate this through only making investments that align with its missions, ensuring that sound governance and reporting processes are in place.	◆ Mission alignment considered at every stage of investment governance process. ◆ Investment risk process considers mission concentration. ◆ Investment management process to ensure ongoing benefit realisation.
Investment	The risk of losses due to failed loans, investments or inadequate portfolio management, creating volatility that could result in losses.	**Investment performance** The Bank is exposed to the risk of poorly performing or loss-making investments, both at an individual investment level and in the wider portfolio. Global events leading to inflation pressures, supply chain issues and the continuing urgency of the climate emergency are considered to be emerging risks for the investment portfolio.	As a development Bank, the Bank will seek out underinvested risk which by its nature will be high risk investment. The Bank will seek suitable compensation for the level of risk it is taking in its investments. The Bank accepts that high risk investment will lead to financial volatility and that there may be losses and write-downs from its investments. The Bank will assess, actively monitor and manage individual investments and its investment portfolio as a whole.	◆ Extensive experience of investment origination team. ◆ Robust investment governance process including risk analysis. ◆ Risk monitoring at portfolio level. ◆ Investment management process oversees ongoing financial and non-financial performance.
Financial	The risk of unstable capital or liquidity arising from fluctuations in funding streams, investment returns, financial performance or external factors.	**Funding** The Bank aims to become financially self-sufficient in the medium term but is exposed to the risk that the funding provided up to that point is insufficient to support that objective.	The Bank accepts the specific funding risk associated with relying solely on the Scottish Government for its funding as this aligns with its missions. There is focus on maintaining a strong financial control environment and the Bank has a low-risk appetite for inaccurate and untimely financial reporting to internal and external stakeholders. The Bank accepts a level of financial performance risk due to the inherent potential volatility from investment performance.	◆ Experienced Finance and Investment Teams undertaking regular pipeline monitoring. ◆ Regular Board and ExCo engagement and close management of financial planning and reporting. Transparency with Shareholder.
Operational	The risk of direct or indirect losses resulting from inadequate or failed internal processes, people and systems or from external events.	**Operational resilience** The Bank is exposed to the risk of disruption to its business operations through weaknesses or failures in processes, systems, people, suppliers or physical premises.	The Bank aims to operate a strong internal control framework, which will be enhanced through tight focus on continual improvement, but acknowledges that operational failures may occur, particularly during the early years of the Bank, as processes and standards embed. The Bank has a low appetite for operational risk arising from failure to comply with its polices or standards, whether they relate to systems, processes, cyber risk, business continuity, outsourcing and third party risk or regulatory compliance.	◆ Business continuity management framework (business impact analysis, BC plans, disaster recovery process, incident management process, etc). ◆ Internal control assessment process (part of RMF). ◆ Procurement and Supplier management policy and procedures developed and being embedded.

Risk Management continued

Principal and Emerging Risks and Uncertainties

Level 1 Risks	Definition	Principal Risks	Risk appetite statement	Mitigants
Governance	The risk that the Bank's frameworks and processes for decision-making are ineffective or are not supported by a culture of transparency and high standards of conduct.	**Regulatory and legal compliance** The Bank is exposed to the risk of non-compliance or a breach of an applicable law, policy, or regulation to which the Bank is subject, leading to financial penalties, reputational damage and/or action from the Scottish Government/regulator. The Bank is also exposed to the risk of financial loss or reputational damage as a consequence of legal proceedings brought against it by one of its investees or other key stakeholders due to unintentional or negligent failure to meet a legal obligation by the Bank's employees or partners.	As a public body and a financial institution, it is essential that strong governance frameworks are in place at the Bank to ensure transparency and robustness of decision-making. The Bank has a low appetite for risks arising from a failure to establish, maintain and develop these frameworks.	◆ Robust Board-level oversight of conduct and compliance culture. ◆ Experienced Compliance function, ExCo ownership. ◆ Contract reviews by Legal function and (on a risk-basis) external firms. ◆ Regular training for all staff on compliance topics, including at induction.
Culture	The risk that the Bank's culture fails to encourage respect, collaboration, collective and personal responsibility or to marry a public service ethos with financial sector acumen.	**People risk** The Bank is exposed to the risk that the organisation is not able to recruit, develop and retain staff with the right skills, experience and values to deliver against the Bank's strategic objectives.	The Bank has embraced a corporate culture where it operates and engages with stakeholders in an open, professional, respectful and collaborative manner with a shared sense of purpose and integrity at all times. The Bank seeks to ensure that all employees do the right thing and live by these cultural values in managing the risks which it faces. The Bank therefore has a low appetite for any behaviour that goes against these values and impacts net risk profile.	◆ Culture and values development programme. ◆ Regular employee engagement surveys. ◆ Performance and behaviour management process aligned to corporate goals/risks. ◆ Learning and development programme, including induction. ◆ Culture of transparent staff communication. ◆ Diversity policies, training, and reporting.
Reputational	The risk that the stakeholders form a negative view of the Bank due to actions by its staff, partners, third parties or invested companies.	**Stakeholder engagement** The Bank is exposed to the risk that it fails to engage with its key stakeholders, principally the existing financial and business ecosystem within Scotland and its Shareholder, the Scottish Government.	The Bank has a low appetite for risks where there is a likelihood of significant reputational damage from the conduct of employees, failure of processes or inadequate governance arrangements. Management understands, however, the potential for negative perceptions to arise as a result of public scrutiny. Management expects all members of staff to behave in a way that upholds our reputation and values. All investment decisions will be made responsibly with respect to the interests of the Bank, invested businesses and projects, as well as the people of Scotland as our owners and beneficiaries.	◆ Experienced Investment and Partnership and Engagement functions. ◆ Balanced scorecard with reporting format and frequency agreed with Shareholder. ◆ Engagement and communications strategy.

S172 Statement by the Directors

This section sets out how our directors have performed their duty under Section 172(1) of the Companies Act 2006 ('Section 172'). This Section 172 statement draws upon information contained in other sections of the Strategic Report.

Overview

Section 172 requires the directors of a company to act in a way they consider, in good faith, would most likely promote the success of the company for the benefit of its members, having regard to a series of matters, which includes other stakeholders.

Our Board is focused on the wider ecosystem within which the Bank operates when delivering its missions, including in discharging its Section 172 duties, in delivering the Bank's missions. A more detailed look at the Bank's missions and Impact is provided on pages 27 to 29. Of particular importance is the transparency and consistency of the Bank ensuring high standards of conduct in relation to our mission aligned investments.

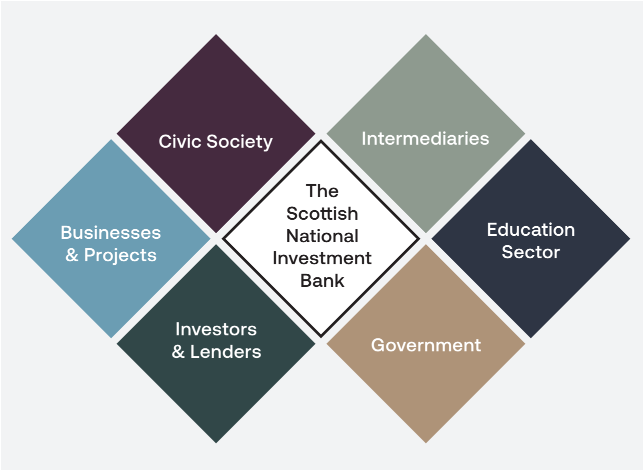
Key strategic decisions in FY21/22

The Board recognises the importance of building strong relationships with our stakeholders. This will help broaden and deepen understanding which will ultimately help the Bank deliver its missions and purpose. As such, as part of its decision-making process the Board considers the potential long-term consequences and the interests of stakeholders in its decisions.

Throughout the period, the Board and its committees reviewed and considered matters relating to the Bank's people, financial performance, business plan and mission delivery, risk profile, relationship with the Shareholder and wider ecosystem, and matters relating to compliance and legal risk, amongst others.

The Board has made some key decisions in the period to 31 March 2022 whereby consideration was given to the Bank's key stakeholders, which are captured in the relevant commentary below.

Stakeholders



The Bank is operating within a complex landscape and our key stakeholders remain unchanged. The Bank continues to be proactive in working with stakeholders and, as well as individual meetings and introduction sessions, it also sought out opportunities to participate in working groups with public and private sector organisations.

The Bank can play a pivotal role in catalysing change, and it is crucial that it works across the public, private and third sectors. Despite the ongoing challenges of physical meetings because of the COVID-19 pandemic during the early part of the year, the Bank has been able to maintain an active engagement programme with multiple stakeholders, presenting opportunities for members of our Board to engage. The Bank was proactive during COP26, attending over 35 events ensuring the Board engaged with a wide section of the ecosystem. For example, the Bank hosted a public event on Green Finance and the Just Transition. The session comprised a panel of Willie Watt, Kate Forbes and Marianna Mazzucato and was facilitated by Sally Magnusson. This event enabled the Bank to articulate the importance of the missions, the need to crowd-in private finance to support the delivery of the missions, and the value of working with the wider financial services ecosystem.

Shareholder Representative and the Wider Public Sector

The Bank has established strong relationships with those representing Scottish Government, including policy teams and other public bodies. This ensures continued alignment between government policy, the Bank's investment activity and its missions. The Chair and Executive Team had frequent interaction with the Scottish Government Shareholder team throughout the year, with a Shareholder representative attending Board meetings as an observer. This provided an opportunity for the Bank's Shareholder to engage directly with the Board and senior management.

The Bank also engages regularly with key policy teams in the Scottish Government. This enables the Bank to gain an insight into policy development and ensures that the Bank is sharing market intelligence on key issues. This has been particularly relevant around the Scottish Government's priorities for Scotwind and the potential role of the Bank as an investor in the development of a sustainable offshore wind supply chain. The Bank also engaged with the Scottish Government on the development of the National Strategy for Economic Transformation (NSET). This engagement has enabled a clear understanding of the Bank's role in supporting the delivery of NSET, specifically around the priorities of stimulating entrepreneurship, strengthening Scotland's position in new markets and industries and increasing productivity. The Bank has worked closely with other public sector partners, including the three enterprise agencies, to ensure that businesses and projects are referred smoothly to the correct source of potential support according to their needs. There are regular meetings between members of the Board and the Bank's Executive with parliamentarians, as well as attendance at parliamentary committees. In addition, the Bank meets with elected representatives of all political parties. The Bank is looking to increase its engagement across the political spectrum in the forthcoming year.

Ministerial Responsibility

The Minister with responsibility for the Bank for the year ended 31 March 2022 was Kate Forbes MSP, Cabinet Secretary for Finance and Economy. As the sole Shareholder of the Bank, the relationship with the Scottish Ministers is viewed as important. The Board engages with ministers throughout the year and the Chair and members of the Executive leadership team also have quarterly meetings with ministers.

External Impact and Engagement

The Bank seeks to engage with stakeholders across the whole of Scotland. While significant progress is under way, the Bank is still in the process of establishing relationships with the wider ecosystem, including potential co-investors, the advisory community, and representative bodies. The Bank is now a member of Scottish Financial Enterprise, the representative body for Scotland's financial services industry which will provide further opportunity to establish relationships. The Board, Executive Team and employees regularly speak at conferences and events. The Bank has also enhanced its social media presence and ongoing development of a digital presence is under way. The Chair and Executive Team meet with investee companies and leaders in key industries to seek feedback and insight into the Bank's activity.

The Bank will seek to increase the role of impact investment in Scotland as a whole, through its investments and the delivery of insights. The Bank has now published its first 'insight' paper, Scotland's Transition to Net Zero Heat. This paper outlines the Bank's view on the challenge of decarbonising heat and the potential role that the Bank can play in supporting this transition. The paper seeks to make a positive contribution to the debate on how society addresses the global climate emergency and the role that public commercial capital can play in the creation of new markets.

S172 Statement by the Directors continued

All supplier-related activity is managed in line with the Procurement and Outsourcing Policy, ensuring that supply risk is managed appropriately.

Financial Conduct Authority (FCA) approval remained a focus for the reporting period and, as part of that project, a number of discussions took place with the FCA as the regulator.

Communities and the Environment

The Bank invests on behalf of the people of Scotland and communities across Scotland are at the heart of the Bank's missions. When considering investments, mission alignment and community impact are a critical consideration for the Bank's investment team, Executive Team and members of the Board.

The Bank supports the adoption of fair work practices and encourages fair work criteria in the businesses and projects it invests in. Along with mission covenants, the Bank includes specific covenants in investment documentation to promote ethical and environmental investment standards.

During the reporting period, the Bank initiated a project related to the Task Force for Climate-Related Financial Disclosures Framework and several Board members were – and will continue to be – actively involved in the Bank's adoption of the TCFD Framework over future years as well as supporting our investees, adding value and lending knowledge in a challenging area.

People and Our Culture

As an investment organisation, the people we recruit, and their skills and experience, are the Bank's greatest asset. We want the Bank to continue to be a positive place to work and the success of the Bank's strategy and delivery of our missions is dependent on having motivated people with the expertise, skills and commitment needed to deliver our missions.

The Bank's approach to Workforce Engagement is set out more fully under our Corporate Governance Report. The Bank has established an employee forum and members of the Board have engaged with our people on a wide range of matters. This includes individual meetings, informal discussions and formal interactions via our committees and Board meetings. Twice in the year the Board considered the results of employee surveys. Openness, honesty and transparency between the Board and our people will continue to be an area of focus over the coming period.

The Bank has continued to develop its people policies and initiatives, and promotion and development programmes, to support the development of its employees.

Our culture is shaped by our clearly defined values and behaviours. These were co-created by the Executive Team and our employees, and endorsed by the Board, during the reporting period. We will continue to embed these values. We value diversity and inclusivity in our workforce and further afield and we set out elsewhere in the Annual Report and Accounts what we are doing in that regard, recognising as a young organisation there are more exciting steps to be taken, through collaborative consultation, in the coming period and beyond. The Bank's culture and values not only underpin how it operates internally but also how we engage with our wider ecosystem.

During the reporting period (as has been the case since the launch of the Bank) COVID-19 continued to impact the ecosystem in which the Bank operates and our own people and operations. We maintained our remote working capability throughout the period ensuring the Bank was able to deliver its missions and support its individual investees. We have engaged with and supported our people with working at home and with a flexible return to office-based working.

Governance Report

Imachar, Isle of Arran

"Robust governance is an important bedrock for the Bank, ensuring and enabling an effective alignment between the Bank's strategy, purpose, values, culture, and behaviours."

Willie Watt
Chairman

Chairman’s Governance Introduction

The Bank is led by a dedicated Board of Directors responsible for the effective delivery of the Bank’s strategic missions set by the Scottish Ministers as required by the Act.

As we approach the Bank’s second birthday in November, our Board has overseen a vital year as the Bank’s position within the Scottish investment landscape continued to emerge and our investment portfolio grew. In particular, I am delighted by the momentum built during the period and progress against our strategic objectives. A commitment of £141.9 million of investment in the year in 12 businesses and projects in Scotland is a very credible outcome given the early stages of the Bank’s development and the backdrop of the COVID-19 pandemic. The Bank passionately believes that it has a significant opportunity to make a difference in Scotland – and the Board is committed, and driven, to set and oversee the implementation of an ambitious strategy fully aligned with the Bank’s purpose.

Our Corporate Governance Report provides further details on how the Board has operated during the reporting period. The reports from each of the committees are also included on pages 92 to 103.

Since the Bank’s launch, the Board and its committees have primarily functioned in a virtual environment due to COVID-19. While the governance framework has operated well during that time, I was very pleased that our Board (and its committees) were able to come together in person, in a safe way, during the year.

Robust governance is an important bedrock for the Bank, ensuring and enabling an effective alignment between the Bank’s strategy, purpose, values, culture, and behaviours. Transparency in our governance also acts to give our stakeholders confidence as to how the Bank will partner with them. To that end, a range of documents outlining how the Bank operates are available at www.thebank.scot. Confidentiality is, of course, also important particularly in relation to commercial matters and those related to our People.

Unsurprisingly, therefore, in the first full year of operation, the Board has continued to build upon the early foundations laid in FY20/21, enhancing the Bank’s core principles and objectives in response to the missions and further embedding good working relationships and frameworks which support effective governance across the Bank.

The social, environmental, and economic returns delivered by the Bank’s mission impact is of fundamental importance and a continual area of focus for the Board and its committees. The Bank’s Annual Mission Report was approved in the period by the Board. In addition, the establishment of a cross-functional TCFD Working Group, responsible for developing a plan for the implementation of the recommendations of the TCFD underlines the Bank’s ambitions in respect of climate risk and impact. The Working Group has been very active in FY21/22 and the Board met to consider the group’s recommendations earlier this year. Looking forward, the Bank will continue to implement TCFD, including through ongoing enhancement of the Bank’s governance framework to ensure climate related considerations are embedded as effectively as possible within our decision-making processes. Early enhancements are already underway with the Board having formally appointed Jacqueline Redmond as a designated director for climate risk and, within its existing responsibilities, the Risk Management and Conflicts Committee will have a specific role to play in overseeing and supporting the delivery of the Bank’s climate risk and reporting objectives.

For more details on the Bank’s approach to impact investing and climate risk assessment and reporting, see pages 26 to 39.

People are our greatest strength, as is a culture where our people can thrive. As such, the Board has continued to assess and monitor the Bank’s culture, with the Bank’s values being defined and approved and the initial Equality Strategy and Outcomes being developed during the year. It is our intention to appoint a designated director for workforce engagement.

Similarly, the Board recognises the importance of strong, collaborative, and effective relationships across the Bank’s broad stakeholder landscape.

We are acutely aware that visibility across some of our stakeholder groups needs to continue to develop. Engagement and associated strategies will be prioritised during the next year.

Lastly, I am grateful for the dedication and significant contribution of our Directors and for their commitment to the Bank, which has exceeded the time commitment indicated within their appointments, to provide experienced, high value advice and guidance. I also thank our Shareholder for its continued support.

Willie Watt
Chairman

Directors' Report

The Directors present their annual report on the affairs of the Bank, together with the audited financial statements and independent auditor's report for the year ended 31 March 2022.

The Corporate Governance Report is set out on pages 84 to 91 and forms part of the Directors' Report.

The following information required by the Companies Act 2006, and incorporated by reference in this section, can be found in the following sections of the annual report:

- A description of the principal activities of the Group during the course of this year is included in the Strategic Report on pages 5 to 72.
- The Group's risk management disclosures are set out in the Strategic Report on pages 60 to 69.
- Information on our employment disability policies, gender pay gap, and our actions on colleague engagement is in the Annual Report of Remuneration on pages 104 to 114.
- Details of significant post balance sheet events are contained in note 26 to the financial statements.
- Information about the use of financial instruments by the company and its subsidiaries is given in note 2 to the financial statements.

The Bank has chosen to include information regarding future activities within the Strategic Report.

Dividends

The Directors do not recommend payment of a dividend (2021: nil).

Gifts and Hospitality

No gifts were made by the Bank. The cumulative value of gifts and hospitality received by staff was de minimis (2021: nil).

Ownership and Shareholder Governance

The Bank is wholly owned by Scottish Ministers on behalf of the people of Scotland. During the year, 126,329,988 ordinary shares of £1 each were issued to Scottish Ministers (2021: 22,923,333). As at 31 March 2022, 149,253,321 shares were held in issue. The Bank did not purchase its own shares in the relevant period (2021: nil).

Directors' Indemnities

The Company and its Directors have made qualifying third party indemnity provisions which operate to support them in the event of claims against them in relation to their responsibilities as Directors.

Accounts Direction

The Annual Report and Accounts have been prepared in accordance with a direction given by Scottish Ministers in pursuance of Section 19(4) of the Public Finance and Accountability (Scotland) Act 2000, as attached as an appendix to the Annual Report and Accounts.

The Annual Report and Accounts shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the period for which the report and accounts are prepared. The Annual Report and Accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial period and of the state of affairs as at the end of the financial year.

Going Concern

The Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for a period of at least 12 months from date of signing the Annual Report and Accounts. The Directors have made an assessment of going concern, considering both current performance and the Bank's outlook together with funding arrangements from its Shareholder, using the information available up to the date of issue of these financial statements.

This assessment is dependent on the Scottish Government providing additional financial support during that period. The Scottish Government has indicated its intention to continue to make available such funds as are needed by the Bank for at least 12 months from the date of approval of these Annual Report and Accounts. The Directors are confident that this financial support will continue and, at the date of approval of these Annual Report and Accounts, they have no reason to believe that it will not do so. Further details of the Directors' assessment are included in the notes to the financial statements.

As a result of this assessment, the Directors consider that it is appropriate to adopt a going concern basis of accounting in preparing the Bank's financial statements.

Long-term Viability Statement

The Bank is owned by Scottish Ministers on behalf of the people of Scotland. The Bank's continuation as an entity is ultimately at the discretion of the Scottish Government. The Board considered that the Bank has and will continue to have Scottish Government support and that its funding arrangements will remain in place. The Directors have based their assessment of viability on the Bank's business plan which is updated and approved annually by the Board. To be a viable business, the Bank must successfully fund its balance sheet and hold adequate capital and liquidity over the entire period covered by its viability statement.

The Directors have determined that a four-year period from the year end of assessment is an appropriate period over which to provide its viability statement. This is the period over which the Board considers that it can form a reasonable view of the key drivers of the Bank's performance including likely investment profile and value, together with operational costs until the next phase of the Bank's evolution in managing third party capital. With limited historical data and history of evolution of the pipeline, given the early stage of the Bank, further forecasting assumptions become less reliable until these are in place.

Directors' Report continued

The Bank's liquidity and capital positions are described in the financial performance section. The Bank produces a business plan which incorporates a four-year financial forecast. The key considerations made for the long-term viability of the Bank relate to the likelihood of continued provision of funding from the Scottish Government. The Board considers, amongst others, key person risk and operational risk, particularly given the infancy of the Bank and reliance on key individuals. The Bank is operationally resilient with critical functions including investment, governance and IT working effectively to date as intended, albeit on a remote basis at points in the year due to COVID restrictions. The businesses and projects that the Bank invests in are appraised individually with risks including the impact of supply chains, rising interest rates and fuel costs as a result of recent world events considered in each instance. The Board is cognisant that recent global events will continue to impact the Scottish economy. The Bank is mindful of the implications of these events including recent inflationary rises and as a result we could envisage a significant increase in demand for the Bank's debt and equity investment in the second half of the year.

As a result of this assessment, the Directors have a reasonable expectation that the Bank will continue in operation and meet its liabilities as they fall due over the four-year period.

Statement of Disclosure of Information to Auditor

So far as each Director is aware at the date of approving this report, there is no relevant audit information, being information needed by the auditor in connection with preparing this report, of which the auditor is unaware. All the Directors have taken the necessary steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

KPMG LLP were appointed as external auditor by the Auditor General for Scotland in accordance with the Public Finance and Accountability (Scotland) Act 2000 for an initial two-year period. Since the year end, KPMG LLP have been reappointed as External Auditor for a further five years ended FY26/27. The Bank's policy on the provision of non-audit services applies (see page 95).

The Strategic and Directors Report was approved by the Board and signed on its behalf by:

Sarah Roughead
Interim Chief Executive Officer

4 August 2022

Board of Directors

Willie Watt

Chairman

Appointed to the Board as Chair Designate July 2019 and as Chair in November 2020. Term expiry November 2023.

Willie retired in December 2019 from Martin Currie, an equities investment management firm, after 19 years as its Chief Executive and Chairman. Previously, Willie spent 16 years with the 3i Group, latterly as Managing Director responsible for the company's Scottish and Irish businesses and ran investment teams focussing on venture capital, energy and mid-market buy-outs. Since 2016 he has been a member of the Advisory Board of Scottish Equity Partners, and a member of the board of directors and Audit committee of the National Galleries of Scotland. He was educated at the University of Aberdeen.

Sarah Roughead

Interim Chief Executive Officer

Appointed Chief Financial Officer March 2021. Appointed as Interim Chief Executive Officer in March 2022.

Sarah has significant experience in private equity, venture capital and infrastructure funds. Prior to joining the Bank, Sarah was the CFO at Scottish Equity Partners and previously specialised in private equity audit and advisory at KPMG. Sarah is a fellow of the Institute of Chartered Accountants in England and Wales and was educated at the University of Birmingham.

Tracey Ashworth-Davies

Independent Non-Executive Director, Chair of Remuneration and Nominations Committee

Appointed to the Board in November 2020. Term expiry November 2024.

Tracey is currently Deputy Chief Executive Officer (Corporate) at NHS Education for Scotland. She is also a highly experienced financial services professional having held senior roles with Legal & General, Toronto Dominion Bank Group, Royal London Group and Scottish Provident. She understands the challenges of scaling businesses as she co-founded and went on to lead Bright Grey, a life insurance company start-up. She also has experience in sectors outside financial services: health and care, FMCG, manufacturing, construction and real estate. She is a Trustee at Edinburgh Children's Hospital Charity and served as a member of the Court of Heriot-Watt University for eight years. Tracey was educated at the University of Leeds and is a Chartered Fellow of CIPD.

Board of Directors continued

Carolyn Jameson

Independent Non-Executive Director

Appointed to the Board in November 2020. Term expiry November 2023.

Carolyn is an experienced leader of technology businesses and investor in innovation. She is currently Chief Trust Officer at Trustpilot, a consumer review platform. Previously she was Chief Legal Officer at Skyscanner, where she led the sale of the business to Ctrip for £1.46 billion, and subsequently became Head of International M&A for Ctrip. She is on the Advisory Board of Scottish Equity Partners, acts as a Non-Executive Director on early-stage company boards and has been a Board Member of VisitScotland. Carolyn was educated at the University of Edinburgh.

Peter Knott

Independent Non-Executive Director, Chair of Audit Committee

Appointed to the Board in November 2020. Term expiry November 2023.

Peter is highly experienced in impact investing as he was the Chief Risk Officer and then Chief Financial Officer of the UK Green Investment Bank. He is currently a Managing Director in the Edinburgh office of the Green Investment Group, part of Macquarie. He has broader investment experience through positions with Standard Chartered Bank, JP Morgan Chase and Robert Fleming. He is a Chartered Accountant, educated at the University of Reading. He is an Advisory Board member at the Centre for Climate Finance and Investment at Imperial College, London.

Jason McGibbon

Independent Non-Executive Director

Appointed to the Board in November 2020. Term expiry November 2024.

Jason is a specialist within the investment industry. He has spent most of his career as a partner at the global private equity firm Bridgepoint, where he led their Consumer Investment team, living and working in the UK, Germany, Turkey and the Nordic region. He now has a portfolio of chairperson and Non-Executive Director roles including Fable Data, OneFourZero, Phlo and Lumity. He also works with the social enterprise HCT, charity Football Beyond Borders and acts as a mentor for several early-stage start-ups. He was educated at the University of Strathclyde Business School and qualified as a Chartered Accountant with Ernst & Young in Scotland.

Nicholas Moon

Independent Non-Executive Director

Appointed to the Board in November 2020. Term expiry November 2024.

Nick brings near 20 years of public and private sector impact investment and leadership experience, formerly as Executive Director of Strategy for the Development Bank for Wales, and thereafter Partner at LeapFrog Investments, a leading international private equity impact investor. He is also an advisory board member for the World Bank IFC operating principles for global impact and a trustee board member for the Social Enterprise Academy. Nick holds an MBA from Imperial College London, specialising in advanced strategy and private equity.

Candida Morley

Senior Independent Director

Appointed to the Board in November 2020. Term expiry November 2024.

Candida currently has a senior executive role in UK Government Investments. She has had a wide range of previous non-executive appointments, in both the private sector and government. Candida also has extensive experience in private equity and investment in private companies, having worked for LDC, HgCapital and 3i. Previously she was Head of Strategic Development at a FTSE250 company, following an early career in corporate finance. She has degrees from the University of Oxford and the University of Stirling.

Jacqueline Redmond

Independent Non-Executive Director, Chair of Risk Management and Conflicts Committee

Appointed to the Board in November 2020. Term expiry November 2023.

Jacqueline has extensive energy and technology industry experience. She is currently Non-Executive Chair of CENSIS (the SME-focused Innovation Centre for Sensing, Imaging and Internet of Things technologies) and has been appointed Executive Director of PNDC, Strathclyde University's industrialisation centre focused on delivering whole energy solutions. Her previous experience includes Chief Risk Officer at the Green Investment Bank, VP Technology Strategy with Shell and Director Corporate Strategy with Scottish Power. She is a chartered engineer and holds degrees from the University of Strathclyde and Paisley College of Technology.

Board of Directors continued

Jonathan Taylor

Independent Non-Executive Director

Appointed to the Board in November 2020. Term expiry November 2023.

Jonathan brings extensive international development bank experience from his term as Vice President and Management Committee Member of the European Investment Bank (EIB). He led on the EIB green agenda. Prior to this he was Director General of Financial Services and Stability HM Treasury, and he was Director General of the London Investment Banking Association. Jonathan was educated at the University of Oxford.

Michael Robertson

Interim Chief Financial Officer

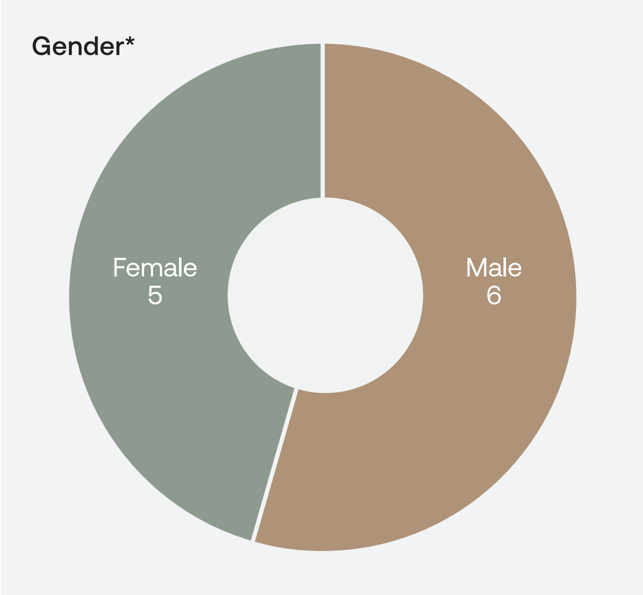
Appointed as Interim Chief Financial Officer in June 2022.

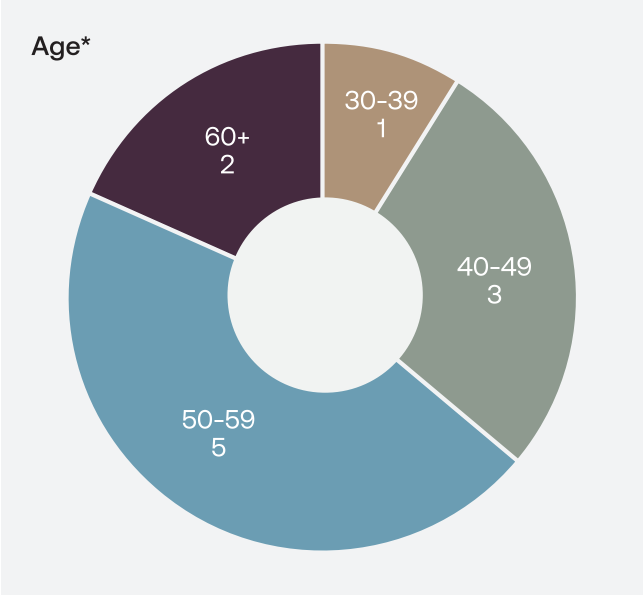
Michael Robertson joined as Interim Chief Finance Officer on 20 June 2022, bringing over 18 years' experience in private equity operations and fund administration, infrastructure and banking. Prior to joining the Bank, Michael was Head of Private Equity and Infrastructure Operations at abrdn and has also held a variety of senior manager roles within financial services and banking, including Lloyds Banking Group. Michael is a member of the Institute of Chartered Accountants of Scotland.

Eilidh Mactaggart, appointed as Chief Executive Officer designate in April 2020 and Chief Executive Officer in October 2020, resigned with effect from 1 March 2022.

Corporate Governance Snapshot

Our Board Diversity





Currently there is no ethnic diversity at an Executive Director and Non-Executive Director level, however, the Bank will continue to increase opportunities to improve diversity and inclusion across the Bank's Board, including ethnic minority representation.

Our Constitution

Document	Document Purpose
Scottish National Investment Bank Act 2020 (the Act)	Establishes the Bank, setting outs its vision; objects; powers; ownership; governance; operational matters, (such as the Bank's strategic missions and reporting requirements) and application of certain public body legislation to the Bank.
Articles of Association	Outlines the rules for the running, governing and ownership of the Bank, including the responsibilities and powers of the Directors.
Shareholder Relationship Framework Document (SRFD) (and Financial Memorandum)	Agreed between the Bank and the Scottish Ministers, as the Bank's sole Shareholder, the SRFD outlines the conduct of the relationship between the Bank and the Shareholder, including measures to ensure the appropriate financial controls and to ensure administrative and operational independence. The SRFD and Financial Memorandum can be found at www.thebank.scot

*Figures include Michael Robertson who joined as Interim Chief Financial Officer in June 2022.

Corporate Governance Report

UK Corporate Governance Code

The Bank is both a public limited company (PLC) and a Non-Departmental Public Body (NDPB). The Bank operates best practice corporate governance appropriate as applicable to its status as a PLC and a NDPB. It complies with the revised UK Corporate Governance Code (the Code) published by the Financial Reporting Council (FRC) in July 2018, other than in certain provisions connected to relations with the Scottish Ministers, as our Shareholder.

The Code is publicly available at www.frc.org.uk and the SRFD at www.thebank.scot

During the year, the Audit Committee considered the Bank's governance practices as compared to the Code. Apart from those set out in this Annual Report, the Bank has complied with the Code throughout the financial year under review insofar as it applies to the Bank. Details of how we have complied with the Code are set out more fully in this report, Committee Chair reports, and the Annual Report of Remuneration. Areas of non-compliance relate to the following, which except for principles 21 and 22 all relate to components of the Code that are not appropriate to the Bank given its Constitution and relationship with the Scottish Ministers:

- Provision 17, insofar as related to succession planning for the Board and senior management positions, given Director appointments are governed by Public Bodies Appointment processes. That said, the Bank has established a Remuneration and Nominations Committee and that Committee, and the Board has, during the reporting period, developed and agreed with the Bank's Shareholder orderly succession, nomination, and appointment processes. Further details regarding the appointments of Directors are set out in pages 79 to 82 of this Annual Report
- Provision 18, relating to the annual re-election of Directors for the reason set out above
- Provision 21 and 22, related to an annual evaluation of the performance of the Board. However, at the date of the report, it is notable that the Board has agreed a process to evaluate the Board's performance, with the review scheduled to be completed later in 2022
- Provisions 25 and 26, insofar as related to the approach taken to the appointment or reappointment of the external auditor, which is (in the Bank's case) appointed by the Auditor General of Scotland
- Provision 34, relating to the remuneration of Non-Executive Directors, with remuneration set in accordance with the daily fee framework of the Scottish Government's Pay Policy for Senior Appointments
- Provision 36 and 37, relating to share awards and remuneration schemes and policies. Further details regarding the Bank's remuneration policies can be found in the Annual Report of Remuneration, however in summary the Bank is required to operate within a pay and reward framework agreed with the Bank's Shareholder. Share awards do not apply to the Bank

The FCA Listing Rules are not applicable to the Bank.

As an organisation funded by taxpayer's money, the Bank complies with the principles of the Public Finance and Accountability (Scotland) Act 2000.

Board Members

The Bank's Board must comprise between nine and 13 members, there being at least two Executive Directors. There must not be more than four Executive Directors and at least two-thirds of the Directors must be Non-Executive Directors.

As at the date of this report, the Board is comprised of the Non-Executive Chair, two Executive Directors (the Interim Chief Executive Officer and the Interim Chief Financial Officer) and eight other independent Non-Executive Directors.

The Members as at the date of this report and their biographies are set out on pages 79 to 82.

Until March 2022 and, therefore, for the majority of the FY21/22, the Board comprised two Executive Members, being the Chief Executive Officer and the Chief Financial Officer. Recruitment of Chief Executive Officer is under way.

The period of a Non-Executive Director's appointment shall not exceed a period of five years, but such a Director may be reappointed for more than a single term. No Non-Executive Director may hold their office for a culminative period of more than eight years.

Executive Directors to the Board are appointed by the Bank with the consent of the Scottish Ministers for a period specified by the Scottish Ministers when making the appointment (which may be an undetermined period). Directors are not subject to annual re-election as referenced by the Code.

Board Appointments and Reappointments

Non-Executive Directors, including the Chair, are appointed by the Scottish Ministers. As set out above, Executive Members are appointed by the Bank after receiving consent to their appointment from Scottish Ministers. The Non-Executive Director appointment process was regulated and made by the Public Appointments team of the Scottish Government in accordance with the Code of Practice for Ministerial Appointments to Public Bodies in Scotland. A Diversity Delivers strategy published by the Commissioner for Ethical Standards in Public Life in Scotland is also applicable to all public appointments.

Director appointments can be terminated for the reasons set out Section 10(2) of the Act, or their appointment expires, or where a Director is removed from office by the Standards Commission for Scotland under the Ethical Standards in Public Life etc. (Scotland) Act 2000.

Board Diversity and Inclusion

A formal, rigorous and transparent search process for each appointment was undertaken in 2020, considering the balance of skills, experience and diversity, with steps taken to ensure that the application process was accessible to all throughout. Diversity search specialists were used to actively encourage a diverse field of applicants. In addition, stakeholders, including Changing the Chemistry, Women on Boards and Women's Enterprise Scotland, took part in early work to develop an approach to Board recruitment to encourage as diverse range of applicants as possible.

The skills criteria for the Board were shaped by the Bank's missions, and to ensure that the Board is appropriately placed to oversee the highest standards in the financial and public sectors. The Bank benefits from the depth and breadth of expertise of its Non-Executive Directors, including in respect of impact investment, ethical investment, private, public and third sectors, SME scale-up, and financial and public sector governance, bringing independent judgement on issues which are vital to the success of the Bank. Scottish businesses and trade unions were consulted on the skills criteria for the Board.

Inclusion at the Bank is imperative – not only because it is the right thing to do, but because the Bank plays an important part in advancing equality in Scotland as a role model, encourager and influencer across all our activities and in our relationships with employees, investment businesses and partners. We are pleased women represented 50% of the Board at 31 March 2022.

Further detail on diversity and inclusion can be found in the Remuneration and Nomination Committee report on page 102.

Corporate Governance Report continued

Board Independence and Directors' Conflicts of Interest

In accordance with best practice recommended in the Code, there is a division of responsibilities between the Chair and the Chief Executive Officer. Further, in line with the Code, over half of the Board (excluding the Chair) are independent Non-Executive Directors. During the public appointment process in 2020, it was determined that all Non-Executive Directors were free from any relationship or circumstance that could affect, or appear to affect, their independent judgement.

Each Director has a duty under the Companies Act 2006 and the Bank's Code of Conduct to manage conflicts of interest and declare potential conflicts. The Bank has processes to identify and disclose potential and actual conflicts of interest. The Company Secretary monitors and notes any potential conflicts of interest that each director may have, and directors are required to notify of any material changes to existing or potential conflicts. In addition, Directors are reminded of their continuing obligations in relation to potential or actual conflicts of interest at the beginning of each meeting, which helps determine whether they can continue to be considered independent.

A register of interests shall be available at www.thebank.scot

While Non-Executive Directors have declared potential conflicts of interest, the Board considers that all Non-Executive Directors remain independent in character and judgement for the purposes of the Code.

Executive Leadership

The Chief Executive Officer is responsible for the management and operation of the Bank and reports to the Board. The Chief Executive Officer is supported by the recommendations, advice, and views from the Bank's Executive Committee (EC). The EC is an Executive forum comprising Board Executive Directors and members of senior management that includes the Chief Financial Officer and Executive Directors for People and Culture, Partnerships and Engagement and the General Counsel. As required by the Bank's constitution, the members of the EC who must also be Executive Directors of the Board are the:

- Chief Executive Officer
- Chief Financial Officer

Changes to the Executive Directors of the Board during the FY21/22 are set out and explained elsewhere in this report. Having originally been appointed as the Chief Financial Officer in March 2021, we were delighted to appoint Sarah Roughead as Interim Chief Executive Officer (and to the Board in that capacity) in March 2022. Michael Robertson joined as Interim Chief Financial Officer and was appointed to the Board in June 2022.

The Chief Executive Officer is the Accountable Officer. The Accountable Officer has personal responsibilities in relation to the governance and internal controls of the Bank and the stewardship of the Bank's resources. The Accountable Officer's report is set out in pages 115 to 117.

In terms of EC governance, the EC normally meets every week to discuss strategic current and emerging issues, and for example to review the performance of the Bank.

In addition, to help facilitate governance between the EC and the Board, the EC holds meetings in advance of each Committee and Board meeting to discuss relevant matters.

Board and Committee Structure

The Board, led by the Chair, are responsible (among other matters) for:

- Ensuring the Board functions in accordance with the role set out in OnBoard: a guide for members of statutory Boards
- Promoting the Bank's long-term, sustainable success, as an institution providing investment to support the creation of a fairer, more sustainable economy in Scotland
- Monitoring the alignment of the Bank's purpose, strategy, business plans and values with the Bank's desired culture
- Approving and monitoring operating plans for achieving business and strategic objectives and reviewing the performance of the management in meeting agreed goals
- Independent oversight and challenge on issues of strategy, performance and resources.

The SRFD and Financial Memorandum establishes a delegation of authorities. Unless matters are specifically reserved for Shareholder approval in general meeting or pursuant to our Constitution, authority is delegated to the Board, which has then delegated responsibility to the Chief Executive Officer.

In addition, the Board has established four Committees to assist it to fulfil its oversight and other responsibilities and ensure robust and effective decision-making. These are the Audit, Remuneration and Nominations, Risk Management and Conflicts, and Valuation Committees. The Board receives a report from each Committee chair at each Board meeting. Each Committee is chaired by an independent Non-Executive Board member. Only independent Non-Executive Directors are members of the Committees.

Details of the work carried out by each of the Committees can be found in the respective Committee reports from pages 92 to 103.

The Terms of Reference for each Committee are available at www.thebank.scot

The specific responsibilities of the Chair, the Chief Executive Officer, the Senior Independent Director (SID) and the Board of Directors were set out during the appointment process.

The Chair is tasked with providing effective leadership of the Board; leading the Board in providing strong oversight and driving the Board's agenda, culture and values; fostering and ensuring constructive and appropriate challenge to the performance and strategic initiatives of the Executive by the Board; and maintaining external relationships with key stakeholders, including but not limited to the Scottish Ministers. The Chair also meets with the Non-Executive Directors without the Executive Directors, as necessary.

The role of the SID is to provide a sounding board for the Chair and to serve as an intermediary for the other directors where necessary. The SID also acts as an intermediary between the Bank and the Shareholder should there be concerns that have not been resolved through normal channels, or when such channels would be inappropriate. The SID is responsible for leading the oversight and review of the Chair's performance. The Bank's SID is Candida Morley.

The Chief Executive Officer is the senior executive of the Bank and has overall accountability for the implementation of the Bank's business strategy in line with policies and plans agreed by the Board, ensuring that the Bank delivers its mission impact investment in a way that drives sustainable and economic prosperity across Scotland. In addition, the Chief Executive Officer is responsible for embedding the Bank's culture and values; leading the Executive Team in the day-to-day running of the Bank; and maintaining collaborative relationships with the Chair, the Board, Scottish Ministers and partners and stakeholders across the private, public and third sectors, to align the Bank's aims and objectives with its missions and Scotland's economic priorities.

A Shareholder representative has regularly attended meetings of the Board during the financial year.

All Directors have access to the advice and services of the Bank's Company Secretary in relation to the discharge of their duties on the Board and any Committees they serve on, and on all matters related to the Bank's governance.

Corporate Governance Report continued

The Company Secretary is a standing attendee at each Board meeting. Members of the EC, and other senior executives across the Bank, also regularly attend.

Employee engagement is important to the Board and members of the Board are encouraged to have regular contact with management across the Bank. The code sets out three methods for engagement with the workforce. Through the year, the Bank did not adopt any of the three methods, instead adopting an alternative arrangements approach, with several different interaction approaches used, such as Q&A presentations, formal presentations by Bank employees at meetings of the Board and Committees on a variety of matters, and interactions (one to one and in small groups) with a number of the Non-Executive Directors to enable two-way discussions, for example on key projects for the Bank. The Board (and the Remuneration and Nomination Committee) receive updates on employee views and sentiment through employee surveys. Furthermore, during the year, the Board considered and approved the launch of the Bank's values (and behaviours).

Continuous improvement of our key governance practices is imperative to the Bank and the Board shall continue to refine and shape its employee engagement approach to ensure it is, and remains, appropriate for the Board to understand the views of the Bank's employees.

The Board uses an electronic portal to support the distribution of Board reports and other information securely, increasing efficiency, confidentiality and sustainability.

Board and Committee Performance

During 2021 a review of the Chair's performance was led by the SID in consultation with the other independent Non-Executive Directors and key stakeholders. Non-Executive Directors also underwent an individual review with the Chair. These reviews confirmed that the performance of the Chair and each Non-Executive Director was effective. Furthermore, at the date of publication, each Committee has carried out an annual review of its effectiveness, by use of a questionnaire including themes and principles raised by the Code. The annual reviews were internally facilitated. The evaluations concluded that each of the four Committees have performed effectively during the reporting period. Each Committee will progress recommendations on any areas for improvement that were identified through the year.

The outputs of the evaluations will support an internal review of the Board effectiveness. The Board did not carry out a formal annual evaluation of its own performance as set out in the code, however as at the date of publication the Board has approved a process for the performance review which has been scheduled to be undertaken later in 2022. In line with the Code recommendations, it is anticipated that the Board will conduct its initial external evaluation in 2023.

The review of Executive Directors' performance is contained in the Annual Report of Remuneration on pages 104 to 114.

On appointment, the Board received an induction process covering aspects of the Bank's governance. Subsequently training and development sessions on matters relevant to the Bank and its operations have been provided covering, amongst others, matters relevant to the FCA application.

Board Activity FY21/22

The Board ordinarily meets at least four times a year. During the year, six full Board meetings were held (two of which were called as ad-hoc meetings). In addition, during the year, there were three additional administrative procedural meetings to formally appoint Directors and issue shares. Board member attendance at six full Board meetings is provided at page 91, as well as Committee attendance. The Board delegated authority to a sub-group of members for the purpose of the administrative procedural meetings. In addition, the Board held an annual strategy meeting in September 2021. The key activities undertaken by the Board during the year were:

Strategy	◆ Approved the Bank's financial and operating plans for FY22/23 + three years ◆ Discussed engagement and communications with the Bank's ecosystem and associated strategies ◆ Approved the Bank's approach to FCA Authorisation
Impact	◆ Received reports from the Bank's Head of Impact Assessment and Reporting on the impact of the Bank, providing opportunity for the Board to input and challenge where necessary ◆ Approved the Bank's Equality Strategy and Equality Outcomes ◆ Approved the Bank's Annual Mission Report
Oversight	◆ Received reports from the Chief Executive Officer on the Bank's investment activity and, more broadly, on the Bank's performance management information ◆ Discussed the Bank's approach to engagement and oversight of stakeholder relations ◆ Reviewed reports on the Bank's delivery of strategy and operational objectives
Governance	◆ Discussed and approved changes to the Bank's senior leadership following the resignation of the Chief Executive Officer during the year ◆ Discussed update reports from the Committees ◆ Received reports from the Chief Executive Officer on the delivery of the Bank's strategic and operation objectives ◆ Approved the Bank's Ethical Investment Policy
Financial Reporting	◆ Approved the Annual Report and Accounts 2020/21 ◆ Monitored the Bank's financial performance and considered reports provided by the Chief Financial Officer on financial reporting
People and Culture	◆ Approved the Bank's values ◆ Discussed employee survey results

Corporate Governance Report continued

Internal Control

The Board recognises its responsibility for establishing, maintaining and reviewing the systems of internal control and risk management, both financially and operationally. The systems of internal control are compliant with the relevant sections of the Code and are based on an ongoing process designed to identify material risks, to evaluate those risks and to manage them effectively.

A more detailed report on the Bank's internal control systems and risk management framework and processes is provided on pages 60 to 69.

Public Services Reform (Scotland) Act 2010

Sections 31 and 32 of the Public Services Reform (Scotland) Act 2010 require listed bodies (including the Bank) to publish information on expenditure and certain other matters as soon as reasonably practicable after the end of each financial year. The Bank will publish the information required under this Act at www.thebank.scot later in 2022.

Political Donations

The Bank has not made any political donations or incurred any political expenditure in FY21/22 (2021: nil).

2022 Annual General Meeting ("AGM")

The 2022 AGM will be held on Thursday 22 September. The Notice of the AGM and related papers will be sent to the Shareholder in advance.

Other Disclosures

Other disclosures relevant to our Corporate Governance Report are included in the reports of our Committees, the Annual Report of Remuneration and the Directors' Report.

Key Priorities for the Board FY22/23

Mission Impact	◆ Delivery, and demonstration, of mission impact ◆ TCFD
Investment and Financial Performance	◆ Bank's financial self-sustainability ◆ Crowding-in private capital ◆ Target rate of return ◆ Investment origination ◆ Delivery of Business Plan objectives
Eco-system Engagement and Insights	◆ Engagement strategy and action plan ◆ Development of thought leadership
People and Culture	◆ CEO recruitment ◆ Engagement surveys ◆ Team voice ◆ Review of pay and reward framework ◆ Equality strategy outcomes
Governance and Risk	◆ FCA authorisation ◆ NEDs nominations and appointments

Board and Committee Attendance

		Held	Attended
Full Board[1]	Willie Watt	6	6
	Tracey Ashworth-Davies[2]	6	5
	Carolyn Jameson[3]	6	4
	Peter Knott	6	6
	Jason McGibbon	6	6
	Nicholas Moon	6	6
	Candida Morley[4]	6	5
	Dr Jacqueline Redmond	6	6
	Sir Jonathan Taylor	6	6
	Eilidh Mactaggart	5[1]	5
	Sarah Roughead	6	6
Audit Committee	Peter Knott	6	6
	Jason McGibbon	6	6
	Sir Jonathan Taylor	6	6
Remuneration and Nominations Committee	Tracey Ashworth-Davies	6	6
	Carolyn Jameson[3]	6	4
	Candida Morley[4]	6	5
Risk Management and Conflicts Committee	Dr Jacqueline Redmond[5]	4	3
	Carolyn Jameson	4	4
	Nicholas Moon	4	4
Valuations Committee	Willie Watt	4	4
	Jason McGibbon	4	4
	Sir Jonathan Taylor	4	4

1. Eilidh Mactaggart resigned with effect from 1 March 2022.
2. Tracey Ashworth-Davies was unable to attend one Board meeting due to bereavement.
3. Carolyn Jameson was unable to attend two Board meetings and two Remuneration and Nomination Committee meetings due to prior commitments.
4. Candida Morley was unable to attend one Board meeting and one Remuneration and Nomination Committee meeting due to illness.
5. Dr Jacqueline Redmond was unable to attend one Risk Management and Conflicts Committee meeting due to bereavement.

Audit Committee Report

I am pleased to present the Audit Committee report for the period ended 31 March 2022.

The Audit Committee has primary responsibility for ensuring the integrity of the Group's financial statements and any other formal announcement relating to its financial performance. The Committee also reviews, monitors and makes recommendations to the Board as set out opposite.

The Audit Committee has three members:

- **Peter Knott (Chair)**
- **Jason McGibbon**
- **Jonathan Taylor**

The Board is satisfied that the Chair and the Committee members have significant and recent knowledge and experience of financial services with financial and investment experience relevant to a mission impact development bank.

The Committee invites and holds regular meetings with the External Auditor, Head of Internal Audit, Chief Financial Officer and Chief Executive Officer. The Bank's Company Secretary is Secretary to the Committee.

Report on the Period

In the year to 31 March 2022 the Committee focused on a number of areas such as:

- Corporate Governance
- Budget submissions and forecasting
- Internal audit reports and actions
- Audit timetable and fees
- Bank's balanced scorecard

Audit Committee Terms of Reference

The Audit Committee's terms of reference have been established and approved. The terms of reference specifically permits the Audit Committee to obtain independent advice at the Bank's expense to discharge its responsibilities as required. Beyond the use of internal audit no external advice was sought in the year.

Financial Reporting

The Bank's financial statements are prepared in accordance with UK-adopted international accounting standards. In addition, the financial statements have been prepared in accordance with a direction given by Scottish Ministers in pursuance of Section 19 (4) of the Public Finance and Accountability (Scotland) Act 2000. In monitoring the preparation of the financial statements of the Group, the Committee reviewed and concluded suitable accounting policies had been adopted and appropriate key accounting judgements and estimates had been made by management.

Areas of key accounting judgement and significant estimates

The key accounting judgements and estimates of the Bank relate to the valuation of investments which are accounted for in accordance with IFRS. In fair valuing the Bank's unquoted investments, International Private Equity and Venture Capital (IPEV) guidelines are applied. The fair values of unquoted investments are inherently subjective as they are based on a number of forward-looking estimates and judgements.

Area of Governance	Purpose and Responsibility
Financial Reporting	◆ Monitor the integrity of the financial statements and review critical accounting policies ◆ Assess and challenge key accounting judgements and significant estimates ◆ Ensure the financial statements are fair, balanced and understandable ◆ Review compliance with shareholder reporting requirements
Internal Control	◆ Review the adequacy and effectiveness of internal financial controls and systems and financial risk management and reporting ◆ Review and approve the internal control statements in the financial statements ◆ Review and approve all financial reporting policies and procedures ◆ Oversee processes to support the Accountable Officer's compliance ◆ Ensure the Bank has appropriate processes in place in relation to preparation of annual budgets ◆ Approve delegations of authority for execution of documents and financial expenditure
Internal Audit	◆ Approve the appointment of Head of Internal Audit and monitor the effectiveness of the Bank's outsourced Internal Audit function ◆ Review and approve the Internal Audit Charter ◆ Assess the Internal Audit work plan and make recommendations to the Board ◆ Assess the findings of Internal Audit and management responsiveness to recommendations ◆ Meet independently from management with the Internal Auditor
External Audit	◆ Review and update the Board regarding the appointment and removal of the external auditor by the Auditor General of Scotland ◆ Oversee the relationship with the external auditor, including remuneration, terms of engagement and consider the effectiveness, independence and objectivity of the team ◆ Develop and implement a policy for non-audit services supplied ◆ Review the external audit plan including approach to significant audit risks ◆ Review audit findings, key accounting and audit judgements and management's response to recommendations ◆ Meet independently from management with the external auditor
Whistle Blowing	◆ Review and approve the adequacy and security of the Bank's whistle-blowing policy and process

Audit Committee Report continued

Given the material and subjective nature of investment fair values, the Board has a Valuations Committee to review the valuations policy, process and results on a quarterly basis. Two members of the Audit Committee sit on the Valuations Committee, the chair of the Audit Committee observed the year end Valuations Committee and all Audit Committee members see management's reporting to the Valuations Committee.

On behalf of the Board, the Audit Committee evaluated the findings of the Valuation Committee and external audit and challenged management's application of IPEV guidance. The Committee concluded that valuation policies and accounting guidelines, including disclosure requirements in the financial statements, had been appropriately applied.

Fair, balanced and understandable

As well as undertaking their own review, the Committee sought independent advice from Grant Thornton UK LLP in their capacity as Internal Auditors, which, based on their review of the annual report, financial statements and other financial reporting, taken as a whole, is fair, balanced and understandable.

Going concern

The Committee considered management's approach to, and its conclusions on, the Group's ability to continue as a going concern. The assessment considered the current capital position of the Group and liquidity requirements to deliver its mission-led investment objectives and to manage associated operational costs over a four-year forecast.

It is intended that the Bank will achieve financial self-sustainability in the medium term through generating income from the investments it makes and closely monitoring and controlling its costs. In the financial year ended 31 March 2022, income of £1.9 million was generated from the investment portfolio with operational expenditure of £9.7 million. The Bank remains reliant on Scottish Government funding for both investment and operational expenditure. The Scottish Government remain committed to providing £2 billion of capital to the Bank for investment over 10 years and specific assurances have been given to continue to fund the Bank's operational expenditure for 12 months from the signing of the financial statements.

The Committee recommended that the Board support the conclusion to prepare the financial statements on a going concern basis and, having considered analysis and discussion with the Finance team within the Bank and the findings of the external auditor in relation to financial reporting considerations, the Committee recommended to the Board the approval of the financial statements.

Internal Control

The Committee have continued to review and approve several policies across financial management, financial reporting, treasury and tax. There is an ongoing process to review and approve any material changes to these policies and as such the Committee has considered and approved updates to several policies. We have also regularly reviewed the ongoing financial and budgetary position of the Bank and had regular dialogue with both internal and external auditors. This internal control framework has supported the Accountable Officer in ensuring compliance with their duties and has enabled the Committee to conclude that the internal control framework in the Bank is effective.

Internal Audit

The Committee has appointed Grant Thornton UK LLP as the outsourced provider of the Bank's internal audit function. We have also agreed the Internal Audit charter which describes the purpose and role of internal audit, authority and responsibility of the Head of Internal Audit and the scope, nature and oversight of the internal audit function.

During the financial year the Committee reviewed and approved the Internal Audit plan and reviewed the internal audit reports on the Bank's risk management framework, people function and information technology. No significant breaches of internal control were identified in the period with any actions and recommendations for improvement being highlighted and monitored to ensure they are actioned.

The Chair of the Audit Committee has direct access to the Head of Internal Audit and the Committee will meet and has met during the year with the Head of Internal Audit without management present at least on an annual basis.

The Committee undertook an annual assessment of the Internal Audit's function's performance during the year. Overall, the Committee is satisfied with the performance and effectiveness of the internal auditor for the financial year and that the function has appropriate resource and scope to discharge its duties effectively. The Committee is also satisfied that the function is independent from the operational management of the Bank.

External Audit

The Code requires that the Audit Committee should make a recommendation on the appointment of the external auditor to the Board. As a public body subject to section 21 (4) of the Public Finance and Accountability (Scotland) Act 2000 the Auditor General of Scotland is responsible for appointing the Bank's external auditor. In May 2021, the Auditor General of Scotland appointed KPMG LLP (KPMG) as external auditor for the FY20/21 and FY21/22 financial year ends. KPMG were also appointed auditor to the subsidiaries of the Bank. In March 2022, following an audit tender exercise on behalf of the Auditor General for Scotland, KPMG were appointed as auditor for the Bank for a further period of five years.

The Committee has reviewed the level of auditor remuneration to assess whether it is competitive and represents value for money and approved engagement terms. In addition, the Committee reviewed KPMG's audit plan, including materiality considerations and assessment of significant audit risks, being valuation of unlisted investments and the risk of management override of controls. The Committee agreed with the approach and focus of work.

The Committee met with KPMG to discuss and review audit findings and the results of testing in key areas of focus. Discussion was focused on the valuation of investments, which are inherently subjective in nature and contain management assumptions. There were no audit findings that required addressing or resolution.

Under the terms of KPMG LLP's appointment, they must not carry out any non-audit work for the Bank without the prior approval of the Audit Committee and must comply with the Bank's policy on provision of non-audit services. During the reporting period, the Committee approved a policy on provision of non-audit services and the Committee monitors implementation of that policy. Having considered compliance with the Bank's policy, the Committee is satisfied that KPMG has remained independent of the Bank. The external auditors have not conducted any non-audit services during the financial period.

The Chair of the Audit Committee has direct access to the external Audit partner and the Committee will meet and has met with the external Audit partner without management present at least on an annual basis.

Overall, the Committee is satisfied with the independence, performance and effectiveness of the external auditor for the financial year.

Whistle Blowing

During the period, the Committee reviewed and approved the Bank's whistle-blowing policy. The Chair of the Committee acts as the independent contact for whistle-blowing concerns at the Bank.

Summary

The Committee has built upon the strong foundations and governance that were put in place following the launch of the Bank which has ensured the appropriate level of internal control and financial oversight is in place. This is supported by a robust internal and external audit function that support the Committee in discharging its ongoing responsibilities effectively and ensures the integrity of the financial statements.

Peter Knott
Chair of the Audit Committee

Valuations Committee Report

Investment is at the centre of the business of the Bank and as a consequence the Bank has a dedicated Valuations Committee. I am pleased to present the Valuations Committee's report for FY21/22.

The Valuations Committee meets on a quarterly basis and has primary responsibility for ensuring that the Bank's valuations methodology, policies and oversight of the valuations process are robust. Through independent challenge, the committee considers specific valuations of individual investments and of the portfolio as a whole. In addition, as a core function, the committee observes the Bank's investment process and the effective operation of the Executive Investment Committee (EIC). Members of the Committee participate in the final stages of investment decision-making.

Importantly, the committee supports the Board in the development, and oversight of the implementation, of the Bank's strategic initiatives and business plan in respect of the Bank's investment activity. It also monitors progress against the Bank's responsible investment objectives and commitments during the year from an economic and non-financial performance perspective.

The committee and management recognise the importance of monitoring the macroeconomic environment and any factors that may impact on the Bank's investments. As such, the committee also plays a role in providing direction regarding the Bank's approach to portfolio management.

In executing its role, the committee, amongst other activities, therefore:

1. Reviews the valuation policies of the Bank and recommends changes to the Board
2. Ensures the valuation methodology and practices in relation to investment assets are appropriate
3. Validates and recommends to the Board or the Audit Committee the valuations to be placed on investment assets for the purpose of financial reporting
4. Reviews the investment process of the Bank and the operational arrangements for the decision making of the EIC and the process by which it assesses investment propositions
5. Reviews and, where appropriate, challenges management's judgements regarding any specific impairment provisions relating to the Bank's investments
6. In conjunction with the Risk Management and Conflicts Committee, ensures risks inherent in the Bank's investment portfolio are properly considered
7. Approves policies relating to ethical investment and investment risk
8. Monitors the social, environmental, and economic returns delivered by the Bank's mission impact.

The Valuations Committee has three members, all of which have extensive experience of investment decision-making:

- **Willie Watt (Chair)**
- **Jason McGibbon**
- **Jonathan Taylor**

The Chief Executive Officer and Chief Financial Officer, as well as senior members of the investment team have been invited to join meetings. In addition, the Committee can invite others to attend on the request of the Chair as appropriate. The Bank's Company Secretary is Secretary to the Committee.

More specifically, in addition to carrying out the activities set out above, a key focus for the Committee during the reporting period has been:

Portfolio Performance

Portfolio valuations have, as expected, proved to be relatively flat overall at the year end, with a Total Value to Paid-In ratio of 1.02x. Unrealised losses during the year have resulted primarily from an expected reduction in fund net asset value due to up-front set up costs, and capitalised interest accounting treatment. Investee company enterprise value has remained broadly flat. The Committee provided independent review and challenge of the investment valuations at the year end. The Committee was pleased to be joined by the Chair of the Audit Committee to observe scrutiny of the year end valuations.

During the year, the committee also reviewed the Bank's Annual Mission Report and considered the mission alignment impact of the Bank's investments. In addition, we seek actively to support the Bank's investment team as it considers investee company growth and development. Therefore, members of senior management from the impact assessment and reporting and portfolio management teams are invited to attend committee meetings to ensure a clear understanding of the Bank's non-financial investment and portfolio performance.

Target Rate of Return

The Bank seeks to deliver a positive commercial return on its investments over the longer term to support the Bank becoming financially self-sustaining. A detailed project has been undertaken during the year to consider an appropriate target rate of return for the Bank. The Committee was actively involved in reviewing progress and provided scrutiny of the methodology and analysis. This work will continue in the next year.

Investment Activity

The Committee receives reports from the Chief Executive Officer and senior members of the investment team on the Bank's investment activity to assess progress at a portfolio level and the Bank's investment pipeline, supporting the identification of any discernible trends and/or risks associated with the Bank's investment activity.

Investment Origination

The Committee considered the Bank's approach to investment origination. In the next year, the Bank will be taking an increasingly active investment origination approach, while continuing to encourage inbound enquiries.

Key Policies

It is imperative that the Bank's key investment policies remain "future fit" and support the Bank's investment ambitions and risk appetite. Unsurprisingly the Committee undertook its annual review of the Bank's Investment Strategy, Investment Risk Policy, and Valuations Policy during the year.

Willie Watt
Chair of the Valuations Committee

Risk Management and Conflicts Committee Report

The primary purpose of the Risk Management and Conflicts Committee is to support the Board in relation to the effectiveness and robustness of the Bank's risk management systems and processes.

The Committee meets on a quarterly basis as a minimum and reviews, approves and monitors:

1. The Bank's attitude to and appetite for risk
2. The Bank's risk management infrastructure and systems
3. How risks are reported, assessed and quantified
4. Risk policies and risk limits
5. How conflicts of interest are managed
6. The processes for compliance with laws, regulations and codes of practice and prevention of fraud
7. The Bank's position in relation to subsidy control
8. The processes in relation to compliance with relevant Freedom of information (FOI) legislation
9. The Bank's plans to become regulated by the FCA

The Risk Management and Conflicts Committee has three members:

- **Jacqueline Redmond (Chair)**
- **Carolyn Jameson**
- **Nicholas Moon**

The senior members of the Bank's team, including the CEO, the Company Secretary, Head of Investment Risk and Head of Compliance also attend the Committee meetings, and it is this interaction and challenge that ensures the Committee delivers on its objective to ensure that risks which could harm the Bank and its objectives are identified and appropriately managed.

The Risk Management and Conflicts Committee supports the Board in ensuring we adhere to our missions and create an enduring institution, operating independently of Government. Working in conjunction with the Investment and Valuation Committees, this assessment includes ensuring we invest in line with our obligations, where our capital is additional to available private sector finance.

The Investment Risk team, which reports to the Committee, supports the Bank's Investment team in identifying risks in proposed investments and supporting the Investment Committee process by providing this risk information in a clear manner that can be compared across all the Bank's investments.

The Governance, Legal, Risk & Compliance (GLRC) team also provides reporting to the Committee to ensure clear understanding of the non-financial risks that the Bank is subject to.

During the year the Committee specifically:

- Received quarterly compliance management information and trend analysis
- Received quarterly risk reports and management information relating to the Bank's investments, and broader operational risk
- Considered the Bank's FCA Application project
- Reviewed the continued appropriateness of the Bank's Risk Management Framework and considered amendments to that framework
- Discussed the impact of new legislative and/or regulatory requirements on the Bank, and horizon scanning on forthcoming legislative, regulatory and best practice developments which may present risks or opportunities for the Bank. This included discussion regarding the implications of the National Security and Investment Act 2021
- Reviewed some key policies, such as the Bank's Ethical Investment Policy and Business Continuity Policy
- Considered the annual report from the Bank's money laundering reporting officer
- Began discussion on the implementation of TCFD

In a year that featured the departure of the Chief Executive, an unexpected escalation of inflation and severe disruption to supply chains, the Committee is reassured that the Risk Management Framework appropriately identified these risks, ensured the relevant team assumed ownership of the mitigation strategies and provided informed updates to the Risk Management and Conflicts Committee and to the main Board as required. It is my opinion that the Bank's staff and supporting systems have demonstrated themselves to be resilient in a challenging environment.

Jacqueline Redmond
Chair of the Risk Management and Conflicts Committee

Remuneration and Nominations Committee Report

I am pleased to present the Remuneration and Nominations Report for the Bank for the period ended 31 March 2022. The last 12 months has focused on consolidating and embedding pay and reward policies and practices which will enable the Bank to achieve its missions, together with good governance processes and management reporting.

The Committee continues to be particularly cognisant of the Bank's position within Scotland's public sector, of the need to attract and retain highly skilled employees whose values and interests are tightly aligned to those of the Bank, and the importance of developing a culture which becomes the cornerstone of its success. The Committee must ensure that pay and reward arrangements reflect that context, enable those objectives to be achieved and take into account Scotland's public sector pay principles.

During the last 12 months, I am delighted that the Bank has been able to attract recruits with the attributes above, growing the organisation towards a size and structure needed to deliver its strategic aims. I am also pleased to see the inclusive work done by employees across the Bank on evolving its values, articulating them in terms of behaviours and identifying how they need to be integrated throughout the Bank's policies, processes and everyday activities.

The Bank has endeavoured to achieve good gender balance across the organisation and, whilst this has been achieved overall, the gender pay gap is an area the Bank continues to address recognising this must be improved and the plan for achieving this will be closely monitored by the Committee.

An obvious key aspect of building an effective organisation is ensuring employees have effective 'voice' channels that encourage and support them to contribute their ideas, thoughts and feelings. This is central to the development of the culture to which the Bank aspires and I am pleased to see that the Team Voice forum is now in place. This will ensure that as the Bank evolves, it does so in a way which is informed and adapted by employee feedback. The Committee is keen to monitor employee engagement, health and wellbeing in a variety of ways and was, again, pleased to see the positive results of the employee surveys held in May and October. It also keenly monitors equality and diversity data through the detailed management information pack presented at each Committee meeting.

Looking to the year ahead, focus must continue on embedding and integrating the Bank's values and behaviours through all aspects of its operations, inside and out. It is important that the Bank establishes itself as a positive force for good within the Scottish financial ecosystem working in collaboration with like-minded partners in the investment community, providing thought leadership, and leveraging it in a way which benefits citizens and the communities in which they live. The Bank takes seriously its Public Sector Equality Duties in carrying out its role as will be evidenced though the Bank's Equality Strategy and Equality Outcomes which will be published in 2022. The Equality Strategy has specific objectives on which it will be monitored. Deploying capital through a risk balanced, mission aligned and geographically diverse portfolio of well managed investments is a core deliverable, with focus on the mechanisms through which impact will be measured. Also important will be the Bank's seeking of the regulatory permissions required to manage third party capital to invest alongside public capital accelerating delivery of its missions.

These key areas of performance together with financial performance criteria are included within those of the LTIP scheme FY22/23 and will be subject to assessment by the Committee at the end of the financial year.

Role of the Remuneration and Nominations Committee

The primary purpose of the Remuneration and Nominations Committee is to oversee the management of pay and reward practices across the Bank and make recommendations to the Board, in relation to the development and implementation of pay and reward policies and practices that support the Bank's long-term strategy and values. The Committee also has responsibility to ensure, with the agreement of Scottish Ministers, the Board has the necessary skills and experience to enable the Bank to deliver its current and future strategic objectives.

The Remuneration and Nominations Committee has three members:

- **Tracey Ashworth-Davies (Chair)**
- **Candida Morley**
- **Carolyn Jameson**

The Committee members bring with them a range of expertise from diverse backgrounds intended to support the Board in its role of governance.

The Chief Executive Officer and the Executive Director for People & Culture have been invited to join meetings, but not where their own remuneration is the subject of discussion. The Bank's Company Secretary is Secretary to the Committee.

In the current financial year there was not a need for the Committee to sit as a Nominations Committee in relation to the orderly succession to the Board and senior management positions. However, arrangements have been agreed with the Bank's Shareholder in respect of appointment processes which need to be executed in FY22/23, including in regard to CEO recruitment.

Key decisions taken by the Committee in this period:

The focus this period has been on ensuring effective implementation of the Bank's Pay and Reward Framework, monitoring its role and effectiveness in the attraction, recruitment, retention and performance delivery of employees in alignment with the missions of the Bank.

Key decisions taken by the Committee or recommended for approval by the Board in accordance with its Terms of Reference were:

- Determining the pay-out level of the FY21/22 LTIP for eligible employees based on assessing performance against the performance conditions agreed by the Bank with the Shareholder (performance period: 1 April 2021 to 31 March 2022)
- Setting the Performance Conditions for the FY22/23 LTIP and agreeing with the Shareholder
- Approving the FY21/22 Mission Contribution Reward Scheme awards for eligible employees
- Implementing the Public Sector Pay Review effective 1 April 2021
- Approval of the Bank's Values

Recruiting the Bank team

The Bank has hired a team of over 60 talented individuals, all motivated by the Bank's missions and keen to make a difference to Scotland's future economy.

Most of the team were hired and on-boarded remotely in the first half of 2021 which is a notable achievement and subsequently we have increased our employee headcount from 30 to 61 at 31 March 2022. The transition to hybrid working commenced in the second half of the year has been important for building team effectiveness. Wellbeing of employees has been a continued focus for the Bank throughout this period.

Remuneration and Nominations Committee Report continued

Equality, diversity & inclusion

The Bank's Equality Strategy was developed throughout the year and approved by the Board in March. The strategy outlines the Bank's commitment to equality in our own employment practices through our investments and suppliers, and with the ambition to influence and encourage others to support the advancement of equality, diversity and inclusion. The Equality Strategy will be published in 2022.

Diversity monitoring of the Bank's team was put in place in the first half of 2021 and has been reported quarterly to the Remuneration Committee. Through this, the Bank has identified specific areas of focus as an employer, including:

- Improving gender balance in Senior Investment roles and addressing the Bank's gender pay gap
- Increasing opportunities to improve ethnic minority representation across the Bank and improve ethnic diversity in senior grades
- Improving social mobility by providing greater access and opportunity for people from socially diverse backgrounds
- Increasing opportunities for individuals with different needs due to a disability or long-term illness

The Bank has already started to identify external organisations to work with in support of its Equality Strategy, including partnerships with Black Professionals Scotland and the EY Foundation Smart Futures Programme which will see the Bank welcome internships and work placements in the first half of 2022.

Culture

The Bank's newly formed team have worked closely to identify and introduce core values and behaviours which are a critical cornerstone in underpinning the culture of the Bank.

Our Values

Establishing effective employee voice channels has been a priority and has resulted in the creation of a Team Voice forum and active engagement with the growing Bank team through employee surveys. Excellent feedback was received through these surveys in May and November 2021 with a clear sense of positive advocacy for the Bank.

The Bank has also welcomed the opportunity to align its employment practices with Fair Work First practises, Scottish Government's policy for driving high quality and fair work across the labour market in Scotland.

Plans for FY22/23

The Bank has identified core people objectives for the year ahead which the Committee will oversee in FY22/23:

Create a positive, high performing and engaged culture

With the team now in place, the Bank will continue to embed the Bank's values and create a positive high performing and engaged culture within the whole Bank team through:

- Clear objectives aligned to its business plan, and training its people managers on effective performance management
- Further embedding of the Bank's core values and behaviours; ensuring these are incorporated through recruitment, performance and reward practices and assessing the health of the Bank's culture through its Team Voice channels
- Identifying and encouraging continuous learning and development to ensure the Bank has the right skills and capability to deliver. This will include development planning and equipping people managers with the skills and resources to provide feedback, coaching and support to succeed
- Investing in health and wellbeing of the Bank team; supporting individuals to be at their best in and out of work by increasing awareness of wellbeing and mental health issues, and developing people managers to proactively support team members
- Monitoring the Bank's plan to deliver the Bank's Equality Strategy and Equality Outcomes will be a priority for the year ahead.

Delivery of the Bank's Equality Strategy

The Bank's Equality Strategy will set out a commitment to improving equality through the Bank's employment practices, its investment activity, and to encourage the businesses and projects the Bank invests in and its suppliers and partners to focus on equality and diversity in their own businesses.

Review of the Pay & Reward Framework

As we approach the second anniversary of the Bank being established there will be a review of the Bank's Pay and Reward Framework to ensure future effectiveness in enabling recruitment, retention and performance in alignment with the missions of the Bank.

Tracey Ashworth-Davies
Chair of the Remuneration and Nominations Committee

Annual Report of Remuneration

Non-Executive Director Remuneration

The appointment and remuneration of the Chair of the Bank and Non-Executive Directors is agreed by Scottish Ministers, with regard to the daily fee framework of the Scottish Government's Pay Policy for Senior Appointments. Fees paid reflect the time commitment anticipated for each role:

Component	Operation and Implementation
Base Fee	Non-Executive Directors are entitled to receive from the Bank a fee of £850 for every day committed to performing their functions, on a pro rata basis, up to a maximum total fee of £21,250 per year (25 working days)
Committee Chair Fees	The daily fee rate for the Senior Independent Director and Committee chairs is £850 per day, up to a maximum total fee of £25,500 per year (30 working days)
Chair Fees	The Chair is entitled to receive from the Bank a fee of £1,250 for every day committed to performing their function on a pro rata basis, up to a maximum total fee of £60,000 per year (48 working days)

Non-Executive Directors do not receive any pension, benefits or long-term incentives. During the year, no Non-Executive Directors were appointed as directors of the Bank's subsidiary companies.

Non-Executive Director Fees paid in period to 31 March 2022 (Audited)

Name	Role	No. Days Paid	Total Payment	Total Payment 2021*
Willie Watt	Chair of the Board, Chair of Valuations Committee	48	£60,000	£20,000
Candida Morley	Senior Independent Director, Non-Executive Director	30	£25,500	£7,225
Tracey Ashworth-Davies	Chair of the Remuneration and Nominations Committee, Non-Executive Director	30	£25,500	£7,225
Peter Knott	Chair of the Audit Committee, Non-Executive Director	30	£25,500	£9,350
Jacqueline Redmond	Chair of the Risk Management and Conflicts Committee, Non-Executive Director	30	£25,500	£6,375
Carolyn Jameson	Non-Executive Director	25	£21,250	£4,675
Jason McGibbon	Non-Executive Director	25	£21,250	£8,075
Nicholas Moon	Non-Executive Director	25	£21,250	£4,250
Jonathan Taylor	Non-Executive Director	25	£21,250	£6,375

*4 month period ended 31 March 2021.

Annual Report of Remuneration continued

Executive Director Remuneration

Executive Directors receive remuneration in the form of an annual salary and receive 12% Employers Pension contribution. The pay and reward framework for the Bank was approved by Scottish Ministers prior to the establishment of the Bank. The framework was developed with the input of reward specialists, Korn Ferry, and underpinned using Hay job evaluation methodology. The pay ranges for the executive directors were arrived at by applying this pay methodology, taking into account external market data.

On a discretionary basis, Executive Directors are eligible to participate in the Bank's Long Term Incentive Plan (LTIP) which is directly linked to delivery of the Bank missions and objectives. Performance conditions are 100% corporate and agreed for each new LTIP performance period, as part of the annual business planning approval process.

The LTIP scheme incentivises long-term sustainable performance by deferring a proportion of allocations and making them subject to sustained future performance in accordance with LTIP scheme rules.

The Committee reviews and approves individual salaries for Executive Directors based on the pay and reward framework which has been agreed.

Remuneration for the Period from 1 April 2021 to 31 March 2022 (Audited)

<table>
<tr><th>Name</th><th>Period</th><th>Base Salary</th><th>Salary Paid</th><th>Employer's Pension Paid</th><th>Total Fixed Pay</th><th>LTIP</th><th>Total</th></tr>
<tr><td>Eilidh Mactaggart
Chief Executive Officer</td><td>01/04/21 – 28/02/22</td><td>£235,800</td><td>£322,109[1]</td><td>£25,938</td><td>£348,047</td><td>-</td><td>£348,047</td></tr>
<tr><td>Sarah Roughead
Chief Financial Officer</td><td>01/04/2021 – 28/02/22</td><td>£160,800</td><td rowspan="2">£164,483[2]</td><td rowspan="2">£19,296</td><td rowspan="2">£183,779</td><td rowspan="2">£47,294[3]</td><td rowspan="2">£231,073</td></tr>
<tr><td>Interim Chief Executive Officer</td><td>01/03/22 – 31/03/22</td><td>£205,000[2]</td></tr>
</table>

Executive Directors are employed by Scottish Investments Services Limited (SISL).

1. Figures above for Eilidh Mactaggart reflect a leave date of 28 February 2022 and are inclusive of 5 months' Payment in Lieu of Notice (£98,250) and 8.5 days' unused annual leave (£7,709) paid in March 2022. LTIP awards allocated for FY21/22 and FY20/21 sustained performance were forfeited upon resignation and will not be released. 2. Sarah Roughead was appointed Interim Chief Executive Officer on 1 March 2022. She receives a non-pensionable acting up allowance of £44,200 per annum (£3,683 paid in March 2022). 3. Amount includes payment made in August 2022 (£23,647), deferred payment due June 2023 (£11,824) and June 2024 (£11,823) subject to sustained performance conditions.

Remuneration for the Period from 1 December 2020 to 31 March 2021 (Audited)

Name	Appointment to the Board	Base Salary	Pro-rated Salary Paid	Employers Pension Paid	Total Fixed Pay	LTIP	Total
Eilidh Mactaggart Chief Executive Officer	22/11/2020	£235,000	£85,418	£10,027	£95,445	£37,375	£132,820
Sarah Roughead Chief Financial Officer	17/03/2021	£160,000	£6,022	£723	£6,745	-	£6,745

During the financial year, Eilidh MacTaggart, Chief Executive Officer, resigned from the organisation resulting in Sarah Roughead, Chief Financial Officer, being appointed in an interim capacity as Chief Executive Officer and a process to recruit a replacement being commenced.

Payments to Past Directors (Audited)

There are no payments to former directors (2021: nil).

Payments for Loss of Office (Audited)

No payments were made for loss of office during the period (2021: nil).

Annual Report of Remuneration continued

Principles of Remuneration Policy

The Bank has adopted a transparent, inclusive and sustainable approach to reward. Our pay and reward framework, agreed with our Shareholder, links individual and corporate contribution to delivery of the missions. Key components of our reward framework include:

Base Salary	The Bank's pay ranges have been developed on the basis of the following principles: ◆ A 10-grade structure covering all Bank roles ◆ Grades based on job size using Hay job evaluation methodology ◆ Target salaries derived from the Korn Ferry 'All Organisations Scotland' medians (2020 survey data) ◆ A minimum and maximum salary set 15% either side of the target salary for each pay range ◆ Individual and job family pay ranges adopted for Executive Team and specialist Audit and Risk and Investment job families. Premia applied to these ranges are based on UK market differentials
Performance Management	Individual objectives are directly linked to Bank Corporate Goals to allow every individual to contribute directly to delivering the Bank's missions.
Mission Contribution Reward Scheme (MCRS)	The Mission Contribution Reward Scheme allows employees the opportunity to be recognised for their contribution to the achievement of the Bank's missions. The Mission Contribution Reward Scheme is a discretionary, non-contractual scheme, open to all employees who are not eligible to participate in the Long-Term Incentive Plan (LTIP) scheme. As a prerequisite for any award to be made, the Bank must have delivered on its corporate mission aligned objectives. The Bank's Remuneration and Nominations Committee pays out a total allocation for awards subject to affordability and achievement of the Bank's mission aligned objectives. Payments will be differentiated based on individual performance and values ratings. The maximum award that any individual can receive under the scheme is capped at one month's salary.

Long Term Incentive Plan (LTIP)	The LTIP is a key component of the Bank's Total Reward approach to pay and reward. The LTIP is designed to ensure that compensation for members of the Bank's Executive Team and those in the Investment job family is directly linked to delivery of the Bank missions and objectives. The LTIP scheme incentivises long-term sustainable performance by deferring a proportion of allocations and making them subject to sustained future performance in accordance with LTIP scheme rules. The key features of the LTIP are set out below: ◆ Performance conditions are 100% corporate and agreed between the Bank Board Chair and Ministers for each new LTIP performance period, as part of the annual business planning approval process ◆ A maximum percentage pay-out opportunity of 50% of salary ◆ Maximum percentage pay-out opportunity defined by role ◆ 75% of maximum set as the percentage for on-target performance; ◆ A one-year performance measurement period and a further sustained performance period of 2 years ◆ Awards paid out in three instalments (50% at the end of the initial performance period and 25% each after a further 12 months and 24 months, subject to satisfactory sustained performance) ◆ Malus and clawback provisions apply ◆ Granting of awards and allocations is at the discretion of the Bank's Remuneration and Nominations Committee
Pension	12% employer pension contribution to a defined contribution pension scheme subject to the minimum colleague contribution of 1%.
Loss of office payments	The Bank does not offer any contractual terms for loss of office. The Bank reserves the right to make payment in lieu of notice where this is deemed to be in the interest of the Bank. Any termination payments would be in accordance with the Scottish Public Finance Manual.
New Executive Director Remuneration	Remuneration for any new executive director appointment is in accordance with the Bank's Pay & Reward framework and within the pay ranges determined for each role. Executive Director Remuneration is approved by the Remuneration and Nominations Committee.

Annual Report of Remuneration continued

LTIP Performance Conditions FY21/22

Performance Conditions for the performance period from 1 April 2021 through to end March 2022 were agreed with the Bank Chair, shareholder representative team, Portfolio Accountable Officer and Ministers. Performance conditions set were challenging targets reflecting the high ambitions of the Bank's Board and stakeholders. In assessing whether the Performance Conditions had been met for this initial period, the Remuneration and Nominations Committee considered the performance indicators below.

Eligible employees in role by 1 January 2022 in the Executive and Investment team family were eligible for the FY21/22 LTIP scheme.

Performance Condition	Performance Indicator
People and Culture (25% of total)	Substantial achievement of the planned recruitment of the Bank's initial team; organisational composition at the end of the performance period should include diversity as an important component. The Bank's values have been identified, created and agreed by the Board and can be demonstrated through all key activities and evidenced by completed in year employee surveys.
Engagement with the ecosystem establishing the Bank's place within it (20% of total)	Successful engagement with both the public and private sectors, to educate the ecosystem on the role of the Bank, its missions and its investment strategy. Engagement to include meetings; speaking at and attending conferences; the development of a positive public narrative through the Bank's engagement and media releases; and the delivery of insight into the Bank's missions and how its investments will support the delivery of these missions. Development of and publication of an Information Publication Plan to support the Bank's commitment to transparency and engagement with the Information Commissioner to discuss this.

Performance Condition	Performance Indicator
Investment, mission alignment and performance (25% of total)	Investment of capital in high quality investments across: equity investment; fund investment; and/or, junior and senior debt (corporate, project and development). It is noted in the January 2021 Ministerial Budget up to £200 million has been allocated to the Bank for investment in the performance period. The Bank's Board will evaluate the actual investment performance for the year taking into account: the number and value of investments made; the recruitment and on-boarding of the investment team; and the availability of viable investment opportunities that meet with the Bank's investment strategy and the Bank's missions. All investments made demonstrate delivery of the Bank's missions. Investments to include mission covenants to enable the capture and reporting of mission impacts. Bank's Board to review all investment mission reporting available as part of the LTIP evaluation. Portfolio as a whole delivers an appropriate risk adjusted commercial financial return and portfolio performance is in line with budget, taking into account external market factors outside the control of the Executive Team. The Executive Team to have managed costs appropriately and in line with budget. IFC principles and IRIS+ are embedded and operating efficiently to support the Bank's first annual non-financial investment performance report and ongoing monitoring of investment impacts, during the performance period.
Further establishment of the Bank as a robust well managed organisation (20% of total)	Operationalise, improve and regularly review the existing control environment ensuring it continues to be robust and fit for purpose. Develop the critical components of a functional management information suite to cover key performance, particularly financial performance and risk areas. Approval of the Bank's Ethical Investment Policy by the Board by 30 June 2021. Completion of the Bank's Gender Equality Strategy, including consultation to be held by 31 December 2021, and the strategy approved by the Board by 31 March 2022.
FCA Authorisation (10% of total)	Development and submission of application for authorisation and regulatory status from the FCA by 31 March 2022.

Based on careful consideration of performance against the 2021-2022 LTIP performance conditions, and in accordance with the scheme rules, the Remuneration and Nominations Committee concluded that a pay-out of 70% (2021: 90%) of maximum would be awarded to eligible participants. This was based on having achieved the threshold level of performance, or higher, on all but one performance condition (submission of FCA application). The Bank's performance against FY21/22 corporate objectives is included in the balanced scorecard section on pages 19 to 24.

Annual Report of Remuneration continued

Mission Contribution Reward Scheme

Employees in role by 1 January 2022 with qualifying performance and values assessment were paid under the Mission Contribution Reward Scheme for the period 1 April 2021 to 31 March 2022. The table below summarises payments under the scheme for the FY21/22. Please note the Mission Contribution Reward Scheme is not open to those eligible for LTIP.

Number of Eligible Employees	Average % Payment	Average Payment
31	6%	£2,953

Employee Remuneration

The Bank's pay ranges, split by gender of employees in position effective 31 March 2022:

	No. Employees Base Salary		No. Employees Total Compensation	
Compensation	Female	Male	Female	Male
£250,001 – £300,000	0	0	1	0
£200,001 – £250,000	1	0	0	0
£150,001 – £200,000	0	0	1	4
£100,001 – £150,000	4	12	4	12
£50,001 – £100,000	13	18	12	14
£0 – £50,000	11	2	11	2

As at 31 March 2022:

Employee Contract Basis	Number of Employees
Permanent	59
Fixed Term Contract	2

The median remuneration of the Bank's employees based on annualised, full-time equivalent remuneration of all staff including LTIP and MCRS as at 31 March 2022 was £84,840. The range of full-time equivalent employee remuneration including LTIP and MCRS was £32,367-£252,294 at 31 March 2022 and the ratio between the median employee remuneration and the mid-point of the banded remuneration of the highest paid Director including LTIP and MCRS was 1 : 3.14.

88.5 days were lost to sickness absence in the period. Staff turnover excluding consultants and secondees but including fixed term contractors in the period was 19.2%. Regretted turnover for the period was 11.5%.

Consultancy costs totalled £549,308 (2021: £457,852 for a 4 month period). A key focus of the Bank since launch has been to minimise the use of consultants. At 31 March 2022, three consultants were engaged by the Bank. In addition, the Bank works with two inward secondees from the Scottish Government.

Gender Pay

The mean gender pay gap as at 31 March 2022 is 21.9% (in favour of male), the median gender pay gap as at the same date is 28.0% (in favour of male).

The difference in mean and median figures reflects:

1. A higher number of females in lower grade positions
2. A lower number of females in senior investment positions

Overall the Bank has a good gender balance with females representing 48% of employees and 67% of the Bank's Executive Team. However, despite efforts to achieve gender balance in building the Bank team, the median gender pay gap is still 28.0% which the Bank is committed to closing. Within the investment and financial services industry more generally, there is still a significant gender imbalance which was evident in hiring key senior investment roles. The Bank is committed to improving under-representation of women in this area and addressing the gender pay gap.

Our representation as at 31 March:

	Female	Male
Board	50%	50%
Executive Committee	67%	33%
All Employees	48%	52%

Annual Report of Remuneration continued

Percentage Changes in CEO and Colleague Pay

Pay awards were made to eligible employees, in line with Public Sector Pay Policy, effective 1 April 2021.

Key features:

- Basic pay increase of 2 per cent for those who earn more than £25,000 and up to £40,000
- Basic pay increase of 1 per cent for those earning more than £40,000 and up to £80,000
- Limiting to £800 the maximum basic pay increase for those earning £80,000 or more

In line with Public Sector Pay Policy for FY21/22, the Bank's CEO received an increase of £800.

No pay progression was applied in FY21/22 on the basis the team had recently been hired.

Public Sector Pay Policy and Pay Progression for FY22/23 will be implemented effective 1 April 2022 for eligible employees.

Pay ratio of the CEO's total remuneration compared to other colleagues at 31 March 2022

The table below sets out the ratio between the CEO's total single figure of remuneration and total remuneration for all colleagues at the lower quartile, median and upper quartile. We elected to use the preferred method of Option A, which is based on all UK employees on a full-time equivalent basis, this is considered to produce the most statistically accurate results. Option A has been used to calculate the lower quartile, median and upper quartile total remuneration for all colleagues excluding the CEO. The elements of remuneration used for this calculation were as follows:

- Full-time-equivalent (FTE) salary as at 31 March 2022
- Total Mission Contribution Reward Scheme awarded or total LTIP awards payable in respect of the year ended 31 March 2022
- Total employer pension contribution (calculated as the % in payment as at 31 March 2022 and applied to FTE salary)

Year	Method	Lower Quartile Pay Ratio	Median Pay Ratio	Upper Quartile Pay Ratio
2022	Option A	1:4	1:3	1:2
2021	Option A	1:5	1:4	1:3

CEO total remuneration has been calculated by reference to the combined single total figure of remuneration for the year ended 31 March 2022 for the outgoing CEO (Eilidh Mactaggart) and the incoming Interim CEO (Sarah Roughead). Both figures are pro-rated for the portion of the year for which each was in office (11 and one months, respectively). The LTIP amount however is the full-year figure for Sarah Roughead and zero for Eilidh Mactaggart. This has resulted in a reduction in the total CEO remuneration reported here for the year, and a consequent decrease in the ratio of CEO total remuneration to other colleagues. In the normal course of events, we would expect the CEO pay ratio to increase again for FY22/23.

Accountable Officer's Report

For the year to 31 March 2022
Governance Statement

This statement has been prepared by me as Accountable Officer for the Bank, forming part of the Annual Report and Accounts as required under the terms of the Scottish Public Finance Manual (SPFM).

The statement, for which I am personally responsible, covers the accounting period for the financial year to 31 March 2022 and additionally up to the date of signature of these accounts. It sets out the Bank's governance procedures and how they are implemented to support the achievement of the Bank's policies, aims and objectives set by Scottish Ministers. The statement is informed by work undertaken throughout the period relating to performance, risk management, internal control and effectiveness of operations.

Much of the governance of the Bank is undertaken by the Board and the work of its committees which has been reported on in accordance with the Code throughout the Strategic and Governance reports.

To conclude and give opinion on the adequacy and effectiveness of the Bank's governance arrangements, internal control and management of resources I shall draw upon and refer to this work.

The SPFM is issued by Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety.

The Governance Framework of the Bank

The Bank is an executive Non-Departmental Public Body (NDPB) of the Scottish Government and is a public limited company (PLC) under the Companies Act 2006 whose shares are not publicly traded.

The Bank's constitution and role of the Board as described on pages 84 to 91 is prescriptive in the Bank's objectives, powers, ownership governance and reporting. The Bank is led and overseen by the Board of Directors. The Board's role is to ensure the Bank fulfils the aims and objectives set by the Scottish Ministers and to promote the efficient and effective use of staff and resources.

Specifically, the Board is responsible for:

- Taking forward the strategic aims and objectives for the Bank agreed by the Scottish Ministers
- Determining the steps needed to deal with changes which are likely to impact on the strategic aims and objectives of the Bank or on the attainability of its operational targets
- Promoting the efficient, economic and effective use of employees and other resources by the Bank consistent with the principles of Best Value, including, where possible, participation in shared services arrangements
- Ensuring that effective arrangements are in place to provide assurance on risk management (including in respect of personnel, physical and cyber risks/threats/hazards), financial management, governance and internal control. The Board must set up an Audit Committee chaired by a Non-Executive Member to provide independent advice and assurance on the effectiveness of the internal control environment
- In reaching decisions taking into account relevant guidance issued by the Scottish Ministers
- Approving the annual accounts and ensuring Scottish Ministers are provided with the annual report and accounts to be laid before the Scottish Parliament
- Ensuring that the Board receives and reviews regular financial information concerning the management and performance of the Bank and is informed in a timely manner about any concerns regarding the activities of the Bank

Accountable Officer's Report continued

- Appointing (with the approval of the Scottish Ministers) the Bank's Chief Executive Officer, and following appropriate approval of the Chief Executive Officer's remuneration package in line with Scottish Government Pay Policy for Senior Appointments. In consultation with the Scottish Government, appropriate performance objectives should be set which give due weight to the proper management and use of resources within the stewardship of the Bank and the delivery of outcomes
- Demonstrating high standards of corporate governance at all times, including openness and transparency in its decision-making.

As Interim Chief Executive Officer and the designated Accountable Officer I am personally responsible for safeguarding public funds for which I have charge, ensuring propriety and regularity in the handling of those public funds and managing the day-to-day operations and management of the Bank with the support of the Executive Team.

Specifically, in my role as Accountable Officer I am required to:

- Ensure the propriety and regularity of the Bank's finances and that there are sound and effective arrangements for internal control and risk management
- Ensure that the resources of the Bank are used economically, efficiently, and effectively, and that arrangements are in place to secure best value and deliver Value for Money for the public sector as a whole
- Ensure compliance with relevant guidance issued by the Scottish Ministers, in particular the SPFM and Scottish Government Pay Policy
- Sign the annual accounts and associated governance statements
- A statutory duty to obtain written authority from the Board/Chair before taking any action which they considered would be inconsistent with the proper performance of the Accountable Officer functions. The Accountable Officer should also notify the relevant Portfolio Accountable Officer
- It is incumbent on the Chief Executive Officer to combine their Accountable Officer responsibilities to the Scottish Parliament with their wider responsibilities to the Board. The Board and Chair should be fully aware of, and have regard to, the Accountable Officer responsibilities placed upon the Chief Executive Officer, including the statutory duty described above.

Assessment of Corporate Governance, Risk Management and Internal Control

The following areas of consideration have informed my opinion as Accountable Officer for the financial year and to the signing date of these accounts:

- A governance framework has been established that adheres to the provisions of the Code where applicable and is in accordance with the SPFM and Bank's Constitution. This provides a sound and robust structure for identifying, managing and reporting the risks and performance of the Bank to support it in delivering its missions
- The work undertaken by the Board, each of whom have significant and relevant experience and are deemed independent, plus the matters considered by the four Board Committees that cover key areas of the Bank as set out in the terms of reference for each Committee
- The risk management framework has been put in place which covers the Bank's risk definition, processes and appetite. A risk register, which extends to an assessment of the Bank's most current prevalent risks, has been developed with mitigating controls which are considered by the Executive Committee and Risk Committee on a regular basis
- Linked to the above, the appointment of Grant Thornton as internal auditor with an agreed audit charter and internal audit plan. The findings from these internal audits are reported to the Executive Committee and the Bank's Audit Committee with any findings and recommendations for improvement highlighted and monitored to ensure they are actioned. No significant breaches of internal control were identified in the period
- A suite of Bank policies has been established and are available to all employees with significant changes reviewed and agreed by the Executive Committee and appropriate Board committee
- The maintenance of a close working relationship with the Executive Committee of the Bank, meeting weekly to ensure transparent and timely discussion and reporting of performance, risks and control issues
- The appointment of KPMG LLP as external auditor and matters raised in their audit highlight memorandum and papers to the Audit Committee, together with frequent calls with the lead audit partner
- The development of and adherence to a robust investment process that ensures both mission alignment impact and commercial returns. Through a four-stage committee process independent challenge is sought and investment team resource is focused
- Ensuring value for money is delivered through processes in accordance with public procurement legislation, close monitoring of Bank expenditure through delegated financial authority to the Executive Team and induction training to all employees on value for money
- A robust financial control environment that includes:
  - A comprehensive budgeting process that is aligned to the Bank's published business plan and strategic objectives
  - Accurate and timely financial reporting of actual vs budget and cash flow forecasting
  - Segregation of duties
  - Independent review and challenge of investment valuations by the Valuations Committee
- The continued development of a balanced scorecard that supports the delivery and measurement of the Bank's strategic objectives, both financial and non-financial

Assessment of Corporate Governance

Based on the terms of reference and work completed by the Board and its four Committees in the period, together with adherence where applicable to the Code, I am satisfied the Bank's corporate governance arrangements are satisfactory. The roles of the Board, Chief Executive Officer and Executive Team are clear and understood. Decision-making within the Bank is consistent and made to a high standard of conduct in relation to its mission aligned investments.

Conclusion

Having considered the above, it is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Bank's governance arrangements, internal control and management of resources during the period ended 31 March 2022.

I confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable. I take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

S. Roughead

Sarah Roughead
Interim Chief Executive Officer / Accountable Officer

4 August 2022

Statement of Directors' and Accountable Officer Responsibilities in respect of the Annual Report and the Financial Statements

The Directors and Accountable Officer are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations. Company law requires the Directors and Accountable Officer to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare the Group and parent Company financial statements in accordance with UK-adopted international accounting standards and, where appropriate, as interpreted and adapted by the 2021/22 Government Financial Reporting Manual (the 2021/22 FReM) and in accordance with the requirements of the Companies Act 2006 and directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the Group's profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors and Accountable Officer are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable, relevant and reliable
- State whether they have been prepared in accordance with UK-adopted international accounting standards, and, where appropriate, as interpreted and adapted by the 2021/22 Government Financial Reporting Manual (the 2021/22 FReM)
- Assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors have decided to prepare voluntarily a Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic and Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Scottish Government has appointed the Chief Executive Officer as Accountable Officer of the Scottish National Investment Bank group.

The Accountable Officer is personally responsible for the propriety and regularity of the body's public finances and ensuring that its resources are used economically, efficiently and effectively. This includes compliance with relevant guidance issued by Scottish Ministers, in particular the Scottish Public Finance Manual, and the Framework Document defining the key roles and responsibilities which underpin the relationship between the body and the Scottish Government.

We consider the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

S. Roughead

Sarah Roughead
Interim Chief Executive Officer

4 August 2022

Independent Auditor's Report

Queensferry Crossing

Independent Auditor's Report

Independent auditor's report to the members of Scottish National Investment Bank plc, the Auditor General for Scotland and the Scottish Parliament

Reporting on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements in the annual report and accounts of Scottish National Investment Bank plc (the "Company") for the year ended 31 March 2022 under The Companies Act 2006 (Scottish public sector companies to be audited by the Auditor General for Scotland) Order 2020. The financial statements comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Taxpayers' Equity, the Consolidated Cash Flow Statement, the Company Statement of Financial Position, the Company Statement of Changes in Taxpayers' Equity, the Company Cash Flow Statement, and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and, where appropriate, as interpreted and adapted by the 2021/22 Government Financial Reporting Manual (the 2021/22 FReM).

In our opinion:

- the accompanying financial statements give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of affairs of the company and its Group as at 31 March 2022 and of the Group loss for the year then ended;
- the accompanying Group financial statements have been properly prepared in accordance with UK adopted international accounting standards and, where appropriate, as interpreted and adapted by the 2021/22 FReM;
- the accompanying parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006 and, where appropriate, as interpreted and adapted by the 2021/22 FReM; and
- the accompanying financial statements have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Auditor General on 18 May 2021. The period of total uninterrupted appointment is two years. We are independent of the Company and its Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the Group. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusion relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the board members' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included using our knowledge of the Group, industry and the general economic environment to identify the inherent risks to the business model and analysed how those risks might affect the ability to continue operations over the period of at least 12 months from the approval of the financial statements. Since the Group requires support from the Scottish Government, we assessed the risk of this support being withdrawn. We inspected a letter received by the board members indicating the Scottish Government's intention to continue to provide support and assessed the business reasons for and against continuing support.

We considered whether the going concern disclosure in note 2 to the financial statements gives a full and accurate description of the directors' assessment of going concern. Based upon the work we have performed, we found the going concern disclosure in note 2 to be acceptable.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group or the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Group's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the board members' statement in the financial statements about whether the board members considered it appropriate to adopt the going concern basis of accounting.

These conclusions are not intended to, nor do they, provide assurance on the Group's or the Company's current or future financial sustainability. However, we report on the company's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Independent Auditor's Report continued

Our approach to the audit

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our scope addressed this matter
Valuation of unlisted investments As at 31 March 2022, 92% (2021: 80.8%) of the Group's total assets (by value) are investments where no quoted market price is available. Unlisted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines, by using measurements of value such as prices of recent orderly transactions, earnings multiples and net assets of the investee. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of unlisted investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	We performed the detailed tests below rather than seeking to rely on any of the Group's controls, because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed substantive procedures prescribed: ◆ Methodology choice: In the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines, we challenged the appropriateness of the valuation basis selected; ◆ Our valuations experience: We challenged the directors on key judgements affecting investee company valuations, such as the choice of benchmark for earnings multiples. We compared key underlying financial data inputs to external sources, investee company audited accounts and management information as applicable. We challenged the assumptions around sustainability of revenue or earnings based on the forecasts of the investee companies and whether these are achievable. Our work included consideration of events which occur subsequent to the period-end up until the date our audit report; ◆ Comparing valuations: Where a recent transaction has been used to value a holding, we obtained an understanding of the circumstances surrounding the transaction and whether it was considered to be on an arms-length basis and suitable as an input into a valuation. ◆ Assessing transparency: We considered the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unlisted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions. **Our results:** We found the Company's valuation of unquoted investments to be acceptable (2021: acceptable).

Key audit matter	How our scope addressed this matter
Recoverability of parent's debt due from group entities The carrying amount of the intra-group debtor balance represents 99% (2021: 80%) of the Company's total assets. The recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the financial statement, this is considered to be an area that will have the greatest effect on our overall parent company audit. Note: This risk is applicable to the parent only.	We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. ◆ We have assessed 100% of debtors to identify with reference to the subsidiary company's draft balance sheet, whether it has a positive net asset value and therefore coverage of the debt owed, as well as assessing whether the debtor company has historically been profit-making. ◆ Assessing the subsidiary company audit: We have assessed the work performed on the subsidiary company audit, and considering the results of that work, on those net assets, including assessing the liquidity of the assets and therefore the ability of the subsidiary to fund the repayment of the receivable. **Our results:** We found the conclusion that there is no impairment of the intra-group group debtor balance to be acceptable (2021: acceptable).

Our application of materiality

Materiality for the Group financial statements as a whole was set at £4,117k (2021: £820k), determined with reference to a benchmark of total assets, of which it represents 2.5% (2021: 2.5%). Materiality for the parent company financial statements as a whole was set at £1,877k (2021: £287k), which is the component materiality for the parent company determined by the group audit engagement team. This is lower than the materiality we would otherwise have determined with reference to parent company total assets, of which it represents 1.2% (2021: 2%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 65% (2021: 65%) of materiality for the financial statements as a whole, which equates to £2,675k (2021: £530k) for the Group and £1,220k (2021: £187k) for the parent company. We applied this percentage in our determination of performance materiality based on this being only the second period the Group and the parent company have prepared their financial statements, and based on the level of identified misstatements during the prior period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £205k (2021: £41k) for the Group and £94k (2021: £28k) for the parent company, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's three reporting components, we subjected three to full scope audits for Group purposes. The work on all components, including the audit of the parent company, was performed by the Group team.

The Group team set the component materialities, which ranged from £417k to £3,128k (2021: £143k to £615k), having regard to the mix of size and risk profile of the Group across the components.

The scope of the audit work performed was fully substantive as we did not rely upon the Group's internal control over financial reporting.

Independent Auditor's Report continued

Responsibilities of the board members for the financial statements

As explained more fully in the Statement of Directors' and Accountable Officer Responsibilities, the board members are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board members are responsible for assessing the ability of the Company and its Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the Company and its Group are complying with that framework;
- identifying which laws and regulations are significant in the context of the Company and its Group;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Company's and Group's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Reporting on regularity of expenditure and income

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Responsibilities for regularity

The board members are responsible for ensuring the regularity of expenditure and income. In addition to our responsibilities in respect of irregularities explained in the Reporting on the audit of the financial statements section of our report, we are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Reporting on other requirements

Opinion prescribed by the Auditor General for Scotland on audited part of the Directors' Remuneration Report

We have audited the parts of the Directors' Remuneration Report described as audited. In our opinion, the audited part of the Directors' Remuneration Report has been properly prepared in accordance with directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers.

Other information

The board members are responsible for the other information in the annual report and accounts. The other information comprises the information included in the Annual Report and Accounts other than the financial statements and our auditor's report thereon.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Strategic Report and Corporate Governance Statement to the extent explicitly stated in the following paragraphs.

Opinion prescribed by the Auditor General for Scotland on Strategic Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers.

Independent Auditor's Report continued

Corporate governance statement

Based on the work undertaken in the course of the audit, we have concluded that the Corporate Governance Statement for the financial year for which the financial statements are prepared has been prepared in accordance with the directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers and that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- The statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified
- The board members' explanation as to their assessment of the Group's prospects, the period this assessment covers and why they consider this period is appropriate and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment
- The board members' statement on fair, balanced and understandable
- The board members' confirmation that it has carried out a robust assessment of the emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and;
- The section describing the work of the audit committee.

Matters on which we are required to report by exception

We are required by the Auditor General for Scotland to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Directors' Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report and accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Philip Merchant, for and on behalf of KPMG LLP
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

4 August 2022

Audited Financial Statements

Sibster Burn, Caithness

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2022

	Notes	Year ended 31 March 2022 £'000	4 month period ended 31 March 2021 £'000
Income			
Investment income	4	1,905	423
Net unrealised (losses) / gains on revaluation of investments	10	(3,432)	3,433
Gross (loss) / profit		**(1,527)**	**3,856**
Administrative expenses	5	(9,677)	(2,875)
Operating (loss) / profit		**(11,204)**	**981**
Interest payable and similar expenses		–	–
(Loss) / profit before taxation		**(11,204)**	**981**
Tax credit / (charge)	8a	2,645	(153)
(Loss) / profit for the year		**(8,559)**	**828**
Other comprehensive income		–	–
Total comprehensive income		**(8,559)**	**828**

Notes to the Financial Statements form an integral part of the accounts.

Consolidated Statement of Financial Position

As at 31 March 2022

	Notes	31 March 2022 £'000	31 March 2021 £'000
Assets			
Non-current assets			
Investments	10	153,356	26,530
Property, plant and equipment	9	136	–
Deferred tax asset	8b	2,497	–
Total non-current assets		**155,989**	**26,530**
Current assets			
Trade and other receivables	11a	470	54
Cash and cash equivalents	12	10,236	6,256
Total current assets		**10,706**	**6,310**
Total assets		**166,695**	**32,840**
Liabilities			
Current liabilities			
Trade and other payables: amounts falling due within one year	13	1,186	1,290
Total current liabilities		**1,186**	**1,290**
Non-current liabilities			
Trade and other payables: amounts falling due after one year	14	137	9
Deferred tax liability	8b	–	149
Total non-current liabilities		**137**	**158**
Total liabilities		**1,323**	**1,448**
Equity			
Share capital	16	149,253	22,923
General fund	18	16,119	8,469
Total equity		**165,372**	**31,392**
Total equity and liabilities		**166,695**	**32,840**

Notes to the Financial Statements form an integral part of the accounts.

The accounts of the Group, parent company registration number SC677431 were approved by the members of the Board and authorised for issue on 4 August 2022 and were signed on their behalf by:

S. Roughead

Sarah Roughead
Interim Chief Executive

Consolidated Statement of Changes in Taxpayers' Equity

Year ended 31 March 2022

	Notes	Share capital £'000	General fund £'000	Total equity £'000
Total equity at the start of the year		22,923	8,469	31,392
Loss for the year		–	(8,559)	(8,559)
Other comprehensive income		–	–	–
Transactions with owners, recorded directly in equity				
Issue of shares	16	126,330	-	126,330
Grant in aid	17	-	16,209	16,209
Total equity at the end of the year		**149,253**	**16,119**	**165,372**

4 month period ended 31 March 2021

	Notes	Share capital £'000	General fund £'000	Total equity £'000
Total equity at the start of the period		-	-	-
Profit for the period		–	828	828
Other comprehensive income		–	–	–
Transactions with owners, recorded directly in equity				
Issue of shares	16	22,923	-	22,923
Grant in aid	17	-	7,641	7,641
Total equity at the end of the period		**22,923**	**8,469**	**31,392**

Notes to the Financial Statements form an integral part of the accounts.

Consolidated Cash Flow Statement

For the year ended 31 March 2022

	Notes	Year Ended 31 March 2022 £'000	4 month period ended 31 March 2021 £'000
Cash flows from operating activities			
(Loss) / profit for the period before tax		(11,204)	981
Adjustments for:			
Depreciation, amortisation and impairment	9	32	-
Decrease / (Increase) in net unrealised fair value on investments	10	3,432	(3,433)
Fee income	4	(583)	(200)
Interest income	4	(227)	-
Capitalised Interest income	4	(1,095)	(223)
Increase in trade and other receivables	11a	(416)	(54)
(Decrease) / Increase in trade and other payables	13, 14	(29)	1,294
Tax paid		(4)	-
Net cash flow from operating activities		**(10,094)**	**(1,635)**
Cash flows from investing activities			
Purchase of Property, Plant and Equipment	9	(92)	-
Purchase of investments	10	(129,320)	(22,873)
Repayment of Debt	10	156	-
Investment fee Income	4	583	200
Interest Income	4	227	-
Net cash from investing activities		**(128,446)**	**(22,673)**
Cash flows from financing activities			
Issue of new shares	16	126,330	22,923
Net grant in aid received in period	17	16,209	7,641
Payments of Lease Liability		(19)	-
Net cash from financing activities		**142,520**	**30,564**
Net increase in cash and cash equivalents		3,980	6,256
Cash and cash equivalents at start of the year		6,256	-
Cash and cash equivalents at end of the year	12	**10,236**	**6,256**

Notes to the Financial Statements form an integral part of the accounts.

Company Statement of Financial Position

As at 31 March 2022

	Notes	Year ended 31 March 2022 £'000	4 month period ended 31 March 2021 £'000
Assets			
Non-current assets			
Investment in subsidiaries	10	–	–
Trade and other receivables	11b	159,678	22,873
Total non-current assets		**159,678**	**22,873**
Current assets			
Cash and cash equivalents	12	869	5,635
Total current assets		**869**	**5,635**
Total assets		**160,547**	**28,508**
Liabilities			
Current liabilities			
Trade and other payables	13	–	1,000
Total current liabilities		**–**	**1,000**
Total liabilities		**–**	**1,000**
Equity			
Share capital	16	149,253	22,923
General fund	18	11,294	4,585
Total equity		**160,547**	**27,508**
Total equity and liabilities		**160,547**	**28,508**

Notes to the Financial Statements form an integral part of the accounts.

The accounts of The Scottish National Investment Bank plc, Company registration number SC677431 were approved by the members of the Board and authorised for issue on 4 August 2022 and were signed on their behalf by:

S. Roughead

Sarah Roughead
Interim Chief Executive

Company Statement of Changes in Taxpayers' Equity

Year ended 31 March 2022

	Notes	Share capital £'000	General fund £'000	Total equity £'000
Total equity at the start of the year		22,923	4,585	27,508
Loss for the period		–	–	–
Transactions with owners, recorded directly in equity				
Issue of shares	16	126,330	–	126,330
Grant in aid	17	–	6,709	6,709
Total equity at the end of the year		**149,253**	**11,294**	**160,547**

4 month period ended 31 March 2021

	Notes	Share capital £'000	General fund £'000	Total equity £'000
Total equity at the start of the period		–	–	–
Loss for the period		–	–	–
Transactions with owners, recorded directly in equity				
Issue of shares	16	22,923	–	22,923
Grant in aid	17	–	4,585	4,585
Total equity at the end of the period		**22,923**	**4,585**	**27,508**

Notes to the Financial Statements form an integral part of the accounts.

Company Cash Flow Statement

For the year ended 31 March 2022

	Notes	Year Ended 31 March 2022 £'000	4 month period ended 31 March 2021 £'000
Cash flows from operating activities			
Loss for the period		–	–
Increase in trade and other receivables	11b	(136,805)	(22,873)
(Decrease) / increase in trade and other payables	13	(1,000)	1,000
Net cash from operating activities		**(137,805)**	**(21,873)**
Net cash from investing activities		**–**	**–**
Cash flows from financing activities			
Issue of new shares	16	126,330	22,923
Grant in aid received	17	16,209	7,641
Resource funding passed to subsidiaries	17	(9,500)	(3,056)
Net cash from financing activities		**133,039**	**27,508**
Net (decrease) / increase in cash and cash equivalents		(4,766)	5,635
Cash and cash equivalents at start of year		5,635	–
Cash and cash equivalents at end of the year	12	**869**	**5,635**

Notes to the Financial Statements form an integral part of the accounts.

Notes to the Financial Statements

1. Corporate Information

Scottish National Investment Bank plc (the Company) is a public limited company incorporated and domiciled in Scotland under the Companies Act 2006 whose shares are not publicly traded. The Company registration number is SC677431. The registered address is Waverley Gate, 2-4 Waterloo Place, Edinburgh, EH1 3EG. The nature of the Bank's operations and its principal activities are set out in the Strategic and Directors' Report.

The consolidated financial statements of the Bank for the year ended 31 March 2022 comprise the financial statements of the Company and its consolidated subsidiaries (collectively, the Group) as referred to as the Bank in the Strategic and Governance reports.

2. Significant Accounting Policies

Basis of Preparation

The financial statements of the Group and Company have been prepared in accordance with UK-adopted international accounting standards and, where appropriate, as interpreted and adapted by the 2020/21 Government Financial Reporting Manual (the 2021/22 FReM) and in accordance with the requirements of the Companies Act 2006 and directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers.

The Company has taken advantage of section 408 of the Act and consequently the Statement of Comprehensive Income (including the profit and loss account) of the parent Company is not presented as part of these accounts. The loss of the parent Company for the financial period was £335 (2021: £92).

The financial statements have been prepared on the historical cost basis, except for financial instruments that are measured at fair value or revalued amounts at the end of each reporting period in accordance with relevant accounting standards. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

These financial statements are presented in pounds sterling which is the currency of the primary economic environment in which the Group operates.

The preparation of financial statements under IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income, and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised.

The principal accounting policies adopted, which have been applied consistently in the current financial year are set out below.

Going Concern

The Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for a period of at least 12 months from the approval of these financial statements. The Directors have made an assessment of going concern, taking into account the Group's current performance and financial and operating outlook (which considered the impact of COVID-19, geopolitical events and inflation) together with funding arrangements from its Shareholder, using information available up to the date of issue of the financial statements.

As part of this assessment the Directors considered:

- The £2 billion of capital committed to the Company for investment over 10 years from the Scottish Government
- The continued commitment from Scottish Government to support the Group's operational expenses in the medium term

Notes to the Financial Statements

- The strategic objectives of the Company and resource to deliver the strategic objectives and operational infrastructure to support the delivery of these objectives
- The operational resilience of the Company's critical functions including its investment, governance, regulatory and IT systems

This assessment is dependent on the Scottish Government providing additional financial support during that period. The Scottish Government has indicated its intention to continue to make available such funds as are needed by the company for at least 12 months from the date of approval of these financial statements. The directors are confident that this financial support will continue and, at the date of approval of these financial statements, they have no reason to believe that it will not.

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Adoption of new and revised standards

The Group has adopted IFRS 16 in these accounts, no modification to prior year financial statements was necessary as the Group did not have leases in prior periods. IFRS 16 is not applicable under the FReM until years from 1 April 2022 but early adoption is available. There were no other new or amended standards applied for the first time and therefore no restatements of the previous financial statements were required.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 March 2022.

Control for accounting purposes exists when the Company:

- Has power over the investee (voting rights and shareholding)
- Is exposed, or has rights, to variable returns from its involvement with the investee
- Has the ability to use its power to affect its returns (through strategic and management control and influence)

The Company reassesses whether or not it controls an investee for accounting and consolidation purposes if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Determining whether a Company has control of an entity is generally straightforward based on ownership of the majority of the voting capital. However, in certain instances, this determination will involve judgement, particularly in the case of structured entities where voting rights are often not the determining factor in decisions over relevant activities. This judgement may involve assessing the purpose and design of the entity.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the period are included in the Consolidated Statement of Comprehensive Income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cashflows relating to transactions between the members of the Group are eliminated on consolidation.

Profit or loss and each component of other comprehensive income are attributed in full to the owners of the Company in the absence of non-controlling interests. Total comprehensive income of the subsidiaries is also attributed in full to the owners of the Company in the absence of non-controlling interests.

Business Combinations

Acquisitions of subsidiaries are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in the Statement of Comprehensive Income as incurred. The identifiable assets acquired, and the liabilities assumed are recognised at their fair value at the acquisition date.

Income

Income represents arrangement fees, monitoring fees and loan interest. Income is measured based on the consideration specified in a contract with the investee business or project. Income is recognised to the extent that it is probable that the economic benefits will flow to the Group and can be reliably measured.

Distributions from underlying funds are recorded based on the nature of the distribution as provided by the underlying fund manager which includes realised gains on investments and investment income. Investment income and realised gains are recognised on the value date of the notice received from the underlying fund manager.

Interest Income

Interest income is accrued on a time apportioned basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. The calculation does not consider expected credit losses and includes transaction costs and premiums or discounts that are integral to the effective interest rate, such as origination fees. When the Group revises the estimates of future cashflows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the Consolidated Statement of Comprehensive Income.

Fee Income

Fees are received for providing services relating to a specific transaction, such as when an investment is bought, sold or refinanced. These fees are generally of a fixed nature and the income is recognised in full at the point of transaction completion.

Expenses

All expenses, interest payable and interest receivable are recognised in the Statement of Comprehensive Income on an accruals basis.

VAT

Currently all VAT is irrecoverable and therefore is charged to the Consolidated Statement of Comprehensive Income and included under the relevant expenditure heading.

Tax

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the period end date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit or loss, accounted for using the reporting date liability method.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates and laws enacted or substantively enacted at the reporting date.

Notes to the Financial Statements

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Any legal restrictions on the utilisation of available taxable profits are also considered, based on the tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Property, Plant and Equipment

Property, plant and equipment are shown in the Statement of Financial Position at their historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition and installation of the items. The Group currently has no property assets.

Subsequent costs are included in the assets' carrying amounts or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with them will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Consolidated Statement of Comprehensive Income during the financial period in which they are incurred. Depreciation is provided to write off the initial cost of each asset to its residual value on a straight-line basis over its estimated useful life of:

Fixtures and fittings	over 5 years
Computer equipment	over 3 years

A de-minimis level for capitalisation of £5,000 is applied by the group.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

De-recognition and disposal

An item of property, plant and equipment is de-recognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Comprehensive Income in the year the asset is derecognised.

Leases

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involved the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, the asset is not identified
- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - The Group has the right to operate the asset
  - The Group designed the asset in a way that predetermines how and for what purpose it will be used.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate / HM treasury discount rates.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Short-term leases

The Group has elected not to recognise right-of-use assets and lease liabilities for lease of short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Financial instruments

(i) Recognition and Initial Measurement

Financial assets and liabilities are recognised in the Group's Statement of Financial Position when the Group becomes party to the contractual provisions of the instrument in accordance with IFRS 9.

Financial assets and liabilities are initially measured at fair value less transaction costs directly attributable to the acquisition of those financial assets or liabilities except for transaction costs directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss (FVTPL) which are recognised immediately in the Consolidated Statement of Comprehensive Income.

(ii) Classification of Financial Instruments

Financial instruments, other than those held at amortised cost, are held at FVTPL. In particular, the Group classifies groups of financial instruments at FVTPL when they are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments are reported to management on that basis. As such the Group holds investments at FVTPL and all other financial assets and liabilities at amortised cost.

(iii) Investments

On initial recognition, the group classifies its loan, fund and equity investments, including investments in investment entities and financial guarantees as FVTPL. Investments of the Company in subsidiaries are measured at cost.

These assets at FVTPL are subsequently measured at fair value. Net gains and losses are recognised in profit or loss in 'net unrealised gains or losses on revaluation' in the Statement of Comprehensive Income.

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date.

Notes to the Financial Statements

The Group's fair value methodology has been derived using the International Private Equity and Venture Capital Valuation Guidelines (December 2018). Valuations of the investment portfolio are performed quarterly.

The Group invests in unquoted investments referencing observable market data wherever available. The fair value methodology applied to each investment is driven by the specific characteristics of the investments.

The approach used to calculate the fair value is as follows:

- Investments where fair value derives mainly from the underlying assets, such as funds managed by fund managers, are valued at net asset value using appropriate valuation measures for the underlying assets and liabilities.
- Direct equity investments in projects/project finance debt/direct debt investments. The primary valuation methodology used for these investments is the discounted cash flow method (DCF). Fair value is estimated by deriving the present value of the investment using reasonable assumptions of expected future cash flows and the terminal value and date and the appropriate risk-adjusted discount rate that quantifies the risk inherent to the investment. The discount rate is estimated with reference to the market risk-free rate, a risk-adjusted premium and information specific to the investment or market sector. The price at which a debt investment was made or the loan was issued may be a reliable indicator of fair value at that date, depending on facts and circumstance.
- Fair values for unquoted direct equity investments are established by using various valuation techniques. These may include recent arms-length market transactions, the current fair value of another instrument that is substantially the same, discounted cash flow analysis, option pricing models and reference to similar quoted companies. Where there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique is utilised.

  These techniques seek to calculate the enterprise value (the value of the business as a whole at the measurement date) of the investee company using a methodology that is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio using reasonable assumptions and estimates. Enterprise value is commonly derived using a comparable multiple basis. Companies with maintainable revenues, profits or cash flows are valued on a multiple basis using an appropriate multiple from companies in similar sectors and markets. The key judgements include selecting an appropriate multiple, which is derived from comparable listed companies or relevant market transaction multiples. Companies in the same geography and sector are selected and then adjusted for factors including liquidity risk, growth potential and relative performance.

  The enterprise value is then adjusted for surplus assets or liabilities or any other relevant factor. Higher-ranking financial instruments are deducted taking into account any financial structuring that may dilute the investment holding. The attributable enterprise value is apportioned between the financial instruments held according to their ranking. The amounts derived are allocated according to the holding in each financial instrument, representing their fair value.
- Realisations in process are valued at the expected realisation proceeds, although discounts are applied to reflect the level of certainty of the transaction completion.
- If there has been a recent investment in the company, the price of the recent investment, less any impairment charge, is used to determine fair value.
- Early-stage companies and projects without positive cash flow or profit are valued using an appropriate industry benchmark if that gives a reliable estimate of fair value.
- Companies and projects in industries with specific valuation metrics are valued using those specific valuation metrics where they provide the most reliable estimate of fair value.
- Companies and projects whose cash flows can be forecast with confidence are valued using future cash flows discounted at the appropriate risk-adjusted discount rate. This method requires management to make certain assumptions about the model inputs, including forecast cash flows, future currency exchange rates and the discount rate.
- In exceptional cases, where fair value cannot be reliably measured, the investment is valued at the previous carrying value unless there is evidence of value impairment, in which case value is reduced to reflect the extent of estimated impairment.

Gains and losses realised on disposal or redemption, by reference to the valuation at the previous Statement of Financial Position date, and unrealised gains and losses from changes in the fair values of the equity portfolio are taken to the Statement of Comprehensive Income.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. There is no material difference between the fair value and book value of the Group's cash and cash equivalents.

Trade and Other Receivables

Trade and other receivables are non-interest bearing and are recognised when the Group becomes party to the contractual provision of the instrument. They are initially measured at fair value and subsequently at amortised cost less provision for impairment. Impairment on trade and other receivables has been measured on the expected credit loss basis and reflects the maturities of the exposures.

Trade and Other Payables

Liabilities, other than those specifically accounted for under a separate policy, are stated based on the amounts which are considered to be payable in respect of goods or services received up to the period end date. There are no material differences between the fair value and book value of the Group's trade and other payables.

Derecognition of Financial Instruments or Liabilities

The Group derecognises a financial asset or liability only when the contractual rights to the cash flows from or to the asset or liability expire, or when it transfers the financial asset/liability and substantially all the risks and rewards of ownership of the asset/liability to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been accumulated in equity is recognised in profit or loss.

Impairment of Assets

The carrying amounts of assets, other than deferred tax assets and financial instruments FVTPL, are reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment.

If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income.

Notes to the Financial Statements

The recoverable amount of the Group's assets is the greater of their fair value less costs to sell and value in use, calculated as the present value of expected future cash flows. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Ordinary Share Capital

The ordinary share capital on the Statement of Financial Position relates to the number of shares in issue.

Grant in Aid

Capital funding for investments and resource funding for the Group's operational costs is provided through Grant in aid from the Scottish Government. Grant in aid is received as required throughout the period within budgets agreed with Scottish Government each year. Grant in aid is received and taken to the general fund until such time it is used for investment or operational expenditure.

General Fund

Scottish Ministers, acting through the Scottish Government, have provided funds for investment and operating purposes. Share capital equal to the value of investments drawn in each period is issued to Scottish Ministers as ordinary share capital. Funding received from Scottish Government that is received and not yet invested or not yet used for operating expenses remains in the general fund on the Statement of Financial Position as grant in aid. There is no obligation to repay either the capital or resource funding balance and it does not carry interest.

Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised if there is a present obligation, whether legal or constructive, which has arisen as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability.

Contingent assets are not recognised, but are disclosed where an inflow of economic benefits is probable.

The Group and Company have no contingent assets or liabilities at the period end.

Employee Benefits

All eligible employees are enrolled into an externally administered defined contribution (DC) pension plan. The Group pays fixed contributions and will have no legal or constructive obligation to pay further amounts. The Group recognises the costs of providing defined contribution pensions as an expense in the Statement of Comprehensive Income when employees have rendered services entitling them to the contributions.

The cost of the Long Term Incentive Plan (LTIP), a cash settled performance related compensation programme, is charged to the Statement of Comprehensive Income across the period of the scheme taking into account service and sustained performance periods and accrued on the Statement of Financial Position in accordance with IAS 19 'Other long-term employee benefits'. Payment of each periods award scheme is settled in cash over three years to incentivise long-term sustainable performance (50% paid at the end of the initial performance period and 25% each year after subject to satisfactory sustained performance). The maximum award balance can be reliably measured, and the timing of payment is known. The amount is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows when the effect of the time value of money is material.

Related Party Transactions

The Group has taken advantage of the exemption conferred by paragraph 25 of IAS 24 'Related party disclosures' and has not disclosed transactions with its wholly owned subsidiaries.

3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of the financial statements requires management to make estimates, assumptions and judgements in applying relevant accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving higher degree of judgement or complexity or areas where assumptions are significant to the individual and consolidated financial statements are highlighted below:

(i) Classification of Financial Assets

In accordance with IFRS 9, the Group and Company classifies its financial assets depending on its business model in relation to groups of assets and associated contractual cash flows. Business models are assessed in respect of how groups of financial assets are collectively managed in order to achieve a particular business objective, and in order to generate cash flows.

The Group's view is that it has one business model: to make mission-led investments that provide a commercial return alongside societal and environmental returns. This will be through debt, equity and fund investments that provide contractual cash flows but also capital appreciation from changes in the fair value. Investments are managed, and their performance evaluated, on a fair value basis in accordance with the Group's documented investment strategy and reported to the Board on that basis. All investments are measured as FVTPL.

(ii) Fair Value Measurement

The key accounting estimates are the carrying value of investments which are stated at fair value. Asset valuations for unquoted investments are inherently subjective and have a high degree of judgement and complexity. They are made on the basis of assumptions which may not prove to be accurate such as trading multiples, discount rates and assumptions on expected cash flows, etc. The Group's investments are valued in accordance with IFRS and International Private Equity and Venture Capital (IPEV) valuation Guidelines. Where relevant, multiple valuation approaches may be used in arriving at and calibrating an estimate of fair value for an individual asset. Given the importance of this area, the Group has a separate Valuations Committee to review valuation policies, process and application to individual investments. For more details on the fair value methodology refer to note 2.

(iii) Deferred Tax

The Group has tax losses of £9.9 million (2021 : £2.2 million) available for offset against future taxable profits. Management judgement is required to determine the amount of deferred tax assets that can be recognised. This is based upon assumptions as to the future profitability of the companies in the Group and the timing of when such profits arise.
A deferred tax asset has been recognised on the basis that there is sufficient certainty based on future projections of income and profits and therefore scope for recovery of these tax losses in future.

Notes to the Financial Statements

4. Investment Income

A breakdown of the Group's revenue, all of which arises in the UK, is as follows:

	Year ended 31 March 2022 £'000	4 month period ended 31 March 2021 £'000
Arrangement fees income	583	200
Interest income – capitalised	1,095	223
Interest income – received	227	-
Total investment income	**1,905**	**423**

5. Administrative Expenses and Auditor's Remuneration

	Note	Year ended 31 March 2022 £'000	4 month period ended 31 March 2021 £'000
Employee costs	6	6,125	1,012
Auditor's remuneration – audit of financial statements	7	200	156
Other administrative costs		3,352	1,707
Total administrative expenses and auditor remuneration		**9,677**	**2,875**

6. Employee Numbers and Costs

Aggregate remuneration of employees and Directors was as follows:

	Year ended 31 March 2022 £'000	4 month period ended 31 March 2021 £'000
Wages and salaries	4,642	771
Social security costs	642	110
Pension	507	75
Amounts payable under long term incentive schemes	334	56
Total employee costs	**6,125**	**1,012**

More detail on this information is included in the Directors' remuneration report on pages 104 to 114.

The average number of Directors' and employees during the period was 52 (2021: 32) and the average number of Non-Executive Directors during the period was nine (2021: nine).

7. Auditor's Remuneration

Fees payable to the Group's auditor for the audit of the Group and subsidiaries' financial statements:

	Year ended 31 March 2022 £'000	4 month period ended 31 March 2021 £'000
Audit of group accounts	70	70
Audit of subsidiaries	77	40
Audit Scotland – audit support costs	20	20
VAT	33	26
Total auditor remuneration	**200**	**156**

The auditor did not undertake any non-audit services in the period (2021: nil).

8. Tax

a. Tax on profit on continuing activities

	Year ended 31 March 2022 £'000	4 month period ended 31 March 2021 £'000
Current tax		
Current tax on income for the period	–	4
Total current tax	**–**	**4**
Deferred tax	(2,645)	149
Total deferred tax	**(2,645)**	**149**
Total tax	**(2,645)**	**153**
Reconciliation of effective tax rate:		
(Loss) / Profit before taxation	(11,204)	981
Tax using the UK corporation tax rate of 19%	(2,129)	186
Effect of:		
Expenses not deductible	(10)	33
Unrealised losses not relievable / taxable	93	(215)
Tax rate changes	(599)	-
Deferred tax liability	-	149
Total tax (credit) / charge	**(2,645)**	**153**

Notes to the Financial Statements

8. Tax continued

b. Reconciliation of deferred tax asset

	Group 31 March 2022 £'000	Group 31 March 2021 £'000	Company 31 March 2022 £'000	Company 31 March 2021 £'000
Deferred tax (asset) / liability at 1 April	149	–	–	–
Movement in the year	(2,645)	149	–	–
Other	(1)	–	–	–
Total deferred tax (asset) / liability	**(2,497)**	**149**	**–**	**–**

Deferred tax primarily relates to the Group's accumulated losses. It is calculated at 25% (2021: 19%) of the actual losses to date. This is a temporary timing difference and the tax losses will offset against the gains which are expected in the next 3-5 years.

At 31 March 2022 there were £3.5 million of unrealised losses for which a deferred tax asset is not recognised in the statement in financial position as it is not envisaged these capital losses would be utilised in the medium term.

The Finance (No.2) Act 2015 reduced the main rate of UK corporation tax to 19%, effective from 1 April 2017. A further reduction in the UK corporation tax rate to 17% was expected to come into effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016). However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax, thereby maintaining the current rate of 19%.

The Finance Act 2021 (enacted on 10 June 2021) increases the main rate of UK corporation tax to 25%, effective from 1 April 2023. As the future increase in the corporation tax rate was substantively enacted at the balance sheet date, deferred taxes on the balance sheet reflect the 25% tax rate as they have been measured at the tax rate expected to apply in the period when the temporary differences reverse or unwind. This has resulted in an increase to the deferred tax credit of £599,216 in the period.

9. Property, Plant and Equipment

	Computer and equipment		Computer and equipment	
	Group 31 March 2022 £'000	Group 31 March 2021 £'000	Company 31 March 2022 £'000	Company 31 March 2021 £'000
Cost				
At 1 April 2021	–	–	–	–
Additions	168	–	–	–
Disposals	–	–	–	–
At 31 March 2022	**168**	**–**	**–**	**–**
Depreciation and impairment:				
At 1 April 2021	–	–	–	–
Depreciation charge for the year	32	–	–	–
Disposals	–	–	–	–
At 31 March 2022	**32**	**–**	**–**	**–**
Net book value:				
At 1 April 2021	136	–	–	–
At 31 March 2022	**136**	**–**	**–**	**–**

Property, plant and equipment is made up of £91,926 of capital expenditure plus £75,940 relating to a Right of use asset. Right-of-use Computer and equipment is the value of the leased computers recognised upon implementation of IFRS16. The corresponding lease liability is disclosed in note 15.

Notes to the Financial Statements

10. Investments

	Group 31 March 2022 £'000	Group 31 March 2021 £'000	Company 31 March 2022 £'000	Company 31 March 2021 £'000
Opening fair value	26,530	–	–	–
Additions	130,414	23,097	–	–
Repayments	(156)	–	–	–
Net unrealised fair value (losses) / gains	(3,432)	3,433	–	–
Closing fair value	**153,356**	**26,530**	**-**	**-**

Interest bearing loans accrue interest which is either settled in cash or capitalised on a regular basis and included as part of the principal loan balance. The capitalisation of accrued interest is treated as part of investment additions during the year.

The holding period of the Group's investment portfolio is on average greater than one year. For this reason, the portfolio is classified as non-current. Additions in the year included cash investment of £129,320,000 (2021: £22,873,333) and £1,094,500 (2021: £223,341) in capitalised interest.

The net unrealised loss of £3.4 million (2021: gain of £3.4 million) included of £1.9 million of losses related to upfront fund setup costs: £0.9 million relates to capitalised interest treatment giving rise to an offsetting unrealised loss, as the fair value of investments has remained flat since acquisition. The remainder of the loss relates to underlying performance of the investee companies. These losses are in line with expectation before capital appreciation and gains are expected in the latter years of investment.

The Company's investments are investments in wholly owned subsidiaries and are held at cost of £2.

11. Trade and Other Receivables

a. Current assets

	Group 31 March 2022 £'000	Group 31 March 2021 £'000	Company 31 March 2022 £'000	Company 31 March 2021 £'000
Other debtors	1	–	–	–
Prepayments	469	54	–	–
Total trade and other receivables	**470**	**54**	**-**	**-**

b. Non-current assets

	Group 31 March 2022 £'000	Group 31 March 2021 £'000	Company 31 March 2022 £'000	Company 31 March 2021 £'000
Amounts due from subsidiaries	–	–	159,678	22,873
Total non-current trade and other receivables	**-**	**-**	**159,678**	**22,873**

Amounts due from subsidiaries are not interest bearing and repayable on demand. The credit risk of the inter-company balance has not materially changed since initial recognition and there continues to be a low probability of default. Given this, an expected credit loss has not been recognised in the accounts as it would be immaterial.

12. Cash and Cash Equivalents

These comprise cash in hand and short- term cash deposits held at call. The carrying amount of these assets approximates their fair value.

	Group 31 March 2022 £'000	Group 31 March 2021 £'000	Company 31 March 2022 £'000	Company 31 March 2021 £'000
Cash and cash equivalents	10,236	6,256	869	5,635
Total cash and cash equivalents	**10,236**	**6,256**	**869**	**5,635**

Notes to the Financial Statements

13. Trade and Other Payables: Amounts Falling Due Within One Year

	Note	Group 31 March 2022 £'000	Group 31 March 2021 £'000	Company 31 March 2022 £'000	Company 31 March 2021 £'000
Trade payables		350	754	–	–
Other taxes and social security		64	22	–	–
LTIP accrual		345	47	–	–
Accruals		403	463	–	–
Lease liability	15	24	–	–	–
Corporation tax payable		–	4	–	–
Amounts owed to subsidiary undertakings		–	–	–	200
Resource funding owed to subsidiaries		–	–	–	800
Total current liabilities		**1,186**	**1,290**	**–**	**1,000**

Amounts owed to subsidiary undertakings are repayable on demand and are not interest bearing.

The Directors consider that the carrying amount of trade payables approximates their fair value. There are no trade payables past due and the trade payables and accruals will be settled within the credit period offered by the counterparty.

14. Trade and Other Payables: Amounts Falling Due After One Year

	Note	Group 31 March 2022 £'000	Group 31 March 2021 £'000	Company 31 March 2022 £'000	Company 31 March 2021 £'000
Non-current					
Deferred tax liability		–	149	–	–
LTIP accrual due within one to two years		58	6	–	–
LTIP accrual due within two to three years		39	3	–	–
Lease liability	15	40	–	–	–
Total non-current liabilities		**137**	**158**	**–**	**–**

15. Leases

	Group 31 March 2022 £'000	Group 31 March 2021 £'000	Company 31 March 2022 £'000	Company 31 March 2021 £'000
Right-of-use assets				
Net Carrying amount at start of year	–	–	–	–
Additions to right-of-use (ROU) assets	76	–	–	–
Depreciation charge for the year	18	–	–	–
Balance at end of year	**58**	**–**	**–**	**–**
Amounts recognised in Comprehensive income				
Depreciation expense on ROU assets	18	–	–	–
Lease Liabilities				
Amounts due for settlement within 12 months (Current liabilities)	24	–	–	–
Amounts due for settlement after 12 months (Non-current liabilities)	40	–	–	–
Total lease liabilities	**64**	**–**	**–**	**–**
Maturity analysis				
Not later than one year	24	–	–	–
Later than one year and not later than five years	40	–	–	–
Total lease liabilities	**64**	**–**	**–**	**–**

Total finance cost on leases was £400 for the year ended 31 March 2022. The average lease term is three years.

16. Share Capital

	Group 31 March 2022 £'000	Group 31 March 2021 £'000	Company 31 March 2022 £'000	Company 31 March 2021 £'000
Called up and allotted				
Brought forward	22,923	–	22,923	–
Ordinary shares of £1 each – issued in the year	126,330	22,923	126,330	22,923
Share capital at 31 March	**149,253**	**22,923**	**149,253**	**22,923**

The Group and Company has one class of ordinary share which carries no right to a fixed income. All shares have equal rights in terms of voting and dividends and have been issued at nominal value.

Notes to the Financial Statements

17. Grant in Aid

	Group 31 March 2022 £'000	Group 31 March 2021 £'000	Company 31 March 2022 £'000	Company 31 March 2021 £'000
Grant in aid received in period	142,539	30,564	142,539	30,564
Share capital issued on incorporation	–	(50)	–	(50)
Investment drawn and converted to shares	(126,330)	(22,873)	(126,330)	(22,873)
Resource funding passed to subsidiaries	–	–	(9,500)	(3,056)
Total grant in aid	**16,209**	**7,641**	**6,709**	**4,585**

18. General Fund

	Group 31 March 2022 £'000	Group 31 March 2021 £'000	Company 31 March 2022 £'000	Company 31 March 2021 £'000
Balance at 1 April 2021	8,469	–	4,585	–
Grant in Aid received in period	16,209	7,641	16,209	7,641
Resource funding passed to subsidiaries	–	–	(9,500)	(3,056)
Retained earnings	(8,559)	828	–	–
Balance at 31 March	**16,119**	**8,469**	**11,294**	**4,585**

The General fund reflects the grant in aid received by the Group from Scottish Ministers yet to be invested or used for operating expenses in the period.

19. Financial instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instrument are disclosed in note 2.

The Group's financial instruments comprise investments, trade receivables and trade payables arising from its operations.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The accounting policy note describes how the classes of financial instrument are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the financial assets and liabilities in the Consolidated Statement of Financial Position in accordance with the categories of financial instruments in IFRS 9.

At 31 March 2022 Carrying value	Financial assets and liabilities at fair value through profit and loss	Financial assets and liabilities at amortised cost	Total
	31 March 2022 £'000	31 March 2022 £'000	31 March 2022 £'000
Assets:			
Investments	153,356	–	153,356
Other debtors	–	1	1
Cash and cash equivalents	–	10,236	10,236
Total assets	**153,356**	**10,237**	**163,593**
Liabilities:			
Trade and other payables excl LTIP	–	(881)	(881)
Total liabilities	**-**	**(881)**	**(881)**
Net assets	**153,356**	**9,356**	**162,712**

At 31 March 2021 Carrying value	Financial assets and liabilities at fair value through profit and loss	Financial assets and liabilities at amortised cost	Total
	31 March 2021 £'000	31 March 2021 £'000	31 March 2021 £'000
Assets:			
Investments	26,530	–	26,530
Other debtors	–	–	–
Cash and cash equivalents	–	6,256	6,256
Total assets	**26,530**	**6,256**	**32,786**
Liabilities:			
Trade and other payables excl LTIP	–	(1,392)	(1,392)
Total liabilities	**-**	**(1,392)**	**(1,392)**
Net assets	**26,530**	**4,864**	**31,394**

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

Notes to the Financial Statements

19. Financial instruments continued

The Group classifies financial instruments measured at fair value according to the following hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie, as prices) or indirectly (ie, derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy at 31 March 2022 and 31 March 2021:

	Level 1	Level 2	Level 3	Total
	31 March 2022 £'000	31 March 2022 £'000	31 March 2022 £'000	31 March 2022 £'000
Assets:				
Investments	–	–	153,356	153,356
Total	**-**	**-**	**153,356**	**153,356**

At 31 March 2021:

	Level 1	Level 2	Level 3	Total
	31 March 2021 £'000	31 March 2021 £'000	31 March 2021 £'000	31 March 2021 £'000
Assets:				
Investments	–	–	26,530	26,530
Total	**-**	**-**	**26,530**	**26,530**

The Group's investment portfolio consists of assets carried at fair value. The groups financial assets are all classified as Level 3 assets. Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently. As observable prices are not available for these securities, the Group has used valuation techniques in accordance with the IPEV Guidelines with reference to the most appropriate information available at the time of measurement to derive the fair value. Level 3 valuations are reviewed on a quarterly basis by the Valuation Committee which reports to the Board of Directors. The Committee considers the appropriateness of the valuation model inputs, as well as the valuation results, using various valuation methods and techniques generally recognised as standard within the industry. During the period ended 31 March 2022 the fair value of investments held at FVTPL decreased by £3.4 million (2021: increased by £3.4 million). These are losses which are in line with specific investment profiling and therefore expected in the early years before capital appreciation and gains are made in the latter years of the investment – this movement was reflected in the Consolidated Statement of Comprehensive Income.

20. Financial Risk Management

Details of the Group's risk management structure, Group's objectives and policies and processes for managing and monitoring risk are set out in the Risk Management section of the Strategic Report on pages 60 to 69.

The Group has exposure to a variety of financial risks through the conduct of its operations. This note presents information about the nature and extent of risks arising from the financial instruments.

The Group's financial instruments comprise of investments in Scottish businesses and projects in the form of loans and/or equity, trade receivables, payables arising and cash resources which arise directly from its operations and from Scottish Government to support the Group's objectives and missions.

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market Risk

Credit Risk

Credit risk is the risk of a loss due to the failure of a counterparty of a financial instrument to meet its contractual obligations to pay the Group in accordance with agreed terms, or due to the risk of loss due to inappropriate investment decisions. Credit risk also includes settlement risk when a counterparty fails to settle their side of a transaction and concentration risk. The Group's credit risk is also influenced by general macroeconomic conditions.

Credit risk may arise in any of the Group's assets where there is the potential for default including the Group's investments, bank deposits and loans and receivables.

The credit quality of unquoted investments, which are held at fair value and include debt and equity elements, is based on the financial performance of the individual portfolio companies, funds and projects. The credit risk relating to these assets is based on their enterprise value and is reflected through fair value movements. Credit risk assessment is carried out as part of the investment approval process and is revisited on an ongoing basis as part of the Group's portfolio management process. The Group will invest in a variety of sectors thereby reducing the concentration of credit risk but accepts a level of credit risk from investing solely in projects and businesses in Scotland and that the impact of concentration risk will be inherently higher in the early years of the Bank while the portfolio grows.

Bank deposits are held by the Government Banking Service with AA credit rating therefore are subject to minimal credit risk.

As at the reporting date, there are no overdue or impaired receivables.

The Group is cognisant that recent global events will continue to impact the economy and is mindful of the implications of these events including recent inflationary rises. This is reflected in the assessment of new investments and the Group continues to closely monitor its portfolio.

Notes to the Financial Statements

20. Financial Risk Management continued

The carrying amount of financial assets in the Consolidated Statement of Financial Position represents the maximum credit exposure. The maximum exposure to credit risk as at 31 March 2022 is:

	Maximum exposure	Maximum exposure
	31 March 2022 £'000	31 March 2021 £'000
Debt investments	50,613	5,223
Other debtors	1	1
Cash and cash equivalents	10,236	6,256
Total	**60,850**	**11,480**

Liquidity Risk

Liquidity risk is the risk that the Group does not have sufficient financial resources in the short term to meet its obligations as they fall due, or its strategy is constrained by inadequate or inappropriate funding sources.

The Group manages its liquidity risk as part of its cash and operational risk management processes and ensures that sufficient funds in liquid form are maintained at all times to meet liabilities as they fall due. The Group operates within a budget agreed with the Scottish Government and as part of the Government Banking Service, as a result liquidity risk is not deemed significant to the Group.

Liquidity risk exposure of the Group as at 31 March 2022:

31 March 2022	Within 1 year £'000	Between 1 and 5 years £'000
Trade and other payables	(350)	–
Other liabilities excl LTIP	(491)	(40)
Total	**(841)**	**(40)**

31 March 2021	Within 1 year £'000	Between 1 and 5 years £'000
Trade and other payables	(754)	–
Other liabilities excl LTIP	(489)	(149)
Total	**(1,243)**	**(149)**

Market Risk

Market risk is the risk of a loss of earnings or economic value due to adverse changes in financial market prices, such as interest rates, foreign exchange rates or market price movement.

Interest Rate Risk

As the Group has no borrowings subject to interest, holds cash balances to meet payments as they fall due and does not hold significant amounts of cash on deposit for significant periods of time, it has no significant exposure to interest rate risk. Interest rate risk is monitored to ensure that the sensitivity of the Group's returns to market interest rate movements are understood and managed within Risk Appetite. The Group does not use derivatives to hedge interest rate risk. £52.3m (2021: £5.2m) of the Group's financial assets are subject to fixed rate interest arrangements, there are no floating rate arrangements in place and therefore the Group as at 31 March 2022 is not exposed to significant or material interest rate risk.

Currency Risk

The Group does not have direct exposure to currency risk as the Group has only invested in its functional currency, pounds sterling.

Valuation Risk

The Group values its portfolio according to the Group's valuation policy. The Group's valuation policy has been developed in accordance with the International Private Equity and Venture Capital Valuation Guidelines (December 2018). Investments are valued at fair value, which is the price that would be received to sell an asset in an orderly transaction between market participants given current market conditions at the measurement date. Valuation risks are partly mitigated by portfolio and individual investment reviews of the Group's investments quarterly.

As part of this process, valuations are reviewed by the Valuation Committee. For more details on the valuation methodology refer to note 2.

The fair value of unquoted investments is influenced by the estimates, assumptions and judgements made in the fair value process (disclosed in note 2). A sensitivity analysis is provided below which recognises their significant unobservable inputs and illustrates the sensitivity of the valuations to these inputs. The inputs have been flexed by 10%.

Key Unobservable Inputs of Unquoted Equity Investments

Estimated sustainable revenue or earnings

The selection of sustainable revenue or earnings will depend on whether the company is sustainably profitable or not and, where it is not, then revenues will be used in the valuation. The valuation approach will typically assess companies based on the last audited financial statements or in a company of high growth the last 12 months of revenue or earnings, if they are considered reliable and sustainable. Where a company has reliably forecasted earnings previously, is achieving high levels of growth and/or there is a change in circumstance at the business which will impact earnings going forward, then forward estimated revenue or earnings may be used instead.

Selection of comparable companies

Management determines comparable companies individually for each investment to derive a comparator set of multiples at the point of investment, and the relevance of the comparable companies is evaluated quarterly. The key criteria used in selecting appropriate comparable companies are the industry size, the sector in which they operate, the geography of a company's operations, its development stage, the respective revenue and earnings growth rates, strategy and operating margins.

Notes to the Financial Statements

20. Financial Risk Management continued

The multiple is calculated by dividing the enterprise value of the comparable company by either its earnings before interest, taxes, depreciation and amortisation (EBITDA), revenue or book value. The trading multiple is then discounted for considerations such as illiquidity and differences between the comparable companies based on company-specific facts and circumstances. An assumed 10% shift in inputs and sensitivities would lead to a change in the fair value of the portfolio at 31 March 2022 of £14.5m (2021: £0.9m).

The following table summarises the various valuation methodologies used by the Group to fair value Level 3 instruments, the inputs and the sensitivities applied and the impact of those sensitivities to the unobservable inputs. The majority of our portfolio has so far mitigated the impacts of supply chain disruption due to geopolitical events and inflation via pricing mechanisms and diversifying supplier base, an important consideration in our portfolio valuation at 31 March 2022. As part of our case-by-case review of our portfolio companies the risks and opportunities from climate change are an important consideration in the overall discussion on fair value. These risks are adequately captured in the multiple sensitivity. All numbers in the table below are on an Investment basis.

As at 31 March 2022 Valuation basis	Fair value of unquoted investments £000	Variable input sensitivity	Impact: £000	Impact: % of net assets
Earnings / revenue multiple	16,965	+/- 10%	902	5%
Original cost subsequently calibrated as appropriate	58,542	+/- 10%	5,854	10%
Price of a recent investment	3,000	+/- 10%	300	10%
Funds – Net Asset Value	74,849	+/- 10%	7,485	10%
Total unquoted investments	**153,356**		**14,541**	

Capital Management

The capital structure of the Group consists of debt, cash and cash equivalents and equity directly attributable to equity holders of the parent, comprising issued capital and general fund balances as disclosed in the Statement of Changes in Taxpayers' Equity.

The Group considers its capital to be the total equity shown in the Statement of Changes in Taxpayers' Equity.

The Group's objectives when managing capital are:

- To comply with the capital requirements set by Scottish Government regarding investing in eligible countries and sectors
- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns and benefits for stakeholders
- To maintain a strong capital base to support the development of the Group's missions and operations

The Board regularly monitors the results of the Group and its financial position.

21. Capital Commitments

Amounts contracted for but not provided for in the accounts amounted to £42.2m (2021: £29.6m) for investment commitments.

22. Related Party Transactions

The Company has taken advantage of the exemption conferred by paragraph 25 of IAS 24 'Related party disclosures' and has not disclosed transactions with its wholly owned subsidiaries. Transactions between the Company and its subsidiaries have been eliminated on consolidation.

The Group's key management personnel comprise the members of the Board including the Chief Executive Officer and Chief Financial Officer. Key management personnel are remunerated on the basis outlined in the Annual Report of Remuneration on pages 104 to 114.

23. Related Undertakings

The principal subsidiary undertakings of the Group are shown below.

Subsidiaries Consolidated

Company and registered address	Class of share	Percent held by Scottish National Investment Bank plc	Principle activity
Scottish Investments Limited Waverley Gate, 2-4 Waterloo Place, Edinburgh, United Kingdom, EH1 3EG	Ordinary	100%	Investment
Scottish Investments Services Limited Waverley Gate, 2-4 Waterloo Place, Edinburgh, United Kingdom, EH1 3EG	Ordinary	100%	Group operational and administration services

Notes to the Financial Statements

23. Related Undertakings continued

The Group had no acquisitions in the year. In the prior year the Company acquired 100% of the share capital of Scottish Investments Services Limited, previously Scottish Investments (advisory) Limited (SC647147) on 23 November 2020 from Scottish Ministers.

The Group acquired the incorporated business of Scottish Investments (Advisory) Limited for £1. The acquired entity is an operational services company and provided operating resource in the period prior to Bank launch.

The acquisition had the following effect on the Group's assets and liabilities in the prior period:

	Scottish Investments (advisory) Limited
	31 March 2021 £'000
Assets	
Cash	-
Total	**-**
Liabilities	
Trade and other payables	24
Total	**24**
Net liabilities	**24**

From the date of acquisition, the entity has been renamed Scottish Investments Services Limited and is the provider of operating resource to other entities of the Group. The entity has not generated any income and receives resources funding via the Group. In the prior period after acquisition the entity had recorded a net operating loss of £2,363,382 which was included in the Consolidated Statement of Comprehensive Income.

24. Defined Contribution Plan

The company contributes to an externally administered defined contribution (DC) pension plan for all eligible employees. The bank pays fixed contributions and will have no legal or constructive obligation to pay further amounts. The total expense in the current period was £506,617 (2021: £75,364).

25. Ultimate Parent Company

The ultimate parent and controlling party and the smallest and largest group in which the results of Scottish National Investment Bank plc are included is headed by Scottish Ministers. The consolidated financial statements of Scottish Ministers may be obtained from their registered address. No other Group financial statements include the results of the Company or Group.

26. Subsequent Events

There have been no material events since the reporting period that would require adjustment to these financial statements.

Scottish Government
Riaghaltas na h-Alba
gov.scot

Scottish National Investment Bank

DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 hereby give the following direction.

2. The statement of accounts for the financial period ended 31 March 2021, and for subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared, and with the Companies Act 2006.

3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial period, and of the state of affairs as at the end of the financial period.

4. This direction shall be reproduced as an appendix to the statement of accounts.

On behalf of the Scottish Ministers 31 March 2021

The
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Bank
plc

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Scottish National Investment Bank plc is wholly owned by Scottish Ministers
Registered in Scotland with Company number SC677431