Annual Report and Accounts 2021

The Scottish National Investment Bank

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The Bank's Vision

The vision of the Scottish National Investment Bank (the Bank) is to provide investment to support growth in the Scottish economy. It will do this 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 £1 million or more of investment to support their growth or development
- 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

"The Bank's missions, to support the transition to net zero, to build communities and promote equality, and to harness innovation, were set with the endorsement of the Scottish Parliament and after extensive consultation across the public, private and third sectors."

Willie Watt
Chair

Chair's Statement

The Bank was launched in November 2020 on the recommendation of the Council of Economic Advisers appointed by the Scottish Government, and in recognition of the clear evidence from countries around the world that development banks can have strong, positive impacts on investment, innovation, and sustainable long-term economic growth. Legislation to underpin the Bank's establishment was passed unanimously by the Scottish Parliament on 21 January 2020.

The Bank's missions, to support the transition to net zero, to build communities and promote equality, and to harness innovation, were set by Scottish Ministers with the endorsement of the Scottish Parliament after extensive consultation across the public, private and third sectors. Each mission is set over a long timescale, in recognition of the long term and persistent nature of these challenges, and the need for a strategic approach to be taken to resolving them.

In response to the climate emergency facing Scotland and the rest of the world, the Bank's net zero mission is central to its investment strategy. We are delighted that the United Nations chose to hold the 26th Conference of Parties (COP) in Glasgow to address the global climate crisis and the Bank will play an important part in showcasing the role of development banks in delivering green finance and in supporting Scottish businesses and projects in the delivery of the recommendations. The Bank will support a just transition to net zero carbon emissions by 2045 by investing in rebalancing the Scottish economy to lead in sustainable technologies, services and industries. This will include investment in areas such as clean energy, transport, energy performance, agriculture and housing.

The Bank's place mission is to extend equality of opportunity through enhancing places by 2040. This will be achieved by investing in urban and rural development and regeneration to enhance opportunities and outcomes for people and communities across Scotland.

In response to demographic change across Scotland, the Bank will harness innovation to enable people to flourish, investing in technology and industries of the future for a healthier, more resilient and productive population.

We have great confidence that these missions speak to the key challenges that Scotland faces and that, in working to address them, the Bank can deliver economic, social and environmental benefits for the people of Scotland.

All investments will be made with the firm expectation of making a positive financial return. These positive returns will be used to operate the Bank and will be reinvested by the Bank in future businesses and projects to enable continuous contribution to the Bank's missions. Over time this will build a strong balance sheet and increase the Bank's investment reach. This commercial imperative complements and enhances the Bank's missions. It is the role of the Bank to achieve both mission impacts and positive financial returns.

The period has been one of building, notably building the Bank team and investment pipeline together with the Bank's operational and governance structure to support the Bank's growth.

The Bank launched with a full Board of Directors in place as specified by the Scottish National Investment Bank Act 2020 (the Act). The independent directors come with a broad range of relevant experience, of public and private sector investment and of businesses both large and small with specific experience of the Bank's three missions. It is gender balanced.

The Chief Executive Officer, Eilidh Mactaggart, was recruited in 2020 and worked tirelessly towards a speedy launch of the Bank. With a successful career in senior investment roles, she has good experience across the Bank's missions, particularly low carbon and place making missions. In the immediate pre-launch phase and during the period since launch, Eilidh has built a strong executive team covering all key executive roles. She is also building a well-resourced and experienced investment team capable of delivering the Bank's investment remit. The pipeline is building strongly and it is pleasing to see investment opportunities across all the Bank's missions and of very different investment sizes from £1 million to £50 million.

The Bank's culture and values are critical to the success of the Bank in achieving its missions. I am encouraged by the enthusiasm of the team to deliver the missions and in shaping the Bank's culture and values.

It would be impossible to write this statement without talking about COVID-19 and its implications for both the launch of the Bank and its work going forward, an achievement for any start-up organisation in a year of unprecedented challenges. I would like to thank everyone within the Bank team, the Board and the Scottish Government team with whom we worked for all their hard work and creativity in getting the Bank up and running.

The COVID-19 crisis has had a massive impact on business and society within our country, making the role of the Bank even more critical. The support measures put in place by the Scottish and UK Governments have mitigated some of the damage to business health. The Bank expects to see businesses look to it for long term investment capital and stands ready to engage with them, and sees future demand to address the long-term recapitalisation of businesses as the recovery takes hold. The Bank's missions focussing on the journey to net zero, place-based inequality and innovation are as relevant as ever as the country comes out of the COVID-19 pandemic and will inform its investment priorities going forward.

Willie Watt
Chair

Chief Executive Officer's Review

The launch of the Bank, Scotland's first development investment bank, in November 2020, was a significant achievement for both the Bank launch project team and the Scottish Government, set in unprecedented times with everyone involved working from home and needing to balance various personal and work commitments.

By necessity, the Bank's first few months of operation were focussed on ensuring the key infrastructure was in place to support the development of the Bank in the long term. During the period the Bank's Investment Strategy, Risk Management Framework, pay and grading structure, key policies, first Mission Report and first Business Plan were approved by the Bank's independent Board of Directors.

The Bank will be a positive force within the wider public and private investment sector ecosystem. It is the Bank's ambition not only to increase the investment options available to businesses and projects connected to Scotland, but also to crowd in private sector capital by encouraging private investors to participate in a potential investment or in an existing investment of the Bank. This will split the investment risk and reward to support the delivery of its missions and develop a fairer, more sustainable economy for Scotland.

The Bank's investment activity is directed to the support of its missions and is on commercial terms. Over time the Bank's initial investments will be repaid and this investment capital and profits reinvested in future businesses and projects connected with Scotland. Over the medium term, the Bank expects to be financially self-sustaining from the income generated by its investment portfolio and other investment activity, including advisory services and asset management that aligns to the Bank's missions. In the longer term the Bank will seek to generate significant profits to reinvest alongside its recycled capital, creating a perpetual investment fund for its Shareholder on behalf of the people of Scotland.

People

Hiring the right team to support the delivery of the Bank's missions has been a significant focus of this first period. At launch, the Bank had 11 employees, by the end of the financial period the Bank had 30 employees and plans are in place to recruit a further 45 in the coming financial year. This will take the Bank close to a full headcount until such time the Bank starts managing private capital. Hiring the team virtually has been an unexpected challenge, however the quality of talent and experience the Bank is attracting with its mission focus is hugely encouraging.

Investment Activity

In this first short period since launch, the Bank announced its first two investments. A £12.5m investment in M Squared Lasers Limited, a Glasgow based technology high growth potential business, and a £40m commitment to the Places for People Capital Fund, dedicated to the provision of affordable quality long term rental accommodation for those on modest incomes, including key workers.

As a mission impact-driven development investment bank, the Bank's investment portfolio will address the three missions set for it by Scottish Ministers. The developing investment opportunity pipeline is balanced across the missions and in almost all potential investments, more than one of the Bank's missions would be supported. It is the Bank's intention that its investment activity, while focussed on supporting the Scottish economy, is dispersed geographically across Scotland as a whole.

The investment team has made considerable progress in developing a pipeline of investible opportunities for the Bank to consider in the next financial year providing a strong basis on which the Bank can build its investment portfolio. The Bank has recently announced a number of exciting new investments which will contribute to delivery of all three missions.

Missions, Policy and Insights

As the Bank's missions were designed to address some of the greatest and most persistent challenges for Scotland, the Bank will seek to actively contribute to the development of the Scottish Government's policy to support the delivery of the missions through positive and collaborative relationships and insights with key partners in the policy landscape, including non-governmental organisations, policy makers and regulators. Over time the Bank will be able to provide investment market data and analysis to support future policy development.

In the coming year, the Bank will start to share insights into the investment landscape and how wider investment can support the delivery of the Bank's missions.

Equality and Diversity

In addition to its missions, the Bank has been tasked with using its investment to support the improvement of equality and diversity across Scotland. This will be achieved by considering equality and diversity in the investments the Bank makes and where appropriate including conditions of investment in relation to equality and diversity. In the coming financial year, the Bank will consult on, develop and publish its Equality and Diversity Strategy.

As the Bank's inaugural Chief Executive Officer, I am incredibly proud of the achievements of the team in launching the Bank and progress made in this first short financial period.

Eilidh Mactaggart.

Eilidh Mactaggart
Chief Executive Officer

The Bank's Business Model

The Bank will provide patient capital to businesses and projects throughout Scotland to build an economically stronger, fairer and more sustainable Scotland.

The Bank is a development investment bank, established and funded by the Scottish Government on behalf of the people of Scotland. Development banks seek to invest where the private sector is not providing sufficient investment to businesses or projects to support the development of a country's economy.

The Bank is a non-departmental public body (NDPB), a body that has a role in the processes of national government but is not a government department and which operates at an arm's length from Scottish Ministers. The Bank has ambitions to become a public corporation in the medium term when amongst other considerations it becomes financially self-sustaining. The Bank is in the unusual position of being both a public body and a public limited company (PLC) thereby having operational and reporting requirements of both Scottish Government and those applicable to 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 have a long-term focus and impact, which is reflected in the long term nature of the missions. The Bank's mission impact investment activity focuses on delivering a commercial investment return to its Shareholder, on behalf of the people of Scotland, alongside societal and environmental returns, or mission impacts, that support the delivery of its missions.

Investment is the primary method the Bank will use to deliver on its missions. Delivery of thought leadership and insights into the investments it is making, or the opportunities to invest it identifies will also be used. The Bank will work alongside private, public and third sector partners in the wider ecosystem and will seek to attract private sector funds to co-invest alongside its public capital wherever it can, in order to maximise its mission impact and accelerate investment activity in the Scottish economy as a whole.

In addition to delivering socio-economic returns the Bank invests to achieve returns from capital appreciation and investment income, including fees, interest and dividends. Typically, the Bank will invest in businesses and projects seeking more than £1 million in investment support (either debt or equity).

The Bank has not been established and does not have the power to deliver grant or sub-commercial government funding. This will continue to be provided by enterprise agencies and central government.

In the longer term, it is intended that the Bank will use repaid capital and positive returns from existing investments to fund new opportunities. In doing this, the Bank will become a perpetual investment fund for its Shareholder on behalf of the people of Scotland.

The Bank's missions are:

Financial Self-Sustainability

The Bank will achieve financial self-sustainability by generating income from the investments it makes, and by closely controlling its costs and expenses.

The Bank's ambition to manage and invest third party capital that is mission aligned, alongside its public capital, will provide the Bank with additional income to support its ongoing financial self-sustainability, with any profit from this asset management activity invested in mission-led investments. The Bank will require and is working towards becoming FCA authorised in the coming year to support this ambition.

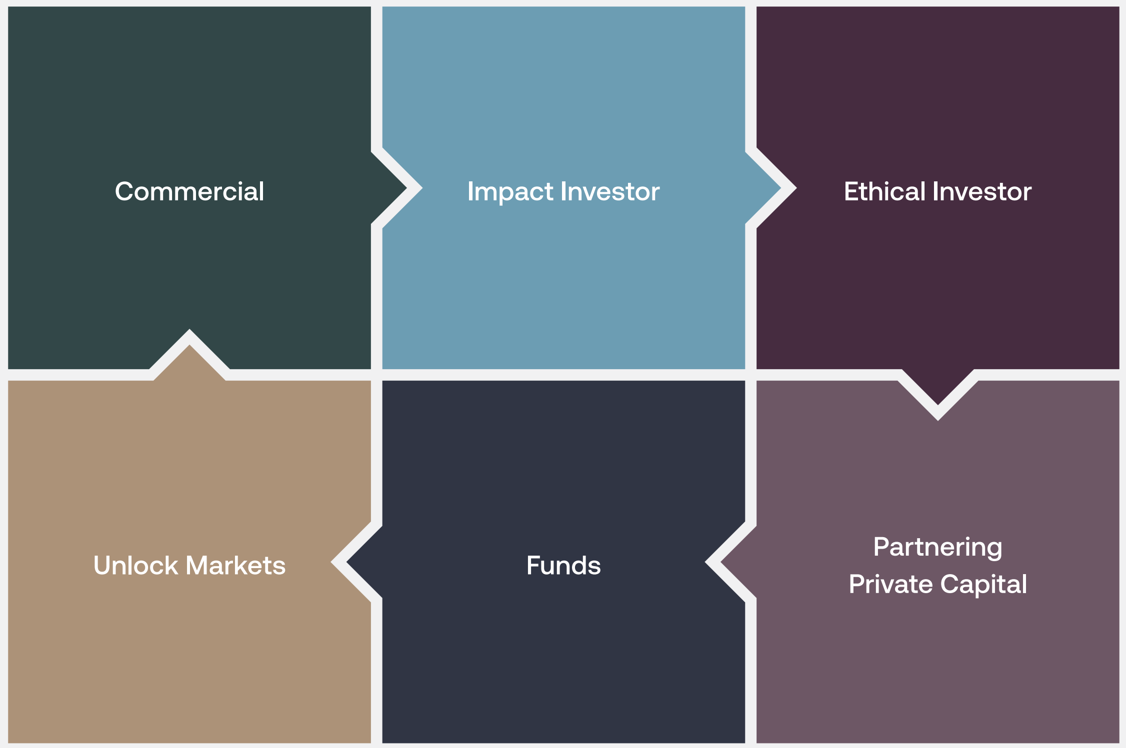
Culture and Values

The Bank's culture and values are critical to the success of the Bank in achieving its missions, and are extremely important to its people and wide variety of stakeholders. The Bank is currently defining and shaping its culture and values with colleagues from across the Bank. These will be incorporated through all activities. Considerable gender equality milestones have already been achieved in appointing a gender balanced Board of Directors and executive team, and developing a diverse team of people.

In making its investments the Bank will seek to promote and encourage the businesses and projects it invests in to improve 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 and diversity.

What the Bank does:



Strategic Objectives and Key Performance Indicators (KPIs)

The Bank's primary objectives, in its first financial period, have been to successfully launch the Bank and continue to build the team, investment pipeline and governance frameworks to support the ongoing growth of the Bank to successfully deliver its missions. All of which has been achieved with oversight from the Board. Now launched, the Bank will increasingly use quantitative as well as qualitative measures to assess its performance against strategic objectives.

Accountability

The Bank's medium term strategic objectives inform a set of operational objectives each year that link directly to specific key performance indicators and targets agreed with the Board and also inform the setting of annual Long Term Incentive Plan performance criteria: against which the Bank is held accountable, together with the reporting requirements set out in the Shareholder Relationship Framework Document. These medium term strategic objectives and KPIs are set out below:

Strategic Objective	Key Performance Indicator
Embracing the Bank's missions: ◆ **Putting the missions at the heart of everything the Bank does**	◆ Deep demonstration and effective reporting of mission alignment in all investments with some investments aligned with more than one mission ◆ Recruitment of a diverse team of committed, motivated and mission aligned employees ◆ Alignment of the Bank's suppliers and public and private sector partners with the Bank's missions ◆ IFC* principles and IRIS+** are embedded and operating efficiently driving and measuring mission impacts
Delivering investment: ◆ **£2bn of public capital to be invested over the Bank's first ten years** ◆ **£800m of public capital to be committed to investment by the end of FY24/25** ◆ **Launch of the Bank's asset management business in the medium term**	◆ Investments deliver the Bank's missions and include mission covenants to capture mission impacts ◆ Investments are commercial having prospective investment returns from capital appreciation and/or investment income which is commensurate with the investment risk ◆ Capital is only provided when it has not been available in the private sector, and where possible private sector capital is crowded in ◆ Achieving financial self-sustainability in the medium term from return on investments and in the longer term, income in excess of operating costs is re-invested in businesses and projects ◆ Building a credible investment track record, achieving regulatory status and crowding in private capital through asset management
Financial management: ◆ **To manage costs within budget** ◆ **To build an investment portfolio with quality mission aligned investments, generating income to support financial self-sustainability in the medium term**	◆ Operationalise, improve and regularly review the control environment and embed a value for money culture ◆ Operational costs are appropriately managed to budget ◆ Financial self-sustainability met in the medium term ◆ Investing in a mixed investment portfolio that delivers fee and interest income to support the operational costs of the Bank in the medium term
Investment impact assessment reporting: ◆ **Develop best in class investment assessment and reporting to evidence delivery of the Bank's missions**	◆ Development of investment impact assessment and reporting framework ◆ IFC* principles and IRIS+** are embedded and operating efficiently driving and measuring mission impacts ◆ Annual financial and non-financial public reporting of the Bank's investment portfolio
People and culture: ◆ **Attract talented people to deliver the Bank's mission and with them create a culture centred on its missions to enable the Bank's team to flourish**	◆ Recruit a diverse team of committed, motivated and mission aligned employees ◆ Deliver timely recruitment to support the requirements of building the Bank and investment activity ◆ Ensure the Bank's values are clear, communicated and embedded across all activities ◆ Equality strategy in place, reporting and regular review of equality data in place
Engagement with the ecosystem: ◆ **Educate and engage with the Shareholder and key public sector bodies** ◆ **Educate prospective clients, co-investors and introducers on the Bank's ambition and purpose** ◆ **Support business development by enhancing the Bank brand and growing brand awareness**	◆ Successfully engage with both public and private sectors on the role of the Bank, its missions and investment strategy to further crowd in private capital ◆ Catalyse change by being at the heart of the Scottish investment finance ecosystem ◆ Undertake research and publish market and investment insights to demonstrate depth of knowledge and expertise and highlight investments within the context of the missions ◆ Act with transparency, by publishing key documents and engaging openly with potential clients, the media and our Shareholder

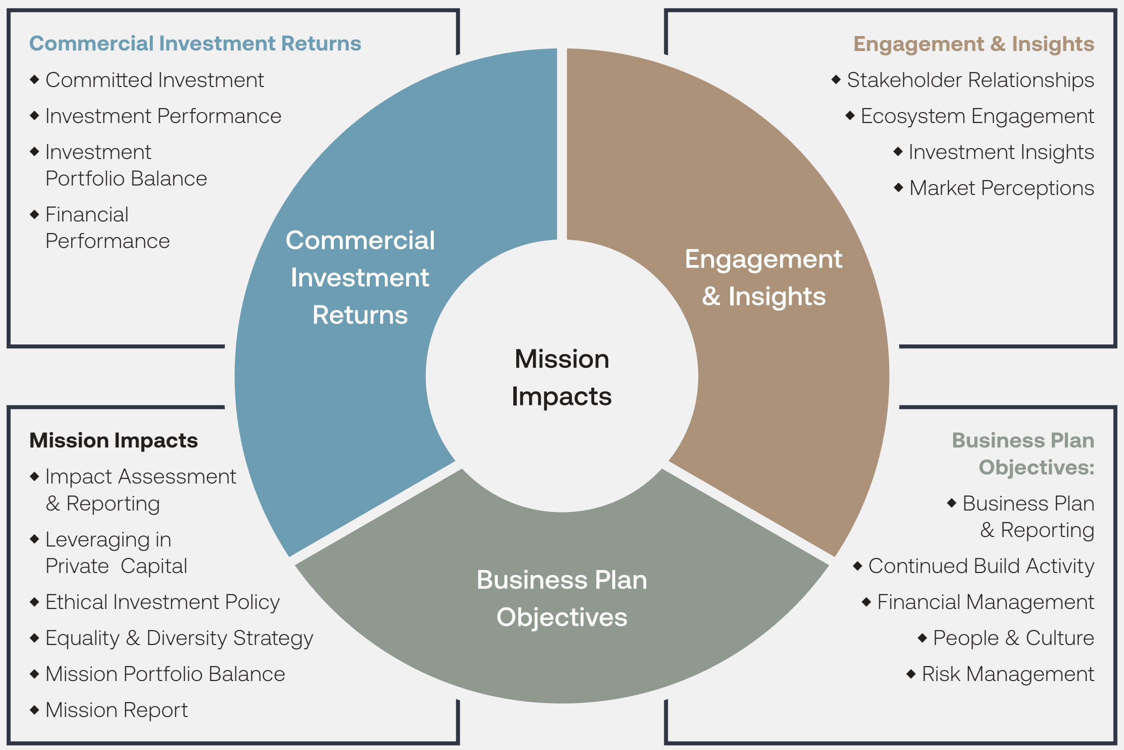
*International Finance Corporation (IFC) operating principles for impact management. ** System of impact measurement developed by Global Impact Investing Network (GIIN).

The Bank assesses its future risk to success and achievement of its strategic objectives through the Bank's risk management framework set out on page 24. The reporting framework and governance in relation to the risk management framework and linkage to the strategic objectives contributes to the delivery of the Bank's strategic objectives.

Strategic Objectives and Key Performance Indicators (KPIs) continued

Balanced Scorecard

The Bank is developing a balanced scorecard in accordance with the Act that has regard to the economic, social and environmental impacts the Bank 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 objectives as set out in the Bank's Business Plan and Investment Strategy for use by the Board and Shareholder. The format of reporting is under development and will support the Bank's commitment to transparency.



Responsible Investing

Impact Investing

Alignment to the Bank's missions is the primary filter applied when assessing a new investment opportunity. The Bank's investment process has been designed to follow investment industry best practice and is in line with other development investment banks and commercial banks.

Over time the Bank will seek to build a diverse portfolio, providing the investment required to support the delivery of all three missions across the whole of Scotland.

Ethical Investment

In addition to the mission alignment of its investments the Bank as a responsible investor also considers:

- The ethical and governance standards of the business or project it is providing investment to, focussing on encouraging them to comply with common minimum ethical investment standards and also improve and report on compliance with these ethical standards and principles of good governance
- The ability of an investment to improve equality and diversity in Scotland by encouraging the businesses and projects the Bank invests in to improve and report on equality and diversity within its workforce and potentially wider beneficiaries of a business's or project's goods or services

The Bank's Ethical Investment Policy sets out the ethical investment standards the Bank will seek to encourage and promote. The policy includes specific exclusions where the Bank will not invest with clarifications, where relevant, of the types of investment the Bank may make in certain areas to counter or encourage and promote these ethical standards.

Measuring the Bank's Impact

It is the Bank's ambition in the medium term to develop a best in class investment impact assessment and reporting framework to ensure it demonstrates the delivery of its missions over time to Scottish Ministers on behalf of the people of Scotland. The Bank is required to report publicly on the non-financial performance of its investment portfolio annually. The Bank will anchor its mission impact reporting on the complimentary frameworks of the World Bank's International Finance Corporation (IFC) 'Operating Principles for Impact Management' (which are set out in more detail below), and the IRIS+ system of impact measurement, developed by the Global Impact Investing Network (GIIN). In addition, the Bank will seek to report the impacts of its missions in line with the Scottish National Performance Framework. These frameworks are all closely aligned with the United Nations' Sustainable Development Goals.

Over time the Bank will develop this public reporting further in line with evolving industry best practice and will use the balanced scorecard framework to underpin its performance reporting, to cover both financial and non-financial impacts.

Responsible Investing continued

Using the IFC Principles

The IFC has been at the forefront of impact investment for decades and in developing its Operating Principles for Impact Management (IFC Principles) its goal was to establish a common discipline around the management and reporting of impact investment. The IFC Principles is the basis on which the Bank will establish and implement its investment impact assessment and reporting to evidence the delivery of its missions over the long term.

Principle 1: Define strategic impact objective(s), consistent with the investment strategy.

Principle 2: Manage strategic impact on a portfolio basis.

Principle 3: Establish the Manager's contribution to the achievement of impact.

Principle 4: Assess the expected impact of each investment, based on a systematic approach.

Principle 5: Assess, address, monitor, and manage potential negative impacts of each investment.

Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

Principle 7: Conduct exits considering the effect on sustained impact.

Principle 8: Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

Principle 9: Publicly disclose alignment with the Principles and provide regular independent verification of the alignment.

Using the IRIS+ Standards

The Bank will base the measurement of its mission impacts on the IRIS+ System Standards. These standards are already being used by leading impact investors to measure, manage and optimise investment impact.

The IRIS+ system is based on four core characteristics, which are set out below.

1. **Intentionality:** noting that impact investment is underpinned by the Bank's desire to contribute to measurable social, environmental or economic benefit through its investments.
2. **Use Evidence and Impact Data in Investment Design:** to ensure the Bank's investment delivers the intended impacts, the IRIS+ system recognises that these impacts must be incorporated into all of the Bank's investments.
3. **Manage Impact Performance:** to deliver impact, the IRIS+ system recognises that this requires communication of performance at the investment level to support the assessment of impact for the investor.
4. **Contribute to the Growth of the Industry:** the IRIS+ system encourages investors with credible impact investing practices to share their insights and experiences where possible to enable others to learn how investment can contribute to social and environmental benefit.

Sustainability

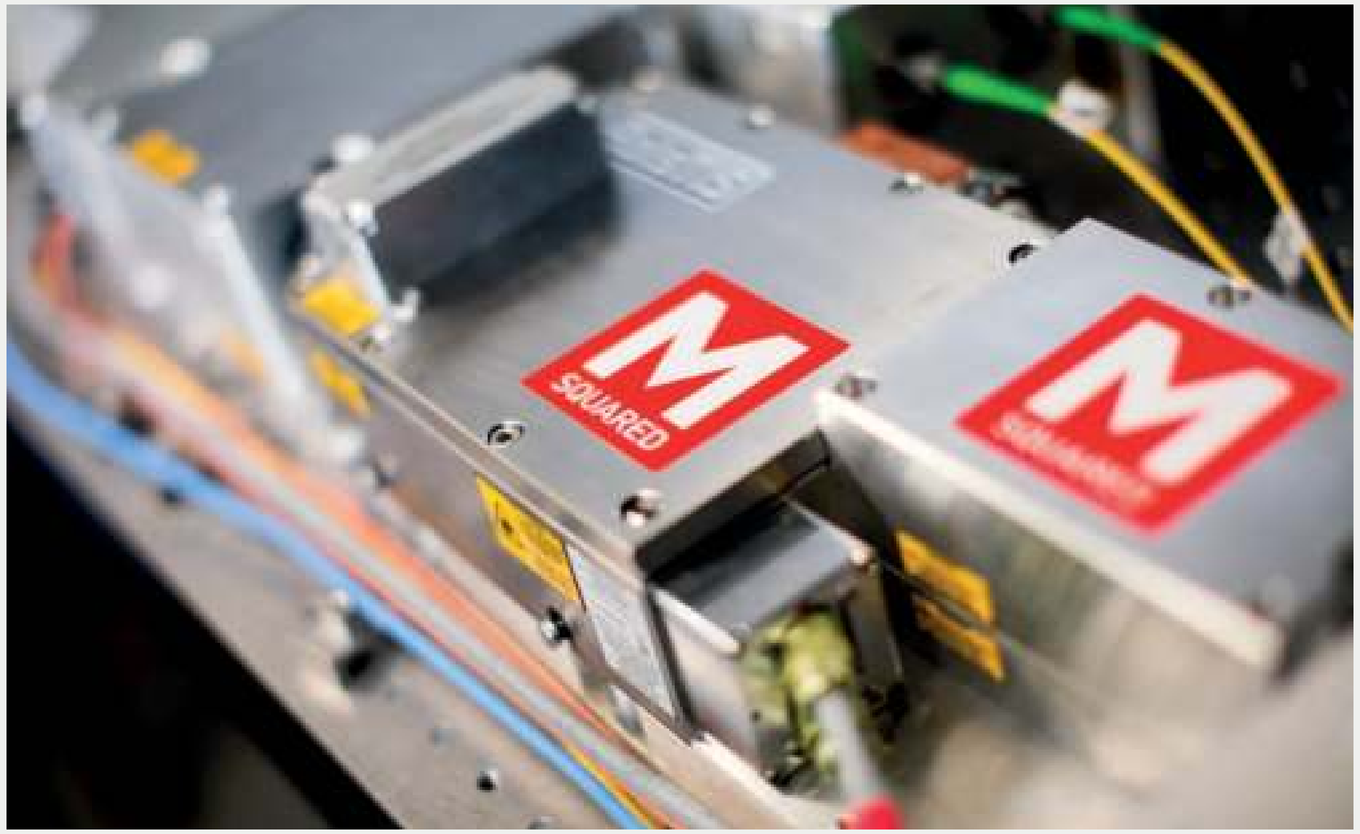
The Bank is aligned with its missions with regard to its own sustainability. The Bank is committed to minimising its environmental impact through energy use, business travel, waste and a culture focused on sustainability. The ambition is to report the Bank's own impact and contribution towards the United Nations' Sustainable Development Goals. The Bank launched during the COVID-19 pandemic and as a result of remote working it has not been possible to monitor or create a base line from which targets can be derived. The measuring and reporting of the Bank's own sustainability will be developed over the forthcoming year.

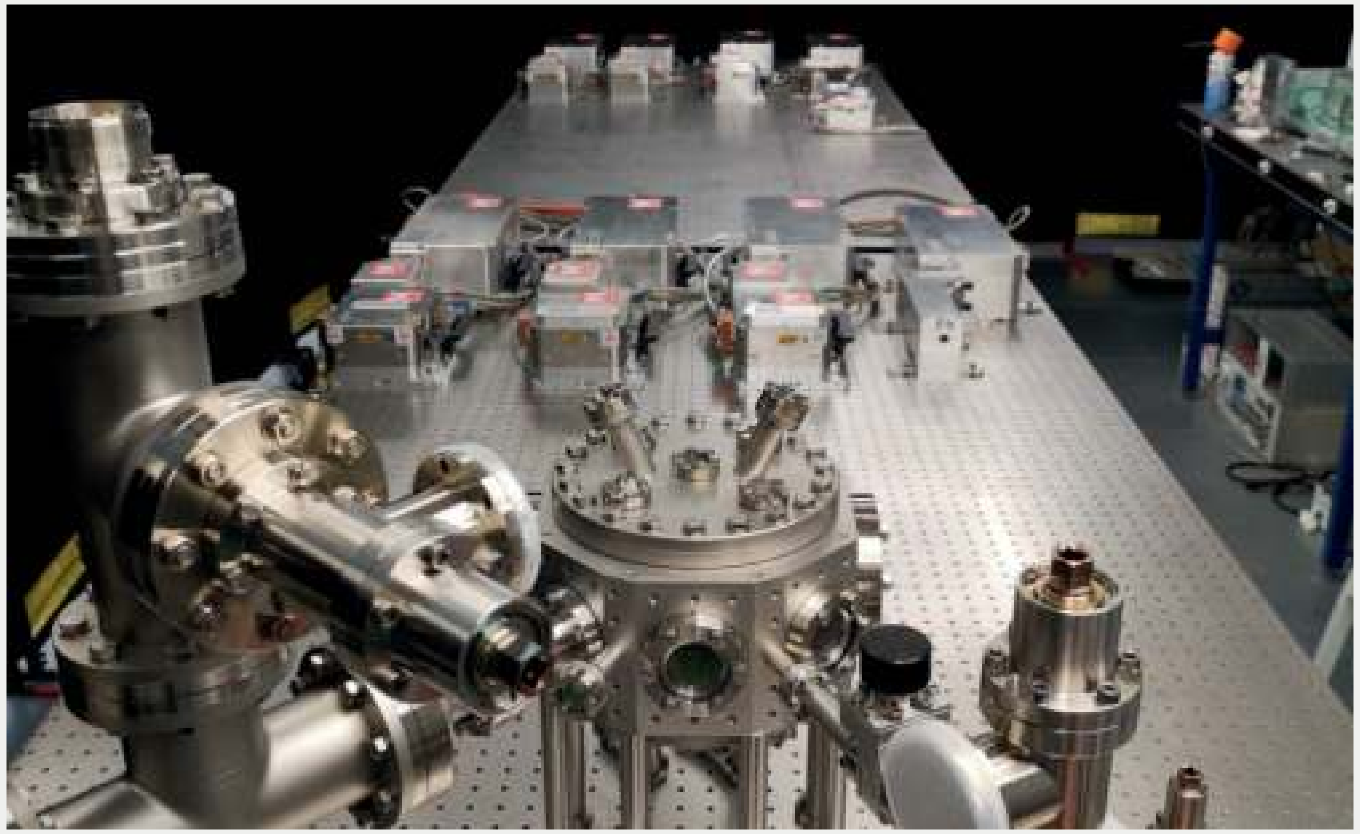
Investment Case Studies

"In this first short period since launch, the Bank announced its first two investments. A £12.5m investment in M Squared Lasers Limited, a Glasgow based technology high growth potential business, and a £40m commitment to the Places for People Capital MMR fund, dedicated to the provision of affordable quality long term rental accommodation for those on modest incomes including key workers."

Eilidh Mactaggart
Chief Executive Officer

M Squared Lasers Limited





Amount Committed: £12.5 million

Location: West of Scotland Science Park, Glasgow

Mission Alignment: This investment aligns to both the innovation mission, by harnessing innovation to enable our people to flourish, and the net zero mission, by supporting Scotland’s transition to net zero.

M Squared is a cutting edge photonics and quantum technology business focussed on bringing scientific advances into the real word.

M Squared’s light-based technology has applications from the measurement of greenhouse gas emissions, to the development of next generation medicines.

The Bank’s investment is helping M Squared reach the next stage of its development, building their own quantum computer and expanding their global export presence.

“M Squared makes the world’s purest light - technology that has transformative, real-world, applications that can take on the climate emergency, greatly improve biomedical imaging, realise the next evolution of semiconductors, and now truly unlock the coming quantum age.

Scotland is at the heart of the UK’s advanced science and technology sectors and sitting alongside world-leading universities and commercial partners – it has become a critical hub of excellence from which we can continue to expand globally.

Our commercial and technological potential is enormous and with this transaction we have the ideal financial and structural platform to progress and realise substantial growth and launch major new developments.”

Dr Graeme Malcolm OBE,
Founder & CEO of M Squared

Forecast Impacts:

Management of M Squared have forecast the following investment impacts informed by the IRIS principles.

- Gross Value Added (GVA) of £32 million annually by 2025
- 135 jobs created in Scotland by 2025
- 8 apprenticeships, training and research placements by 2025
- Promoting gender equality in Science Technology Engineering & Maths (STEM)
- 75,000 tonnes of greenhouse gas emissions avoided from sales by 2025
- Energy efficiency impact of M Squared products enables a 99.7% reduction in energy consumption
- 180 technologies developed globally to support transition to net zero by 2025
- Reached net zero internally and aiming to reach net zero in supply chain by 2024
- Enabling disease mitigation
- Supporting innovation with 30 formal R&D partnerships with more than 15 partner institutions in Scotland
- Delivering towards six United Nations’ Sustainable Development Goals (SDGs)

PfP Capital MMR fund

Amount Committed: £40 million

Location: Central Scotland

Mission Alignment: This investment aligns to both the place mission, to build communities and promote equality, and the net zero mission, to support Scotland's transition to net zero, by building homes to a high standard of energy efficiency.

The PfP Capital Mid-Market Rent (MMR) fund is working to help deliver affordable, quality rental homes in Scotland. The Bank's investment will enable thousands of people to access the rental accommodation they need, built to a quality they want, and located in areas close to their jobs and families.

The fund finances homes priced at MMR, a type of affordable housing located mainly in larger urban centres, with rents being lower than in the private market, providing those on lower incomes and key workers with access to quality housing close to their places of work.

MMR provides opportunities for households on modest incomes who have difficultly accessing social rented housing, buying their own home, or renting privately.

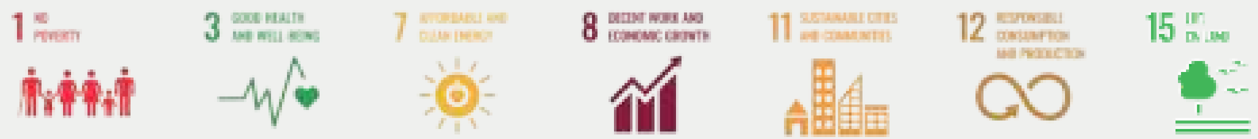
The fund is managed by PfP Capital, a subsidiary of Places for People, one the largest regulated Social Housing providers in the UK.

> "The capital provided by the Scottish National Investment Bank allows us to both exceed our initial target of 1,000 affordable homes and to accelerate beyond this as we attract additional funds."
>
> **William Kyle**
> **Fund Director, PfP Capital**

Forecast Impacts:

Management of PfP Capital MMR fund have forecast the following investment impacts informed by the IRIS principles.

- Following investment from the Bank, the fund has a new target of £240 million, supporting the building of up to 1,500 homes in or near Scotland's main cities
- £123 million Gross Development Cost under construction in 2021
- 7 apprenticeships supported through completed developments in 2021
- Increased energy efficiency standards in future building design (EPC B)
- Increased use of renewable energy sources and creation of sustainable living environments
- Delivering towards seven United Nations' Sustainable Development Goals (SDGs)



Financial Performance

The Bank's audited financial statements are prepared in accordance with applicable law and International accounting standards in conformity with the requirements of the Companies Act 2006 and can be found in full from page 77 onwards.

The Bank was incorporated on 13 October 2020 and formally launched on 23 November 2020. The financial statements cover the Bank's initial period of operation from incorporation to 31 March 2021.

Key Drivers of Financial Performance

The Bank's financial performance is primarily driven by:

Investment Profile

The amount and tenor of investment committed, the period over which the investment is drawn (the period over which the cash is delivered to the investee), and the type of investment that determines the profile of fees or capital appreciation (value generated).

Investment Performance

The underlying 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 closely control costs and expenses and deliver value for money. Deploying both its people'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.

£52.5 million

committed investment

30

employees

£1 million

profit before tax

Presentation of Results

The period has been one of building - notably building the Bank team and investment pipeline together with the Bank's operational and governance structure to support the Bank's growth. Many of the associated non-recurring costs to support this build such as new IT systems will be recognised in next year's accounts as work was scoped but had not commenced in the period.

In the period ended 31 March 2021:

- The Bank committed £52.5 million of investment across two investments - M Squared, a £12.5 million direct equity investment and PfP Capital, a £40 million equity fund commitment of which £10.4 million was drawn in the period
- The two investments generated £0.4 million of investment income through capitalised interest and fee income
- A net unrealised revaluation gain on investments of £3.4 million was recognised in the profit and loss taking the value of investments, including capitalised interest, to £26.5 million at period end
- Total operating costs of £2.9 million were incurred (lower than budget for the period), primarily on employee costs and associated recruitment costs of building the team to 30 at period end (£1.1 million)
- Profit before tax for the period was £1 million and net assets were £31 million at 31 March 2021

Financial Performance continued

For the period 13 October 2020 to 31 March 2021	£'000
Investment income	423
Net unrealised gains on revaluation of investments	3,433
Gross profit	**3,856**
Administrative expenses	(2,875)
Operating profit	**981**
Tax	(153)
Profit for the period	**828**

Financial position as at 31 March 2021	£'000
Investments	**26,530**
Other assets / (liabilities)	
Cash and cash equivalents	6,256
Trade and other receivables	54
Trade and other payables	(1,448)
Total net assets	**31,392**
Equity	
Share capital	22,923
General fund	8,469
Total equity	**31,392**

Prior to the Bank's incorporation 11 employees were recruited through the Bank's service administration company SISL to aid the Bank set up. The Bank acquired the full share capital of SISL from Scottish Ministers on the 18 November 2020. This is shown as a business acquisition in the period.

Delivering value for money is of paramount importance to the Bank with robust procurement processes in place and financial budgetary control delegated to the executive team. The Bank procurement policy ensures fair competition and value for money. The Bank is committed to prompt payment of bills and services received. It is the Bank's policy to agree terms of payment when orders for goods and services are placed and to adhere to these arrangements. The Bank endeavours to comply with the Scottish Government's prompt payment commitment (issued December 2009) of making payment of authorised invoices within 10 days. Average trade creditor days at 31 March 2021 was 43 days. This has reduced significantly post period end through supplier set up and establishment of a frequent payment cycle.

The Bank's Investments

Investment commitment reflects the completion of new investments in the period. 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, equity 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. In the period, £52.5 million of investment was committed and £22.9 million was drawn.

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. Whilst reflecting fair value (the price that would be received to sell 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, particularly in the Bank's early years when the portfolio is being built. This is in line with industry practice. In the period the Bank recognised a net unrealised gain of £3.4 million across its two investments.

The Bank's Funding

The Bank currently requires funding to make investments and run its operations. Shares in the Bank are issued to Scottish Ministers on behalf of the people of Scotland in return for the value of capital funding received for investment. Over ten years this will equate to the £2 billion funding committed to the Bank by Scottish Government. It is likely that the deployment of the Bank's £2 billion of public capital will be aligned with:

- the hiring of the Bank's investment team;
- the growth of the Bank's investment pipeline; and,
- with the increased understanding of the wider ecosystem as to 'what, where, why and how' the Bank will invest.

In the period, £22.9 million of shares were issued for the value of investment drawn in the period. This combined with the £50,000 share capital issued on incorporation comprises the entire share capital of the Bank at 31 March 2021.

Resource funding to cover the Bank's operational costs of £2.9 million was received in the period. Funding received and not yet deployed (for investment or operational expenditure) of £4.8 million at period end is held on balance sheet within the general fund. Resource funding received and utilised, together with the profit or loss retained for the period, is also recorded in the general fund.

There is no commitment to repay resource 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 will be invested alongside its public capital in businesses and projects to support the delivery of the Bank's missions. At this point investment earnings, both income and capital appreciation, will provide operational funding and further capital for investment by the Bank.

Risk Management

In delivery of its missions, the Bank assumes a certain level of risk. A wide range of risks are inherent to the Bank's business model and operations, and in executing 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, negatively impacting the delivery of its missions over time and causing reputational damage. As a development bank, the nature of the Bank's investments carry a degree of inherent risk. The Bank invests where the private sector is not providing sufficient investment, as a result often taking on a higher degree of risk which cannot be entirely eliminated. As such, 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.

On behalf of the Board, the executive team has established a 'three lines of defence' model, which makes clear the delegated responsibilities of committees, 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
- 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, 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 assurance on 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 aims to develop a risk management culture by designing and embedding 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.

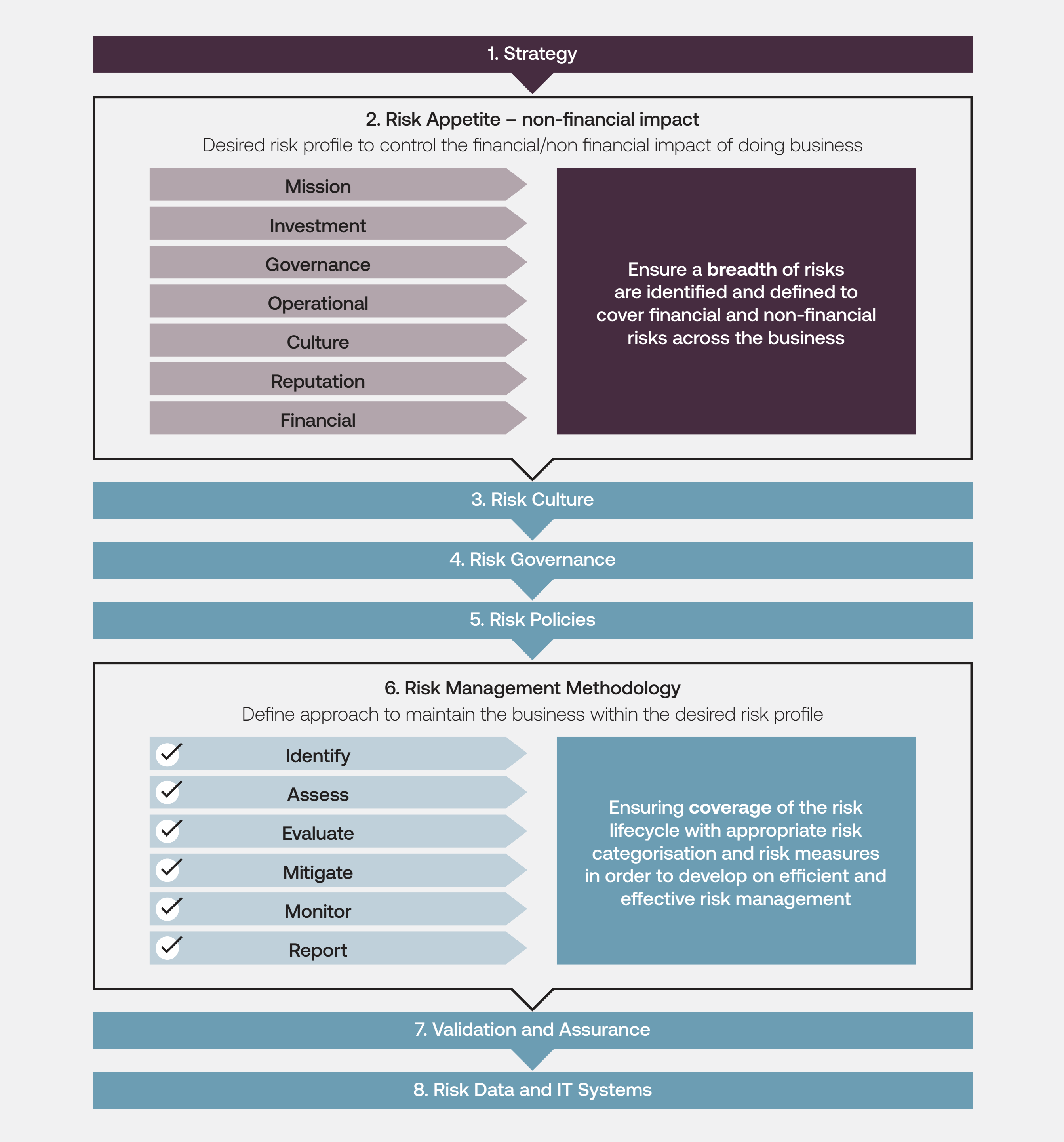
In particular:

- **Tone from the top:** The Bank's executive team promote, monitor and assess the risk culture of the Bank; consider the impact of the risk culture on the financial stability, risk profile and robust governance of the business; and make changes where necessary
- **Accountability:** Employees at all levels are expected to know and understand the core values of the Bank and the Board's appetite for risks relevant to their role. All Bank employees are responsible for their contribution to the Bank's overall risk profile
- **Effective communication and challenge:** Promote 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
- **Collaboration:** The first and second lines of defence work in active partnership in managing the Bank's risk profile. However, the third line maintains 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

On behalf of the Board, the executive team 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 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 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 Enterprise Risk and Head of Investment Risk, both of whom report into 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 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 in particular. 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 for both debt and equity investments 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 debt and equity 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 client 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), 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 will depend upon an ongoing assessment of their individual quality; many investments will have financial and other information covenants which will inform this process. Reviews are undertaken at least annually, and more frequently for those investments requiring greater levels of monitoring or intervention.

Risk Management continued

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.

Periodic assurance over the risk management framework is obtained through the internal audit function. An audit of the RMF was one of the first reviews to be carried out by Internal Audit following their appointment on 1 April 2021.

4. Risk Classification

Through its risk identification activities, as described in the RMF, the Bank has identified seven broad areas of risk ('Level 1' risk categories) and, within these, a larger number of 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, reviewed and approved the Bank's RMF, including statements of risk appetite. The Board carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity, in line with the requirements of the Code.

Financial and non-financial internal controls are operational and documented. A mapping exercise to finalise the Bank's risk definitions, appetite statements and mitigating controls for risks is being undertaken, the results of which will be presented in the FY21/22 Annual Report and Accounts.

Mission Risk	Investment Risk	Financial Risk	Operational Risk	Governance Risk	Culture Risk	Reputational 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 Investing	Tax Risk	Health & Safety	Financial Crime		
	Model Risk		Information and Data Governance	Subsidy Control		
			Business Processes			

Key
Level 1 Risk Type
Level 2 Risk Type

Risk	Definition	Risk appetite statement
Mission	The risk that the type, kind, or number of investments made by the Bank are not sufficiently aligned to a mission or fail to deliver the desired benefits.	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.
Investment	The risk of losses due to failed loans, investments or inadequate portfolio management creating volatility that could result in losses.	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.
Financial	The risk of unstable capital or liquidity arising from fluctuations in funding streams, investment returns, financial performance or external factors.	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.
Operational	The risk of direct or indirect losses resulting from inadequate or failed internal processes, people and systems or from external events.	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 start-up period 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.

Risk Management continued

Risk	Definition	Risk appetite statement
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.	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.
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.	The Bank has embraced a corporate culture where it operates and engages 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 staff do the right thing and live by these cultural values in managing the risks which the Bank faces. The Bank therefore has a low appetite for any behaviour that goes against these values and impacts the risk profile.
Reputational	The risk that stakeholders form a negative view of the Bank due to actions by its staff, partners, third parties or invested companies and projects.	The Bank has a low appetite for risks where there is a likelihood of significant reputational damage from the conduct of staff, failure of processes or inadequate governance arrangements. Management understand, however, the potential for negative perceptions to arise as a result of public scrutiny. Management expect 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 Bank's Shareholder on behalf of the people of Scotland as our owners and beneficiaries.

Directors' Duties under S172

Section 172 of the Companies Act 2006 requires a director of a company to act in a way that they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, having regard to:

a) the likely consequences of any decision in the long term;

b) the interests of the company's employees;

c) the need to foster the company's business relationships with suppliers, customers and others;

d) the impact of the company's operations on the community and environment;

e) the desirability of the company maintaining a reputation for high standards of business conduct; and

f) the need to act fairly between members of the company.

In discharging its section 172 duties, the Board has regard to the factors set out above and to additional factors, including the expectations of the Bank's many stakeholders and the Bank's missions and values. Of particular importance is the transparency of its decision making and ensuring governance best practice. The Bank's robust governance structures allow the Bank to show consistency in its decision making, and high standards of conduct in relation to its mission aligned investments.

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

The Board has made some key decisions in the period to 31 March 2021 where consideration was given to the Bank's key stakeholders, including:

- Approval of the terms of the Shareholder Relationship Framework Document and Financial Memorandum, including Delegated Authorities
- Approval of the Bank's Investment Strategy
- Approval of the Bank's first Mission Report
- Approval of the Bank's Business Plan for the coming period
- The establishment of a Long Term Incentive Plan and a Mission Contribution Reward Scheme for its employees
- Oversight of the development of a suite of key policies
- Oversight of the development of the Bank's Risk Management Framework

Directors' duties under S172 continued

Stakeholders

The Bank is operating within a complex stakeholder landscape. The Bank has identified a wide range of stakeholders and partners it will work with as it seeks to deliver mission impact investment into the Scottish economy.

The Bank can play a pivotal role in catalysing change, and it is crucial that it works across the public, private and third sectors in order to do so.

Shareholder Representative and the Wider Public Sector

The Bank is establishing strong relationships with those representing Scottish Government, policy teams within Scottish Government, and other public bodies. This ensures continued alignment between the Bank's investment activity and its missions. Its relationship with Scottish Ministers, as Shareholder of the Bank on behalf of the people of Scotland, is governed by the Shareholder Relationship Framework Document and Financial Memorandum which are published at www.thebank.scot

The Bank will work closely with other public sector partners including the three enterprise agencies, and local authorities, 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 key Ministers and attendance at Parliamentary Committees. There is also frequent liaison with the Shareholder team within the Government. The Bank was established with cross-party support and it continues to meet with the elected representatives of other political parties in Scotland.

Ministerial Responsibility

The Minister with responsibility for the Bank for the period up to the 31 March 2021 was Fiona Hyslop MSP, Cabinet Secretary for Economy, Fair Work and Culture. Following the 2021 election, responsibility was passed to Kate Forbes MSP, Cabinet Secretary for Finance and Economy.

Companies in which the Bank Invests, Suppliers and other Third Parties

In the Bank's start-up phase it 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 Bank's Board, executive team and employees regularly speak at conferences and events. In addition, the development of a digital presence is under way. The Bank intends to engage with stakeholders across the whole of Scotland.

The Bank will seek to increase the role of impact investment in Scotland as a whole, through its investments and the delivery of 'insights', such as sharing information about what the Bank is investing in and why as well as commentary on the investment landscape and how investment can support the delivery of the Bank's missions.

The Bank is developing positive and collaborative relationships with key partners in the policy landscape, including non-governmental organisations, policy makers and regulators. That engagement will inform the Bank's understanding of developing policy and wider ecosystem views and perspectives.

Directors' Duties under S172 continued

Communities and the Environment

The Bank is acting now to improve communities and the environment in Scotland and offer opportunities to its people through its missions in the short, medium and long term. It invests on behalf of the people of Scotland and all of the communities within Scotland are at the very heart of the Bank's missions. When considering investments, mission alignment and the benefits given to the Scottish people and communities is the initial 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 the adoption of 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.

People

As an investment organisation, the people it recruits, and their skills and experience, are the Bank's greatest asset.

The Bank has developed a suite of policies and initiatives, and promotion and development programmes, to support the development of its employees. The executive team, Board and employees are working together to co-create a mission aligned and supportive culture which will ensure the Bank can attract, develop and retain talent. In addition, the Long-Term Incentive Plan and the Mission Contribution Reward Scheme have been structured to focus on and reward positive behaviours. These cultures and values, once embedded, will support the continued development of the Bank's employee brand.

The Bank's culture and values will drive both how the Bank operates internally but also how it engages with the wider ecosystem.

Other Matters

Dividends

The directors do not recommend payment of a dividend.

Political Donations

The Bank made no political donations in the period.

Gifts and Hospitality

No gifts were made by the Bank. The cumulative value of gifts and hospitality received by staff was de minimis.

Ownership and Shareholder Governance

The Bank is wholly owned by Scottish Ministers on behalf of the people of Scotland. During the period 22,923,333 ordinary shares of £1 each were issued to and held at 31 March 2021 by Scottish Ministers. The Bank did not purchase its own shares in the relevant period.

Directors' Conflicts of Interests

Directors have a statutory duty to avoid conflicts of interest and declare potential conflicts. The Bank has processes to identify and disclose potential and actual conflicts of interest.

Directors' Indemnities

The directors have the benefit of the certain Scottish Government provisions available to other public bodies which operate to support them in the event of claims against them in relation to their responsibilities as directors.

Annual General Meeting

The first Annual General Meeting of the Bank will take place on 7 September 2021 at 10.30am.

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 period.

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.

Other Matters

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 assumes 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 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 of continued Bank build. With no historical data or pipeline at launch further forecasting assumptions become less reliable until these are in place.

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 COVID-19 an operational risk, particularly given the start-up nature and reliance on a small number of key individuals. Comfort is taken from the fact that the Bank was launched during a period when all employees were working from home and has remained operationally resilient with critical functions including investment, governance and IT working effectively to date as intended, albeit on a remote basis The businesses and projects that the Bank invests in are appraised individually with risks including the impact of COVID-19 considered in each instance. The Board is cognisant of the impact the post pandemic economic landscape has on the Bank's investments and this will be monitored closely through quarterly valuations and investment risk reviews. 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 auditor during the period.

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

Eilidh Mactaggart.

Eilidh Mactaggart
Chief Executive Officer

3 September 2021

Chair's Introduction

Good corporate governance is fundamental to the Bank. Significant work has been done in the period to establish effective board committees, good working relationships and robust frameworks to enable effective corporate governance that supports the long-term missions of the Bank for the people of Scotland.

The Bank is led by its Board of Directors which is responsible for the effective delivery of the Bank's strategic missions set by Scottish Ministers as required by the Act. The Bank is operationally independent from Scottish Government, and the Board is responsible for the long-term sustainability of the Bank.

The Bank's directors were approved for appointment to the Board by Scottish Ministers, and its non-executive directors were appointed through a public appointments process overseen by the Ethical Standards Commissioner. Four Board committees have been established, each chaired by and consisting of three non-executive directors to effectively and efficiently support governance across the Bank. The reports from each of the committees are included on the following pages.

The Bank has focussed in this initial post-launch period on defining its core principles and objectives in response to the strategic missions. These are outlined in the Shareholder Relationship Framework Document, the Bank's Investment Strategy, its strategic objectives on page 10 and as part of its Business Plan and the Bank's inaugural Mission Report, all approved in the period by the Board

Transparent corporate governance is important to give the Bank's stakeholders confidence as to how the Bank will partner with them and so these important documents are available at www.thebank.scot.

Willie Watt
Chair

Board of Directors

Willie Watt
Chair
Valuations Committee Chair

Appointed Chair Designate July 2019
Appointed November 2020
Appointment Expiry November 2023

Willie retired in December 2019 from Martin Currie, an equities investment management firm, after 19 years as the company's Chief Executive and as Chairman of the Board. 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 focusing on venture capital, energy and mid-market buyouts.

Since 2016 he has been a member of the Advisory Board of Scottish Equity Partners, and Board and Audit Committee member of the National Galleries of Scotland.
He was educated at the University of Aberdeen.

Tracey Ashworth-Davies
Non-executive director
Remuneration and Nominations Committee Chair

Appointed November 2020
Appointment Expiry November 2024

Tracey is currently Director of Workforce 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 business 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 8 years. Tracey was educated at the University of Leeds and is a Chartered Fellow of the CIPD.

Carolyn Jameson

Non-executive director

Appointed November 2020
Appointment 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 £1.46bn, 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.

Board of Directors continued

Peter Knott

Non-executive director
Audit Committee Chair

Appointed November 2020
Appointment Expiry November 2023

Peter is highly experienced in impact investing as he was 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 & Investment at Imperial College London.

Eilidh Mactaggart

Chief Executive Officer

Appointed Chief Executive Officer designate April 2020
Appointed October 2020

Appointed the first CEO of the Scottish National Investment Bank in April 2020, Eilidh led the launch of Scotland's first development investment bank in November 2020. Eilidh has over 20 years' experience in banking and investment management. Eilidh was previously Managing Director, Head of European Infrastructure & Project Finance for MetLife Investment Management, prior to that Eilidh held senior investment roles with Commonwealth Bank of Australia and ABN Amro Bank. Eilidh was educated at the University of Edinburgh.

Jason McGibbon

Non-executive director

Appointed November 2020
Appointment 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 Board roles including Fable Data, Phlo, Lumity and acts as a mentor with the Saltire Foundation and with a range of 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

Non-executive director

Appointed November 2020
Appointment 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 currently as a 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
Non-executive director
Senior Independent Director

Appointed November 2020
Appointment 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

Non-executive director
Risk Management and Conflicts Committee Chair

Appointed November 2020
Appointment 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 recently been appointed as the Executive Director of PNDC, Strathclyde University's industrialisation centre focused on delivering whole energy solutions. Her previous experiences include 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

Sarah Roughead

Chief Financial Officer

Appointed March 2021

Sarah is responsible for finance and operations at the Bank. She 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.

Jonathan Taylor

Non-executive director

Appointed November 2020
Appointment 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.

The Role of the Board

The Bank's Constitution

The constitution of the Bank consists of the Act, the Bank's Articles of Association, and a Shareholder Relationship Framework Document and Financial Memorandum agreed between the Bank and its Shareholder. The Act is prescriptive in relation to the Bank's objects, its powers, its ownership, its corporate governance and its reporting. It also contains provisions in relation to the setting of the Bank's missions between the Bank and its Shareholder. Some of these matters are amplified or extended in the Shareholder Relationship Framework Document and the Financial Memorandum which also contain provisions on the Bank's relationship with its Shareholder both of which can be found at www.thebank.scot

The Bank is in the unusual position of being both a public limited company (PLC) adhering to and reporting on the provisions of the Code, and a public body complying with the Public Finance and Accountability (Scotland) Act 2000 with regards to the Chief Executive Officer's personal responsibilities relating to governance and internal control in her role as Accountable Officer for the Bank and its subsidiaries.

The Bank adheres to the provisions of the Code. The Bank will comply with all of the provisions of the Code which are relevant to it and its business apart from those set out in this Annual Report and Accounts.

The Code is available from the Financial Reporting Council. The Code provides guidance on a range of provisions to ensure effective Board practice.

Role and Responsibility of the Board of Directors of the Bank

The Act provides that the Articles of Association of the Bank must provide that the Bank is to have between nine and 13 directors, there must be at least two executive directors (one of whom must be designated in the articles as Chief Executive Officer and the other as Chief Financial Officer), there may not be more than four executive directors, and at least two thirds of the directors must be non-executive directors. All directors will be appointed by Scottish Ministers. No director will be appointed or removed without the prior written consent of the Shareholder.

The Bank is led by the Board of Directors which is responsible collectively for the long-term strategy of the Bank. The Board is comprised of 11 directors including nine independent non-executive directors, alongside the Bank's Chief Executive Officer and Chief Financial Officer.

The Board and its committees have an appropriate balance of skills, experience and independence to enable them to discharge their duties and responsibilities effectively. Independent Board members bring diverse perspectives, aid objective discussion and hold the executive management team accountable. The Board considers that the Chair was independent on appointment and that all non-executive directors are independent for the purposes of the Code.

The Role of the Board continued

The period of a non-executive director's appointment will not exceed five years but a person may be appointed to the office of non-executive director for more than one term. No person may hold the office of non-executive director for a cumulative period exceeding eight years. The directors are not subject to annual re-election as suggested in the Code.

In relation to the requirements under the Code as to division of responsibilities, the specific responsibilities of the Chair, the Chief Executive Officer, the Senior Independent Director, the Board of Directors and the committees of the Board were set out during the appointment process, and will be detailed shortly on the Bank's website as part of the Bank's publication schedule. Each of the Board committees has approved terms of reference.

Board Appointment Process, Skills and Governance

The Board's non-executive director appointment process was regulated by the Ethical Standards Commissioner to ensure the process was fair, open and transparent. It followed the Code of Practice for Ministerial Appointments to Public Bodies in Scotland, and a Public Appointments Adviser appointed by the Commissioner was a member of the selection panel. Non-executive directors are appointed in accordance with section 2 of the Public Appointments and Public Bodies (Scotland) Act 2003. Odgers Berndtson, a global executive search firm, worked with the Chair to support the search.

The skills criteria for the Board was shaped by the Bank's missions, and to ensure that the Bank will govern itself to the highest standards in the financial and public sector. The Bank is an investment business and has a duty as a steward of public capital to run itself efficiently and with good governance. The Board must be competent to achieve this.

The skills criteria were approved by Ministers and included requirements for knowledge and experience of Scottish businesses, mission driven investment, and UK and International economic development. Each appointment was made on merit.

Scottish business organisations and Trade Unions were consulted on the skills criteria for the Board, and expert advice was taken to ensure the process encouraged diversity.

Financial sector skills are necessary to the success of the Bank. The Bank must govern itself to the highest financial regulatory standards. To do this it needs people with relevant sector skills in Remuneration, Audit, Risk and Valuation.

It is the Bank's ambition to attract private capital to invest alongside its public capital. To do this will require the Bank to be FCA authorised. The FCA will require a competent Board with relevant financial skills and experience.

Board members are all committed to the missions and have strong credentials in: impact investment; ethical investment; university and third sector experience; investment in small and medium enterprise scale-up investment; and, in best practice of financial sector governance.

Diversity on the Board

The public appointments process is set out in such a way as to attract a strong and diverse field of candidates, in line with the Ethical Standards Commissioner's Code of Practice, which requires public appointments to be made in a fair, open and merit-based manner.

In appointing non-executive directors, the Scottish Government took additional steps to ensure that the application process was accessible to all throughout. Diversity search specialists were used to advise on the process and actively encourage a diverse field of applicants.

Stakeholders, including Changing the Chemistry, Women on Boards and Women's Enterprise Scotland took part in early work to develop approaches to Board recruitment to encourage a more diverse range of applicants, including those groups currently under-represented on boards of public bodies.

The eight non-executive directors appointed have a 50/50 gender split. Including the other three Board members (Chair, Chief Executive Officer and Chief Financial Officer), the gender split for the Board is currently six females and five males. The Bank recognises there is more to do to achieve diversity more broadly and will be implementing an equality strategy which will seek to improve diversity where the Bank is under represented.

The Bank continues to be focussed on diversity of recruitment: maintaining a gender balance, diversity of skills and background.

Termination of Directors' Appointment

A person will cease to hold office as a director as soon as that person ceases to be a director by virtue of the Companies Acts or prohibited by law, if the person becomes insolvent, is physically or mentally incapable of acting as a director, or resigns.

A person will also cease to hold office as a director if the period of appointment expires and they are not reappointed, their appointment is terminated, or they are removed from office by the Standards Commission for Scotland under the Ethical Standards in Public Life (Scotland) Act 2000.

General

The Act provides that the Bank will have an Audit Committee and a Risk Committee, each chaired by a non-executive director. The Bank has decided, in addition, to have a Remuneration and Nominations Committee, and a Valuations Committee.

A representative of the Shareholder may attend any or all meetings of the Board and its committees in an observer capacity.

The non-executive directors review the performance of executive management in meeting agreed corporate objectives. The Chair leads the Board and its discussions and ensures open debate and challenge. The Chief Executive Officer leads the executive team in the day-to-day running of the business and the implementation of the strategy.

As an organisation funded by public finances the Bank is required to comply with the principles set out in the Scottish Public Finance Manual. The Chief Executive Officer is the Accountable Officer and is accountable and responsible for the propriety and regularity of the public finances.

The Senior Independent Director and non executive director is Candida Morley. The role of the Senior Independent Director includes serving as intermediary for the other directors where necessary and meeting with other non-executive directors to review the Chair's performance. The Senior Independent Director also acts as intermediary between the Bank and the Shareholder representatives or the Bank and the portfolio accountable officer or the Bank and Scottish Ministers if concerns cannot be resolved through other channels.

The Role of the Board continued

A number of the Bank's non-executive directors hold additional appointments, including investment advisory roles with other organisations. Two non-executive directors sit on the same external investment advisory Board. The Board considers that due to their respective roles on the Board of the Bank, and the fact that they do not sit on the same committee, they are independent for the purposes of their roles and responsibilities at the Bank. Any potential conflicts of interest will be raised and recorded on an individual basis, in line with the Bank's Conflict of Interest policy.

Board Information

Training sessions have been developed for directors on matters relevant to the Bank and the markets in which it operates. On appointment, the Board went through an induction process covering all aspects of the governance structures created for the Bank including the Act, the Shareholder Relationship Framework Document and Articles of Association. The Board is supplied in a timely manner with the appropriate information to enable it to discharge its duties. The Board receives board papers and information electronically through a secure independent portal to increase efficiency, confidentiality and sustainability.

Board Evaluation

Due to the short period of time between launch of the Bank and 31 March 2021 there has not yet been an evaluation of the Board, its committees, the Chair, or the individual directors as required under the Code. Details of future evaluations will be contained in future years' Annual Report and Accounts.

Board and Committee Attendance during the Period

	Attendees	Attendance	Meetings Held
Board Meetings	Willie Watt (Chair)	4	4
	Candida Morley	4	
	Tracey Ashworth-Davies	4	
	Carolyn Jameson	4	
	Peter Knott	4	
	Jason McGibbon	4	
	Nicholas Moon	4	
	Jacqueline Redmond	4	
	Jonathan Taylor	4	
	Eilidh Mactaggart	4	
	Sarah Roughead *(Appointed March 2021)*	3	
Audit Committee	Peter Knott (Chair)	1	1
	Jason McGibbon	1	
	Jonathan Taylor	1	
Risk Management and Conflicts Committee	Jacqueline Redmond (Chair)	1	1
	Carolyn Jameson	1	
	Nicholas Moon	1	
Valuations Committee	Willie Watt (Chair)	2	2
	Jason McGibbon	2	
	Jonathan Taylor	2	
Remuneration and Nominations Committee	Tracey Ashworth-Davies (Chair)	5	5
	Carolyn Jameson	5	
	Candida Morley	5	

Audit Committee Report

I am pleased to present the Audit Committee report for the period ended 31 March 2021.

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.

Report on the Period

Since the Bank launch on 23 November 2020 the committee has focussed on the following areas:

Audit Committee Terms of Reference

The Audit Committee's terms of reference were established and approved. The Chair of the Audit Committee met with the Board's other committee Chairs to ensure clarity of responsibility. The terms of reference specifically permits the Audit Committee to obtain independent advice at the Bank's expense to discharge its responsibilities as required.

Financial Reporting

The Bank's financial statements are prepared in accordance with International Financial Reporting 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 9. 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.

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 and all Audit Committee members see management's reporting to the Valuations Committee.

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 Head of Internal Audit
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

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

The committee reviewed and sought independent advice from Grant Thornton that 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 the conclusions of 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 by generating income from the investments it makes and closely monitoring its costs. Having launched in November 2020, the Bank is solely reliant on Scottish Government funding for both investment and operational expenditure. The Scottish Government remain committed to providing £2bn 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 Chief Financial Officer 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

As the Bank has continued to build since launch in November 2020, the committee has reviewed and approved several finance policies across financial management, financial reporting, treasury and tax, together with oversight of the Bank's risk management framework. An independent review of a sample of policies by Ernst and Young LLP was taken into consideration by the committee. The committee also approved delegated authorities up to the value permitted by the Shareholder Relationship Framework Document in the period. The above contributed to supporting the Accountable Officer in ensuring compliance with their duties.

The committee will review the effectiveness of the internal control systems as required by the Code. The results of this review will be reported in the FY21/22 Annual Report and Accounts.

Internal Audit

The committee conducted an internal audit tender process and in March 2021 recommended the appointment of Grant Thornton UK LLP as the outsourced provider of the Bank's internal audit function.

Post-appointment the committee reviewed and approved the Internal Audit Charter. The charter 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. The committee was satisfied that the internal audit function has appropriate resource and scope to discharge its duties effectively and that the function is independent to the operational management of the Bank.

The FY21/22 internal audit plan was reviewed and approved by the committee. The committee will monitor internal audit activity, results and recommendations on a quarterly basis. The Chair of the Audit Committee has direct access to the Head of Internal Audit and the committee will meet with the Head of Internal Audit without management present at least on an annual basis.

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.

The committee made recommendations on auditor remuneration and approved engagement terms. 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.

The committee is satisfied that KPMG is independent of the Bank. The external auditors have not conducted any non-audit services during the financial period.

The committee will provide guidance to Audit Scotland on the Bank's audit requirements in relation to retendering the position of external auditor to the Bank for financial years FY22/23 onwards. This work has commenced post period end.

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

Since the Bank's launch the committee has covered a significant amount of work, much of which has been to establish strong foundations and governance supporting the integrity of the financial statements and to support the committee in discharging its ongoing responsibilities effectively.

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. It is the committee's responsibility to provide assurance to the Board that the Bank's valuation methodology and policies are robust. Through independent challenge, the committee considers specific valuations of individual investments and of the portfolio as a whole.

The primary purpose of the committee is to assist the Board in relation to the valuation methodology and practices with regard to the investment assets of the Bank and ensure the Bank's observance of the investment process and decision making by providing assurance around (1) the process by which valuations are arrived at and (2) the Bank's observance of its investment process and the effective operation of the executive investment committee, the implementation of the Investment Strategy and the Investment Risk policy.

In executing this purpose, the committee, amongst other activities:

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 Executive Investment Committee and the process by which it assesses investment propositions

The committee also has responsibility to review the Investment Strategy, Investment Risk Policy and approach and investment process of the Bank. Members of the committee participate in the final stages of investment decision making.

Given the start-up nature of the Bank the focus of the committee has been on the consideration of strategic and governance documents. In this reporting period the committee considered and approved the Investment Strategy and Investment Risk Policy. It also approved the terms of reference of the committee and of the Executive Investment Committee which is an executive committee tasked with investment decision making. The Committee provided independent review and challenge of the investment valuations at the period end.

The Valuations Committee has three members:

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

All three members have extensive experience of investment decision making. The Chief Executive Officer, Chief Financial Officer and Head of Investment Risk attend the meetings of the committee. Other members of the executive team, or any employee, can be called to attend as appropriate.

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 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 Board considers that the members of the committee have a range of skills and experience directly relevant to the responsibilities of the committee.

The committee met once during the relevant period for this report and, amongst other items of business, the committee has approved its Terms of Reference, the Investment Risk Policy, the Bank's Risk Management Framework and the Conflicts Policy, and has reviewed risk allocation and ownership within the Bank, as well as receiving reports from risk owners. The Chair of the committee was a member of the Board sub-committee which recommended for approval the Bank's business plan, so ensuring that the business plan was aligned with risk appetite.

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

Attendees at committee meetings are the Chief Executive Officer, the General Counsel, the Head of Compliance, the Head of Enterprise Risk and the Head of Investment Risk. The committee has the right to ask any employee of the Bank to attend its meetings.

The committee will review the effectiveness of the Bank's risk management systems as required by the Code and will receive regular internal audit reports. The results of this review will be reported in the FY21/22 Annual Report and Accounts.

Jacqueline Redmond
Chair of the Risk Management and Conflicts Committee

Remuneration and Nominations Committee Report

I am pleased to present the Remuneration Report for the Bank for the period ended 31 March 2021. The period since formal launch of the Bank on 23 November 2020 has been a busy one, establishing the 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 has been particularly cognisant of the role of the Bank within Scotland's public sector and of the importance of delivery of its missions to the people of Scotland. This will be a long-term journey, achieved over time, through sustained high quality performance. The committee is keen to ensure that pay and reward arrangements reflect that context, enable the Bank to attract, motivate and retain high quality employees whose values, skills and interests are highly aligned with delivery of the Bank's missions, and take into account Scotland's public sector pay principles.

I am pleased that the Bank has been able to attract and recruit an executive team and a growing number of employees who display the above attributes. This team displayed considerable determination and effort, launching the Bank ahead of the end December 2021 target date and delivering the interim objectives. These positive outcomes, an achievement for any start-up organisation, is beyond what might have been expected, in a year of unprecedented challenges due to the COVID-19 pandemic. The wide-ranging impacts, felt by so many of us, were hardly those conducive to building a team and laying the foundations for an investment development bank, especially one which is not intended to follow a traditional path. This was one of the factors considered by the committee in reaching a decision to make an above-target award under the Long Term Incentive Plan (LTIP) covering the performance period from the Bank's formal launch on 23 November 2020 to 31 March 2021.

Looking to the year ahead, significant focus must be on continuing to build the infrastructure required and, in particular, on developing the wide-range of relationships required to ensure that the Bank becomes well established within the ecosystem of stakeholders key to its success. Deploying capital in accordance with its Investment Strategy and policies must underpin the Bank growing a portfolio of investments that will have long term impact on the economy, communities, and wellbeing of the people of Scotland. All of the above depend on the Bank recruiting the right people and developing the right culture to act as a cornerstone for success. Integral to that will be embedding values across the Bank's activities.

These key areas of performance together with financial performance management are reflected in the LTIP criteria covering the period 1 April 2021 to 31 March 2022 and will be subject to assessment by the committee at the end of the financial year.

There is no doubt that the investment market is a competitive one in which to recruit. The Bank has made an excellent start in appointing to key roles within the organisation and will continue to monitor the effectiveness of pay and reward practices in this respect and, more generally, that of the people policies implemented.

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)**
- **Carolyn Jameson**
- **Candida Morley**

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 and Culture have been invited to join meetings, but not where their own remuneration is the subject of discussion. External advice was provided in the period by Korn Ferry in the development of a Pay and Reward Framework for the Bank.

As the Bank has only recently launched and is still in its set up phase, there has not yet been a need for the committee to sit as a nominations committee in relation to the orderly succession to the Board and senior management positions. Those requirements of the Code in relation to a Nomination Committee, together with details of the Board evaluation, will be reported in the FY21/22 Annual Report and Accounts.

Key Decisions taken by the Committee in this Period:

The focus this period has been on ensuring that foundations are in place for the Bank and establishing governance arrangements. This has included agreeing the committee Terms of Reference, reporting requirements and review of core Bank people policies. Key decisions taken by the committee or recommended for approval by the Board in accordance with its Terms of Reference were:

- approving the Long-Term Incentive Plan (LTIP) scheme rules
- determining the pay-out level of the 2020/21 LTIP for eligible employees based on assessing performance against the performance conditions agreed by the Bank with the Shareholder (performance period: 23 November 2020 to 31 March 2021)
- setting the Performance Conditions for the 2021/22 LTIP and agreeing with the Shareholder
- approving the Mission Contribution Reward Scheme rules for all employees not eligible to participate in the LTIP
- approving the 2020/21 Mission Contribution Reward Scheme awards for eligible employees
- implementing the Public Sector Pay Review effective 1st April 2021

Pay and Reward Framework and Key People Polices

The Pay and Reward Framework was developed by the Bank, the Scottish Government Remuneration Group and approved by Scottish Ministers. The Bank's pay and grading structure has been informed by practice in the other UK development banks and is designed to allow the Bank to operate within Scottish Public Sector Pay Policy, but with agreed exceptions that will allow it to recruit and retain employees within the wider investment and financial services employment market.

Remuneration and Nominations Committee Report continued

The Bank has now fully implemented its Pay and Reward Framework and has also established a suite of core people policies. The principles of the fair work framework and the four pillars of transparency, equality, diversity and inclusion underpin the design of all the Bank's employment policies, processes and procedures, including those relating to pay and grading.

Culture and Values

Creating and embedding the right culture and values underpins how the Bank will deliver its missions. Colleagues from across the Bank have been involved in the initial shaping together with the development of a plan to further define its values and embed the right behaviours.

A focal point has been engaging and involving colleagues through an open and inclusive approach to communication, and opportunity to represent views. This is being developed through the establishment of an employee voice channel: a team of employee representatives to represent colleagues' views and ideas. With two executive directors on the Board, this also ensures for two-way engagement and representation of views from the Bank team.

The Bank will continue establishing and embedding core values and behaviours that will create the right culture. Incorporating these values through all activities, including all people practices, will be fundamental to the Bank's success and a key focus for the committee. Periodic people surveys will assess the health of the Bank's culture, and channels for employee voice will be put in place.

Recruiting the Bank's People

Recruiting the Bank's people has been a priority focus for this period. The Bank has made significant progress in recruiting the people needed to successfully deliver its mission impact investments and has sought to attract a diverse pool of candidates. Specific focus has been given to gender diversity and the gender balance of the Bank's Board (6 females, 5 males) and executive team (3 females, 2 males) were particular achievements. Regular reporting and monitoring of gender diversity is in place.

The Bank, like other organisations, was faced with the challenges of recruiting and on-boarding employees to work remotely during pandemic conditions. All employees including the Chief Executive Officer, commenced their employment working remotely. New joiners were supported with virtual induction and exchange sessions to learn about the Bank and connect with new colleagues.

Equality, Diversity & Inclusion

The Bank will create a diverse and inclusive culture that provides opportunity for all and influences change. The Bank has in place an Equality, Inclusion and Dignity at Work policy, and a primary focus for FY21/22 will be agreeing the Bank's Equality and Diversity Strategy to set out the Bank's commitment to advancing equality in Scotland and the implementation of equality and diversity reporting. Future reports from this committee will include details of the implementation of the Diversity and Inclusion policy, and culture and linkage to the Bank's strategy, pursuant to the Code.

Fair Work

In anticipation of the fair work direction which will be formally extended to the Bank this year, the Bank is confident that its employment practises will meet this criteria and is committed to being a fair work first employer.

**Tracey Ashworth-Davies
Chair of the Remuneration and Nominations Committee**

Annual Report of Remuneration

Principles of Remuneration Policy

The Bank has adopted a transparent, inclusive and sustainable approach to reward. The Bank's Pay and Reward Framework, agreed with its Shareholder, links individual and corporate contribution to delivery of the missions. Key components of the reward framework include:

Base Salary	The Bank's pay ranges have been developed on the basis of the following principles: ◆ A ten-grade pay structure covering all Bank roles ◆ Grades based on job size using Hay job evaluation methodology ◆ Target salaries derived from external market data (Korn Ferry "All Organisations Scotland" 2020 survey) ◆ The minimum and maximum salary for each pay range is set 15% either side of the target salary ◆ Separate pay ranges adopted for roles in the executive team or roles within the Audit and Risk or 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 MCRS allows employees the opportunity to be recognised for their contribution to the achievement of the Bank's missions. The MCRS 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 pre-requisite 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 1 month's salary.

Annual Report of Remuneration continued

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 is a cash settled annual scheme with specific performance criteria set each year. The LTIP scheme incentivises long-term sustainable performance by deferring a proportion of current year award allocations and making them subject to sustained future performance in accordance with LTIP scheme rules. As such, the FY21/22 Annual Report and Accounts will include reference to the FY21/22 LTIP scheme and the FY20/21 scheme. The key features of the LTIP are set out below: ◆ Performance conditions are 100% corporate and agreed between the Bank Board Chair and Scottish 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 two 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 ◆ Those eligible for LTIP are not eligible for the MCRS
Pension	12% employer pension contribution to a defined contribution pension scheme subject to the minimum colleague contribution of 1%.

Non-Executive Director Remuneration

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). Plus additional days with no fees received.
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). Plus additional days with no fees received.
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). Plus additional days with no fees received.

Non-executive directors do not receive any pension, benefits, or long-term incentives.

Non-Executive Director Fees paid in the period to 31 March 2021 (Audited)

Name	Role	No. Days Paid	Total Payment
Willie Watt	Chair of the Board, Chair of Valuations Committee	16	£20,000
Candida Morley	Senior Independent Director, Non-Executive Director	8.5	£7,225
Tracey Ashworth-Davies	Chair of the Remuneration and Nominations Committee, Non-Executive Director	8.5	£7,225
Peter Knott	Chair of the Audit Committee, Non-Executive Director	11	£9,350
Jacqueline Redmond	Chair of the Risk Management and Conflicts Committee, Non-Executive Director	7.5	£6,375
Carolyn Jameson	Non-Executive Director	5.5	£4,675
Jason McGibbon	Non-Executive Director	9.5	£8,075
Nicholas Moon	Non-Executive Director	5	£4,250
Jonathan Taylor	Non-Executive Director	7.5	£6,375

Annual Report of Remuneration continued

Executive Director Remuneration

Executive directors receive remuneration in the form of an annual salary. Executive directors are also eligible to participate in the Bank's discretionary LTIP scheme 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. A total reward approach was designed, aligning with other UK development banks, providing a package that was proportionate but sufficiently attractive for the Bank to recruit the requisite expertise. 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 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. Individual performance and values ratings must meet expectations to be eligible for payment, ensuring personal contribution and alignment with the Bank's culture and values.

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

Now that the Bank is established, the committee will review and approve individual salaries for executive directors based on the pay and reward framework which has been agreed.

Executive Director Remuneration for the period to 31 March 2021 (Audited)

Name	Appointment to the Board	Base Salary	Pro-rated Salary Paid	Employers Pension Paid	LTIP (3 Year Total)	Total
Eilidh Mactaggart Chief Executive Officer	22/11/2020	£235,000	£85,418*	£10,027*	£37,375**	£132,820
Sarah Roughead Chief Financial Officer	17/03/2021	£160,000	£6,022***	£723***	-	£6,744

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

*Figures above represent remuneration from the date of appointment of Eilidh Mactaggart to the Board on 22 November 2020 to 31 March 2021.
** Amount Includes payment made in June 2021 (£18,687), deferred payment due June 2022 (£9,344) and June 2023 (£9,344) subject to sustained performance conditions.
*** Calculation based from date appointed as director (17 March 2021) to 31 March 2021. Sarah Roughead was not eligible for the LTIP scheme in FY20/21.

Payments to Past Directors

There are no former directors.

Payments for Loss of Office

No payments were made for loss of office during the period.

LTIP Performance Conditions FY20/21

Performance conditions for the first performance period post Bank launch through to end March 2021 were agreed with Scottish Ministers. In assessing whether the performance conditions had been met for this initial period, the Remuneration and Nominations Committee considered the performance indicators below. Now that the Bank is established, a set of qualitative and quantitative performance conditions for FY21/22 LTIP have been agreed with the Board and the Shareholder.

Employees in role by 1 January 2021 in the Executive and Investment team family were eligible for the FY20/21 LTIP scheme.

Performance Condition	Performance Indicator
1. Successful set up, launch and operation of Bank through to end of Performance Period	a. Programme Board sign-off on operational readiness and successful external launch. b. Business Plan approved by the Board and performance deliverables predominantly on-track.
2. Equality commitments evident and gender diversity objectives met for Performance Period	a. Equality, Diversity & Inclusion policy in place. b. Clear recruitment principles and evidence of balanced candidate pools. c. Reporting and regular review of equality data in place
3. Investments made, and pipeline developed during the Performance Period are aligned to the Bank's Investment Strategy and Missions.	a. Evidence of alignment to Investment Strategy and to at least one of the Bank's three missions in the case of to all investments made and pipeline opportunities actively progressed.

The committee concluded, and agreed with the Shareholder, in accordance with the scheme rules and affordability criteria 90% of maximum award would be awarded for the period ended 31 March 2021.

Mission Contribution Reward Scheme

Employees in role by 1 January 2021 with qualifying performance and values assessment were paid under the MCRS for the period 23 November 2020 to 31 March 2021. The table below summarises payments under the scheme for the 2020/2021 period. Please note the MCRS is not open to those eligible for LTIP.

Number of Eligible Employees	Average % Payment of Salary*	Average Payment
5	6.4%	£1,538

*Pro-rated for scheme period.

Annual Report of Remuneration continued

Employee Remuneration

The Bank's pay ranges, split by gender of employees in position effective 31 March 2021.

	No. Employees Base Salary		No. Employees Total Compensation	
Compensation	Female	Male	Female	Male
£250,001 - £300,000	-	-	1	-
£200,001 - £250,000	1	-	-	-
£150,001 - £200,000	1	1	1	1
£100,001 - £150,000	1	2	1	2
£50,001 - £100,000	5	11	6	11
£0 - £50,000	6	2	5	2

Employee Numbers at 31 March 2021

Employee Contract Basis	Number of Employees
Permanent	19
Fixed Term Contract	11
Inward Secondee from Scottish Government	3

The median remuneration of the Bank's employees based on annualised, full-time equivalent remuneration of all staff including LTIP and MCRS as at the 31 March 2021 was £75,197. In the period the Bank focussed on recruiting the leadership and senior management team. The range of full-time equivalent employee remuneration including LTIP and MCRS was £32,000 - £272,375 at 31 March 2021 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 : 2.98.

20.5 days were lost to sickness absence in the period. Staff turnover excluding consultants and secondees but including fixed term contractors in the period was 5%.

Consultancy costs totalled £0.5m in the period. A key focus of the Bank since launch has been to minimise the use of consultants. At 31 March 2021, six consultants were engaged by the Bank.

Gender Pay

The mean gender pay gap as at 31 March 2021 is -2% (in favour of female), the median gender pay gap as at the same date is 17% (in favour of male).

The difference in mean and median figures reflects:

- A female in role at the most senior position (Chief Executive Officer) increasing the average hourly pay for females, combined with,
- A lower number of males in position at lower graded roles moving the median in favour of male.

The Bank is proud of its work to address gender balance and ensure that it is an equal, diverse and inclusive place to work. The representation as at 31 March:

	Female	Male
Board	55%	45%
Executive Committee	60%	40%
Senior management and their direct reports	50%	50%
All Employees	47%	53%

A primary focus for FY21/22 will be agreeing the Bank's Equality and Diversity Strategy to set out the Bank's commitment to advancing equality in Scotland and the implementation of equality and diversity reporting. The Bank will continue our work in this area to provide a supportive and inclusive environment where all of the Bank's people feel they belong.

Percentage Changes in CEO or Colleague Pay

No increases were made during the period. Public Sector Pay Policy for FY21/22 has been implemented effective 1st April 2021 for eligible employees.

Accountable Officer's Report

For the period 13 October 2020 to 31 March 2021

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 from incorporation of the Bank on 13 October 2020 to the 31 March 2021 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 page 43 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), 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 and risk management systems
- 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
- Appointing (with the approval of the Scottish Ministers) the Bank's Chief Executive Officer, 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 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

Accountable Officer's Report continued

Assessment of Corporate Governance, Risk Management and Internal Control

The following areas of consideration have informed my opinion as Accountable Officer for the period from incorporation to signing of the 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 establishment of the Board with significant and relevant experience and independence, and creation of four Board committees. The terms of reference of each committee and the work completed in this first period gives comfort over the internal control of the Bank and the transparent decision making therein
- A risk management framework has been developed which highlights the Bank's risks to delivering its missions and strategic objectives. Financial and non-financial internal controls are operational and documented. A mapping exercise to finalise the Bank's risk definition, appetite and mitigating controls of level two risks is being undertaken, the results of which will be presented in next year's Annual Report and Accounts. The framework from which the processes and procedures of the Bank are continuing to be developed provide assurance to the Executive Committee who are responsible for developing, implementing and maintaining internal controls across their delegated areas. No significant breaches of internal control were identified in the period
- A suite of Bank policies have been established and are available to all employees
- 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 highlights memorandum and papers to the Audit Committee
- The development of and adherence to a robust investment process that ensures both mission alignment and commercial return. 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 creation of a balanced scorecard framework that supports the delivery and measurement of the Bank's mission impacts and objectives
- In the period the Bank was part of the Scottish Government IT system and there were no significant data or cyber security issues encountered

In addition, Grant Thornton LLP has been appointed as internal auditor. Their work in future periods will be directed through an internal audit plan agreed by the Audit Committee that focuses on identified control risk areas. Internal Audit's work will cover key controls including financial, operational and compliance, and they will submit reports on the adequacy and effectiveness of the Bank's systems of internal control with recommendations for improvement.

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.

Assessment of Internal Control and Risk Management

The management and reporting of risk and internal control continues to be developed as the Bank builds. In the Bank's first operational period, level one and level two risks have been identified. A robust internal control environment has been established with a suite of financial and non-financial controls operating across the Bank. Work is ongoing to develop a risk register that will form a basis of the Bank's approach to reviewing and reporting risk in the future and map internal controls to the risks identified.

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 2021.

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.

Eilidh Mactaggart.

Eilidh Mactaggart
Chief Executive Officer / Accountable Officer

3 September 2021

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 International accounting standards in conformity with the requirements of the Companies Act 2006 (IFRSs) and, where appropriate, as interpreted and adapted by the 2020/21 Government Financial Reporting Manual (the 2020/21 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 International accounting standards in conformity with the requirements of the Companies Act 2006, and, where appropriate, as interpreted and adapted by the 2020/21 Government Financial Reporting Manual (the 2020/21 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, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Eilidh Mactaggart
Chief Executive Officer / Accountable Officer

3 September 2021

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 period ended 31 March 2021 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, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Taxpayers' Equity, Consolidated Cash Flow Statement, Company Statement of Financial Position, Company Statement of Changes in Taxpayers' Equity, Company Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006, and, where appropriate, as interpreted and adapted by the 2020/21 Government Financial Reporting Manual (the 2020/21 FReM).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the directions made under the Public Finance and Accountability (Scotland) Act 2000 made by the Scottish Ministers of the state of affairs of the Company and its Group as at 31 March 2021 and of the Group profit for the period then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and, where appropriate, as interpreted and adapted by the 2020/21 FReM; and
- have been prepared 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.

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 one year. 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 Company. 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 director's assessment of the entity's ability to continue to adopt the going concern basis of accounting included consideration of the inherent risks to the Group's business model and how those risks might affect the Group and Company's financial resources or ability to continue operations over the period of at least 12 months from the approval of the financial statements. Since the Group needs financial support from the Scottish Government, we assessed the risk that this support would not be available. We inspected letters received by the directors indicating Scottish Government's intention to provide this support and assessed the business reasons why Scottish Government may or may not choose to provide this support.

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's or 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 Company'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.

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 the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. This matter was 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 this matter. In arriving at our audit opinion above, the key audit matter was as follows:

Key audit matter	How we addressed this matter
Valuation of unlisted investments As at 31 March 2021, 80.8% of the Company's total assets (by value) is held in 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. 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 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 plans 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 is used to value a holding, we obtained an understanding of the circumstances surrounding the transaction and whether it is considered to be on an arm's 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 application of materiality

Materiality for the Group financial statements as a whole was set at £820k, determined with reference to a benchmark of total assets, of which it represents 2.5%. Materiality for the parent company financial statements as a whole was set at £574k, 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 2.0%.

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% of materiality for the financial statements as a whole, which equates to £530k for the Group and £373k for the parent company. We applied this percentage in our determination of performance materiality based on this being the first period the Group and the parent company have prepared their financial statements.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £41k for the Group and £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 was performed by the Group team.

Responsibilities of the Board members for the financial statements

As explained more fully in the Statement of Directors' and Accountable Officer's 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 economic 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 Group is complying with that framework;
- identifying which laws and regulations are significant in the context of the 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 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 relation to irregularities outlined in the Auditor's responsibilities for the audit of the financial statements section of 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 Companies Act 2006 and directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers.

Statutory and voluntary other information

The Board members are responsible for the statutory and voluntary other information in the annual report and accounts. The statutory other information comprises the Strategic and Directors' Report included in the annual report. The voluntary other information comprises the reporting in relation to the UK Corporate Governance Code.

Our responsibility is to read all the statutory and voluntary other information and, in doing so, consider whether the statutory and voluntary other information is materially inconsistent with the financial statements or our knowledge obtained in 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 statutory or voluntary 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 statutory and voluntary other information and accordingly, we do not express an audit opinion, or except to the extent otherwise explicitly stated in our report, any form of assurance on.

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 period for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Companies Act 2006 and directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Risk Management section that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Risk Management disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the Long-term Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be 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, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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 period 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 UK Corporate Governance Code 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 body's Group's prospects, the period this assessment covers and why they consider this period is appropriate;
- 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;

Independent Auditor's Report continued

- 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

3 September 2021

Audited Financial Statements

Consolidated Statement of Comprehensive Income

For the period 13 October 2020 to 31 March 2021

	Notes	£'000
Income		
Investment income	4	423
Net unrealised gains on revaluation of investments	9	3,433
Gross profit		**3,856**
Administrative expenses	5	(2,875)
Operating profit and profit before taxation		**981**
Tax charge	8	(153)
Profit for the period		**828**
Other comprehensive income		**-**
Total comprehensive income		**828**

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

Consolidated Statement of Financial Position

As at 31 March 2021

	Notes	£'000
Assets		
Non-current assets		
Investments	9	26,530
Total non-current assets		**26,530**
Current assets		
Trade and other receivables	10	54
Cash and cash equivalents	11	6,256
Total current assets		**6,310**
Total assets		**32,840**
Liabilities		
Current liabilities		
Trade and other payables: amounts falling due within one year	12	1,290
Total current liabilities		**1,290**
Non-current liabilities		
Trade and other payables: amounts falling due after one year	13	158
Total non-current liabilities		**158**
Total liabilities		**1,448**
Equity		
Share capital	14	22,923
General fund	16	8,469
Total equity		**31,392**
Total equity and liabilities		**32,840**

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

The accounts were approved by the members of the Board and authorised for issue on 3 September 2021 and were signed on their behalf by:

Eilidh Mactaggart.

Eilidh Mactaggart
Chief Executive Officer

Consolidated Statement of Changes in Taxpayers' Equity

For the period 13 October 2020 to 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		–	–	–
Total comprehensive income for the period		**-**	**828**	**828**
Transactions with owners, recorded directly in equity				
Issue of shares	14	22,923	–	22,923
Grant in aid	15	–	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 period 13 October to 31 March 2021

	Notes	£'000
Cash flows from operating activities		
Profit for the period before tax		981
Adjustments for:		
Increase in net unrealised fair value gains on investments		(3,433)
Fee income	4	(200)
Interest income	4	(223)
Increase in trade and other receivables	10	(54)
Increase in trade and other payables	12, 13	1,294
Net cash flow from operating activities		**(1,635)**
Cash flows from investing activities		
Purchase of investments	9	(22,873)
Investment fee Income	4	200
Net cash from investing activities		**(22,673)**
Cash flows from financing activities		
Issue of new shares	14	22,923
Net grant in aid received in period	15	7,641
Net cash from financing activities		**30,564**
Net increase in cash and cash equivalents		6,256
Cash and cash equivalents at 13 October 2020		-
Cash and cash equivalents at 31 March 2021	11	**6,256**

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

Company Statement of Financial Position

As at 31 March 2021

	Notes	£'000
Assets		
Non-current assets		
Investment in subsidiaries	9	-
Trade and other receivables	10	22,873
Total non-current assets		**22,873**
Current assets		
Cash and cash equivalents	11	5,635
Total current assets		**5,635**
Total assets		**28,508**
Liabilities		
Current liabilities		
Trade and other payables	12	1,000
Total current liabilities		**1,000**
Total liabilities		**1,000**
Equity		
Share capital	14	22,923
General fund	16	4,585
Total equity		**27,508**
Total equity and liabilities		**28,508**

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

The accounts were approved by the members of the Board and authorised for issue on 3 September 2021 and were signed on their behalf by:

Eilidh Mactaggart

Eilidh Mactaggart
Chief Executive Officer

Company Statement of Changes in Taxpayers' Equity

For the period 13 October 2020 to 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		-	-	-
Other comprehensive income		-	-	-
Total comprehensive income for the period		**-**	**-**	**-**
Transactions with owners, recorded directly in equity				
Issue of shares	14	22,923	-	22,923
Grant in aid	16	-	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 period 13 October to 31 March 2021

	Notes	£'000
Cash flows from operating activities		
Loss for the period		-
Increase in trade and other receivables	10	(22,873)
Increase in trade and other payables	12	1,000
Net cash from operating activities		**(21,873)**
Cash flows from investing activities		
Purchase of investments		-
Investment in subsidiaries	9	-
Net cash from investing activities		**-**
Cash flows from financing activities		
Issue of new shares	14	22,923
Net grant aid received in period	15	7,641
Resource funding passed to subsidiaries	16	(3,056)
Net cash from financing activities		**27,508**
Net increase in cash and cash equivalents		5,635
Cash and cash equivalents at 13 October 2020		-
Cash and cash equivalents at 31 March 2021	11	**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 period ended 31 March 2021 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 International accounting standards in conformity with the requirements of the Companies Act 2006 (IFRS) and, where appropriate, as interpreted and adapted by the 2020/21 Government Financial Reporting Manual (the 2020/21 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 £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 Company 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 period 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 at least 12 months. 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), 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 £2bn of capital committed to the Company for investment over 10 years from the Scottish Government
- Ongoing funding discussions and continued commitment from Scottish Government to support the Company's operational expenses in the medium term
- The strategic objectives of the Company and continued build of the Company team and operational infrastructure to support the delivery of these objectives

Notes to the Financial Statements

- The operational resilience of Company's critical functions including its investment, governance, regulatory and IT systems and processes and the ability for the Company to operate as intended on a remote basis in light of the current environment

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 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 do so.

Consequently, the directors are confident that the 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.

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 2021.

Control for accounting purposes exists when the Company:

- has power over the investee
- 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

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 judgment 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 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.

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.

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 account 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.

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.

Notes to the Financial Statements

Financial assets and liabilities are initially measured at fair value plus 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 and equity investments, including investments in investment entities and financial guarantees as FVTPL. Investments of the Company in subsidiaries are measured at amortised 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. 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.
- Fair values for unquoted direct equity investments are established by using various valuation techniques. These may include recent arm's 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.

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.

Notes to the Financial Statements

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.

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 and equity 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. Assets 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.

Notes to the Financial Statements

4. Investment Income

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

	£'000
Fee income	200
Interest income	223
Total investment income	**423**

5. Administrative Expenses and Auditor's Remuneration

	Note	£'000
Employee costs	6	1,012
Auditor's remuneration – audit of financial statements	7	156
Other administrative costs		1,707
Total administrative expenses and auditor remuneration		**2,875**

6. Employee Numbers and Costs

The aggregate remuneration of employees and directors was as follows:

	£'000
Wages and salaries	771
Social security costs	110
Pension	75
Amounts payable under long term incentive schemes	56
Total employee costs	**1,012**

More detail on this information is included in the Annual Report of Remuneration on pages 57 to 63. The average number of directors and employees during the period was 32.

7. Auditor's Remuneration

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

	£'000
Audit of group accounts	70
Audit of subsidiaries	40
Audit Scotland - audit support costs	20
VAT	26
Total auditor remuneration	**156**

The auditor did not complete any non-audit services in the period.

8. Tax

	£'000
Current tax	
Current tax on income for the period	4
Total current tax	**4**
Deferred tax	149
Total deferred tax	**149**
Total tax	**153**

	£'000
Reconciliation of effective tax rate:	
Profit before taxation	981
Tax using the UK corporation tax rate of 19%	186
Effect of:	
Expenses not deductible	33
Income not taxable	(215)
Deferred tax liability	149
Total tax charge	**153**

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%. Deferred taxes on the Statement of Financial Position have been measured at 19% which represents the future corporation tax rate that was enacted at the period end date.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the period end date and hence have not been reflected in the measurement of deferred tax balances at the period end.

If the Group's deferred tax balances at the period end were remeasured at 25% this would result in a deferred tax charge of £195,171.

Notes to the Financial Statements

9. Investments

	Group £'000	Company £'000
Opening fair value	–	–
Additions	23,097	–
Disposals	–	–
Net unrealised fair value gains	3,433	–
Closing fair value	**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 period.

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 £22,873,333 and £223,341 in capitalised interest.

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

10. Trade and Other Receivables

	Group £'000	Company £'000
Current assets		
Prepayments	54	–
Total trade and other receivables	**54**	**–**
Non-current assets		
Amounts due from subsidiaries	–	22,873
Total trade and other receivables	**–**	**22,873**

Amounts due from subsidiaries are not interest bearing and repayable on demand. As the repayment is expected in more than one year, these amounts are classified as non-current.

11. 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 £'000	Company £'000
Cash and cash equivalents	6,256	5,635
Cash and cash equivalents	**6,256**	**5,635**

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

	Group £'000	Company £'000
Trade payables	754	–
Other taxes and social security	22	–
LTIP accrual	47	–
Accruals	463	–
Corporation tax payable	4	–
Amounts owed to subsidiary undertakings	–	200
Resource funding owed to subsidiary undertakings	–	800
Total current liabilities	**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.

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

	Group £'000	Company £'000
Deferred tax liability	149	–
LTIP accrual due within one to two years	6	–
LTIP accrual due within two to three years	3	–
Total non-current liabilities	**158**	**–**

Notes to the Financial Statements

14. Share Capital

	Group £'000	Company £'000
Called up and allotted		
Ordinary shares of £1 each	22,923	22,923
	22,923	**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.

15. Grant in Aid

	Group £'000	Company £'000
Balance at 13 October 2020	-	-
Grant in aid received in period	30,564	30,564
Share capital issued on incorporation	(50)	(50)
Investment drawn and ordinary share capital issued	(22,873)	(22,873)
Balance at 31 March 2021	**7,641**	**7,641**

16. General Fund

	Group £'000	Company £'000
Balance at 13 October 2020	-	-
Grant in aid	7,641	7,641
Resource funding passed to subsidiaries	-	(3,056)
Profit for the period	828	-
Balance at 31 March 2021	**8,469**	**4,585**

17. 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.

Carrying value	Financial assets and liabilities at FVTPL	Financial assets and liabilities at amortised cost	Total
	£'000	£'000	£'000
Assets:			
Investments	26,530	-	26,530
Trade and other receivables	-	54	54
Cash and cash equivalents	-	6,256	6,256
Total assets	**26,530**	**6,310**	**32,840**
Liabilities:			
Trade and other payables	-	(1,448)	(1,448)
Total liabilities	**-**	**(1,448)**	**(1,448)**
Net assets	**26,530**	**4,862**	**31,392**

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. 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 (i.e., as prices) or indirectly (i.e., derived from prices)

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

Notes to the Financial Statements

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

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

The Group's investment portfolio consists of assets carried at fair value and 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 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 2021 the fair value of investments held at FVTPL increased by £3.4m and this increase was reflected in the Consolidated Statement of Comprehensive Income.

18. 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 24 to 30.

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 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 whilst 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.

Notes to the Financial Statements

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 2021 is:

	Maximum exposure
	£'000
Investments	26,530
Trade and other receivables	54
Cash and cash equivalents	6,256
Total	**32,840**

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 period ended 31 March 2021:

	Within 1 year £'000	Between 1 and 5 years £'000
Trade and other payables	(754)	-
Other payables and accruals	(536)	158
Total	**(1,290)**	**158**

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. £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 at 31 March 2021 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 twelve 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. An assumed 10% movement in this assumption would lead to a change in the fair value of investments at 31 March 2021 of £0.9m.

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, sector in which they operate, the geography of the company's operations, development stage, the respective revenue and earnings growth rates, strategy and operating margins.

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 absolute comparative multiple value would lead to a change in the fair value of investments at 31 March 2021 of £0.9m.

Notes to the Financial Statements

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.

19. Capital Commitments

Amounts contracted for but not provided for in the accounts amounted to £29.6m for investment commitments.

20. 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 57 to 63.

21. 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

Acquisitions in the Current Period

Following incorporation 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:

	Scottish Investments (Advisory) Limited
	£'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 to Scottish Investments Services Limited and is the provider of resume funding to other entities of the Group. The entity has not generated any income and receives resource funding via the Company. During the period since acquisition the entity has recorded a net operating loss of £2,363,382 which is included in the Consolidated Statement of Comprehensive Income.

Notes to the Financial Statements

22. Defined Contribution Plan

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

23. 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.

24. 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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