

Business Plan



The
Scottish
National
Investment
Bank



This is the Scottish National Investment Bank's first Business Plan which outlines the Bank's budget and objectives for the first four years of the Bank's operation, with a detailed focus on Financial Year One from 1 April 2021 through to 31 March 2022.

About the Bank

The Bank was launched in November 2020, to be a development investment bank for Scotland, delivering patient mission impact investment to the Scottish economy.

- ◆ The Bank will provide patient (long term) capital to businesses and projects throughout Scotland to support the development of a stronger, fairer, more sustainable economy.
- ◆ The Bank has an ambition to not only invest its allocated public capital, but to encourage additional private capital to invest alongside it, to support the delivery of its missions.

The launch of the Bank, on schedule in November 2020, was a considerable achievement during the Covid-19 pandemic, ensuring the Bank was available to support Scotland's economic recovery.

The launch of the Bank received cross party support from its first announcement in the 2018 Implementation Plan through parliamentary debate and its launch in 2020.

In delivering investment as an investment development bank, the Bank's ambition is to create a perpetual investment fund for Scotland that reinvests its profits and capital over time to support the delivery of the Bank's missions. This will support the development of a fairer and more sustainable Scottish economy for the long term.

Development Investment Bank

The Bank is a development investment bank, established and funded by Scottish Ministers on behalf of the people of Scotland. The Bank's role is to invest where the private sector is failing to provide sufficient finance to businesses or projects to support the development of Scotland's future economy.

Almost all development banks have been established with public capital and then progress to leverage that capital with private sector capital. This leverage can be achieved by managing third party private sector funds through fund or investment management; via leveraging the development bank's balance sheet in debt capital markets, including the issue of green or social impact bonds.

By leveraging its public capital the Bank will be able to increase the delivery of investment to the Scottish economy and in so doing accelerate the delivery of the Bank's missions.

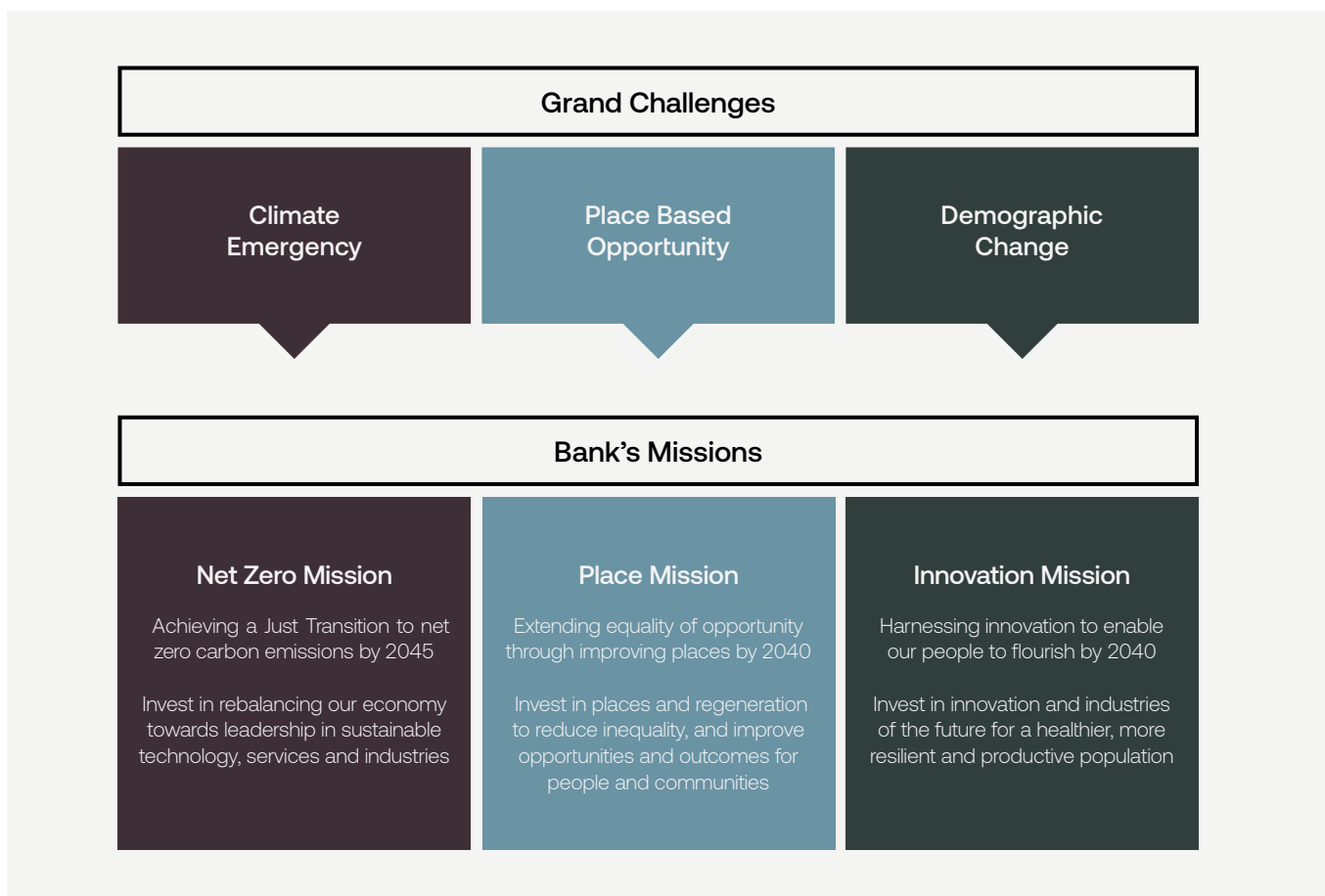


Mission Impact Investment

The Bank's mission impact investment activity reflects the ambition of the Bank to invest to deliver both financial and environmental and social impact returns from its investment activities.

The Bank's missions provide the Bank with a clear long term strategic direction and focus for its investment activity. The Bank's missions were developed through active and open consultation and as a result have wide ranging support from stakeholders across Scotland.

The missions seek to address the grand challenges facing Scotland and the Scottish economy:



Further information on the Bank's missions is available on the Bank's website and in the Bank's first Mission Report 2021.



Commercial Investor

The Bank will invest on commercial terms in all of its investments. The Bank has not been established to deliver grant or sub-commercial funding.

In line with other European development investment banks, the Bank was required to gain State Aid consent from the European Commission ahead of its establishment. This consent was given in early November 2020 ahead of the Bank's launch. The Bank has committed to only invest on commercial terms as part of this consent.

As part of the Bank's State Aid notification the Bank has also committed not to crowd-out private capital, so where private sector finance is readily available for business and projects, the Bank will not need to invest. This allows the Bank to focus its investment activity on those businesses and projects that are truly struggling to raise the investment they need to grow.

Patient Investor

The Bank's investment is referred to as patient capital as it can be committed for a longer period than is typically provided in the private market. This allows the businesses and projects it invests in to focus on commercial growth, with the investment support they need in place for the long term.

Ethical Investor

The Bank will be an ethical investor. The Bank will use its ethical investment policy to ensure its investments meet minimum ethical standards.

Equality & Diversity Champion

The Bank has already achieved considerable gender equality milestones in appointing a gender balanced Board of Directors and senior Executive Team, and a growing diverse team of people. The Bank will continue to focus on ensuring it builds a diverse team in this Business Plan period.

The Bank's commitment to equality and diversity goes deeper than ensuring its own people are reflective of its diverse society. The Bank will seek to encourage the businesses and projects it invests in to focus on improving equality and diversity in their own businesses, and in the goods and services they provide. This will help the Bank support the improvement of equality and diversity in Scotland as a whole.

Financial Self-Sustainability

It is intended that the Bank will become financially self-sustaining in the medium term. In the longer term, it is intended that the Bank will provide a positive return on its investments, which will be reinvested in delivering its missions. In doing this it will create a perpetual investment fund for Scotland. The Bank will also recycle its repaid capital into future investments.

The Bank will achieve financial self sustainability by generating income from the investments it makes and by closely controlling its costs. The Bank's ambition to manage and invest third party capital alongside its public capital will not only increase the investment available to support the delivery of the Bank's missions but will also generate additional income to support the ongoing financial self-sustainability of the Bank. Any profit from this investment management activity will be invested in future mission impact investments.

The Bank aims to make significant progress on its journey to financial self-sustainability within this Business Plan period.



Delivering Investment

The Bank has primarily been established to deliver patient capital investment to businesses and projects not able to raise the investment they need from traditional lenders or investors. By delivering its investment and crowding-in other investors from the start, the Bank will seek to realise its ambition to catalyse change and transform the Scottish investment market for the benefit of the Scottish economy as a whole.

Sustainable Investment

In addition to the first two investments the Bank made in its first four months of operation, the Bank has already developed a significant pipeline of investment opportunities that have the potential to support the delivery of its missions.

The Bank has identified four quadrants to capture and report on its investment activity. These quadrants are not exclusive but aim to illustrate the type of investment the Bank will likely make in this Business Plan period, which are outlined below:





Direct Investment

The Bank will seek to invest widely and diversely and each investment it makes is likely to be bespoke. Wherever possible the Bank will be seeking to invest in businesses and projects that deliver positive impacts relating to the delivery of the Bank's missions. By investing in businesses and projects that cannot raise investment in traditional private markets, the Bank will be targeting its investment to where it is needed most.

Investment parameters, subject to the Bank's investment approval process, are:

- ◆ The Bank will be able to invest up to £50 million in equity or debt, or a combination of both, in an individual business or project.
- ◆ The Bank may invest either equity or debt within a single business or project, on occasion it may invest both.
- ◆ The Bank may make follow-on investments to support further growth of the businesses it invests in.
- ◆ The Bank's minimum investment size will typically be £1 million.
- ◆ The Bank will not take a majority equity stake in a project or business.
- ◆ The Bank will seek to invest in businesses and projects that are commercially viable.
- ◆ The Bank's investment will be patient. For equity, this could be 15 years and for debt the Bank will consider lending for tenures of up to 35 years. The actual term of an investment will be determined by the financial circumstances of each investment opportunity and is likely to be bespoke to each investment made.

Fund Investment

As well as making its own direct investments, the Bank will seek to maximise its impact by investing via third party funds established to invest in businesses or projects which support the delivery of the Bank's missions and are complementary to the activities of the Bank's investment team.

Covid-19 Recovery – Investment Activity

It was a key priority of the Scottish Government to continue to launch the Bank during the Covid-19 pandemic to support Scotland's long term economic recovery as well as its future economic transition to future economic opportunities.

The Bank will support this economic recovery by investing in businesses and projects impacted by the current pandemic to support their recovery. It will do this where the business or project presents a viable path to recovery from the pandemic and will support the delivery of the Bank's missions over the long term. In addition, the Bank expects to provide investment for regeneration, construction and development projects that may otherwise have had access to commercial finance before the pandemic.

As a mission impact development bank, the Bank is not able to invest in distressed businesses or provide grants or sub-commercial funding, which will continue to be delivered by central government and the enterprise agencies.

Investment Portfolio Development

In building a diverse and balanced investment portfolio the Bank will seek to balance delivery of its missions with the development of a portfolio that invests across the whole of Scotland.

The Bank will seek to consciously build a balanced portfolio over this Business Plan period, recognising that investment opportunity will be the primary driver of investment activity in the Bank's early years. Portfolio concentration reporting and monitoring will be developed over the Business Plan period.



Risk Management

To enable the effective implementation of the Business Plan and the Bank's Investment Strategy, the Bank has established a robust risk governance structure using the 'three lines of defence' model. To manage all of its risks, the Bank has developed a Risk Management Framework built around 7 key high-level risks as summarised below:

Risk	Definition
Mission Risk	The risk that investments made by the Bank are not sufficiently aligned to a mission or fail to deliver the desired benefits.
Investment Risk	The risk of losses due to failed investments or inadequate portfolio management creating volatility that could result in losses.
Financial Risk	The risk of unstable capital or liquidity arising from fluctuations in funding streams, investment returns, financial performance or external factors.
Operational Risk	The risk of direct or indirect losses resulting from inadequate or failed internal processes, people and systems or from external events.
Governance Risk	The risk that the Bank's frameworks and processes for decision making are ineffective or are not supported by the Bank's culture and high standards of conduct.
Culture Risk	The risk that the Bank's culture fails to encourage respect, collaboration, collective and personal responsibility.
Reputation Risk	The risk that the stakeholders form a negative view of the Bank due to actions by its employees, partners, third parties or invested companies.

As a financial institution, the risk control infrastructure on which the Bank is built is critical. A robust infrastructure of risk controls, policies and procedures was developed and implemented ahead of the Bank's launch and the Bank will continue to build on this core infrastructure in this Business Plan period. Embedding a 'Risk Aware Culture' within the Bank's team is a primary priority in the Business Plan period.

Further information on the Risk Management Framework is available on the Bank's website.



Corporate Goals

Core Objective: Embracing the Banks Missions

Putting the Banks missions at the heart of everything it does

The Bank's missions will be the initial filter applied in considering whether to make an investment. This mission alignment will then be considered throughout the investment approval process. In any investment the Bank makes, as well as considering the financial returns, the Bank will seek to enhance the positive non-financial impacts of the investments it makes.

In building the team, the Bank will identify and hire people who are committed to supporting the delivery of its missions, as this will be critical to the Bank's success.

In sourcing suppliers and engaging with public and private sector partners, the Bank will seek to identify partners and suppliers who demonstrate a strong alignment with its missions.

Core Objective: Delivering Investment

£2bn of public capital invested over the Bank's first ten years

£800m committed to investment in the Business Plan period

The Bank's primary priority in the Business Plan period is to establish the Bank as a provider of investment to Scottish businesses and projects that support the delivery of its missions.

It is likely that the deployment of the Bank's £2 billion of public capital will increase in the early years in alignment 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 of the 'what, where, why and how' the Bank will invest.

In year one, the Bank expects to commit £200 million in investment capital, and over the four year Business Plan period, it expects to commit at least £800 million in commercial patient capital investment to businesses and projects connected to Scotland, supporting the delivery of the Bank's missions and in line with the Bank's Investment Strategy and relevant policies.

The income derived from the Bank's investment activity will support the medium term goal for the Bank to be financially self-sustaining. In the longer term any profit will be invested alongside its recycling public capital in businesses and projects supporting the delivery of the Bank's missions.



**Core Objective:
Financial Management**

- ◆ **To manage operating costs within budget throughout the Business Plan period:**
The Bank will establish strong controls around expenditure and embed a value for money culture to support the Bank's control of its operational costs, in line with the Business Plan budget in Table 1 below.

- ◆ **To build the Bank's investment portfolio with quality mission impact investments, generating income to support the Bank's journey to financial self-sustainability:** typically investment businesses look to historic investment performance to predict income from future investment performance. As the Bank is new, it does not have a historical track record on which to base its future income assumptions. It is therefore more challenging for the Bank to predict the returns it will make on its investments in this first Business Plan period, and therefore the income predictions included below are likely to vary. The Bank will regularly update its Board on actual predicted income generation as it makes its investments. The Bank fully expects to see sufficient opportunity to invest £2 billion over ten years as anticipated.

It is also noted that investments can both outperform and underperform the investment cases considered at the time of investment. Variability of investment financial performance, including losses, is particularly likely given the Bank is a development investment bank seeking to invest in higher risk under-invested areas in the market.

- ◆ **Financial self-sustainability:** the Bank is focussed on reducing the government support needed to operate the Bank within the Business Plan period and progress considerably to financial self-sustainability in the period.

- ◆ **Covid-19 pandemic recovery:** This inaugural Business Plan was written during the Covid-19 pandemic and an uncertain economic outlook for the coming months and years. The returns and risk profile of the Bank's investments may be changed dramatically by the post-pandemic economic landscape.



Business Plan Forecast Budget (Table 1)

£m	FY21/22	FY22/23	FY23/24	FY24/25
FT commitment	200	200	225	250
Investment income	3	10	17	25
Less capitalised interest (FT)	(1)	(3)	(2)	(2)
Investment Income (RDEL)	2	7	15	23
Operating expenditure				
Staff costs	8	10	11	12
Non-staff operational costs	7	7	7	8
Operating expenditure	15	17	18	20
Operating profit / (loss) - (RDEL)	(13)	(10)	(3)	3
Grant in Aid (RDEL)	13	10	3	0
Operating profit after Grant in Aid	0	0	0	3
Investment write downs / impairments	(3)	(9)	(15)	(22)
Equity unrealised gains	3	10	17	25
Non-cash P&L items	(1)	(1)	(0)	(0)
Net profit / (loss) before tax	(1)	1	2	6



**Core Objective:
Investment Impact Assessment & Reporting**

Develop a 'best in class' investment impact assessment & reporting framework to evidence the delivery of the Bank's missions

Reporting on the delivery of its missions requires the development of a 'best in class' investment impact assessment and reporting framework. The Bank has commenced the design of this framework and will continue to develop this over the Business Plan period. The framework will allow reporting of the non-financial performance of the Bank's investment portfolio annually and will support the production of the Bank's annual forward looking Mission Report, which outlines how the Bank expects to invest to deliver its missions in the coming year.

In the Business Plan period, the Bank will seek to develop this investment impact assessment and reporting framework to track and evidence the delivery of the Bank's missions over the medium to long term.

In year one, this will see the incorporation of the International Finance Corporation (IFC) 'Principles for Impact Management' and IRIS+ system of measurement of impact in the processes and procedures around investment appraisal, investment delivery and investment portfolio management. Both of these frameworks are aligned with the Scottish National Performance Framework given the connectivity with the United Nations' Sustainable Development Goals.

The Bank's 2021 Mission Report sets out the initial steps to developing this core objective to assess and report on the mission impacts of investments. The Bank's Mission Report can be found on the website.

**Core Objective:
People & Culture**

Attract the talented people the Bank needs to deliver its missions and create a culture centred on its missions that enables its people to flourish

The Bank has the opportunity to use its missions to inspire people to want to join its team. As with initial investment opportunity assessment, alignment to the Bank's missions is where it starts in attracting talent to help support the Bank in delivering mission impact investment to the Scottish economy.

As a newly formed organisation, the Bank has the opportunity to establish its own unique culture and values with its new employees, in line with its missions. The creation and embedding of a positive culture is a priority for the Bank in the Business Plan period.



**Core Objective:
Engagement With The Ecosystem**

Ecosystem engagement and communicating how the Bank will invest to deliver its missions

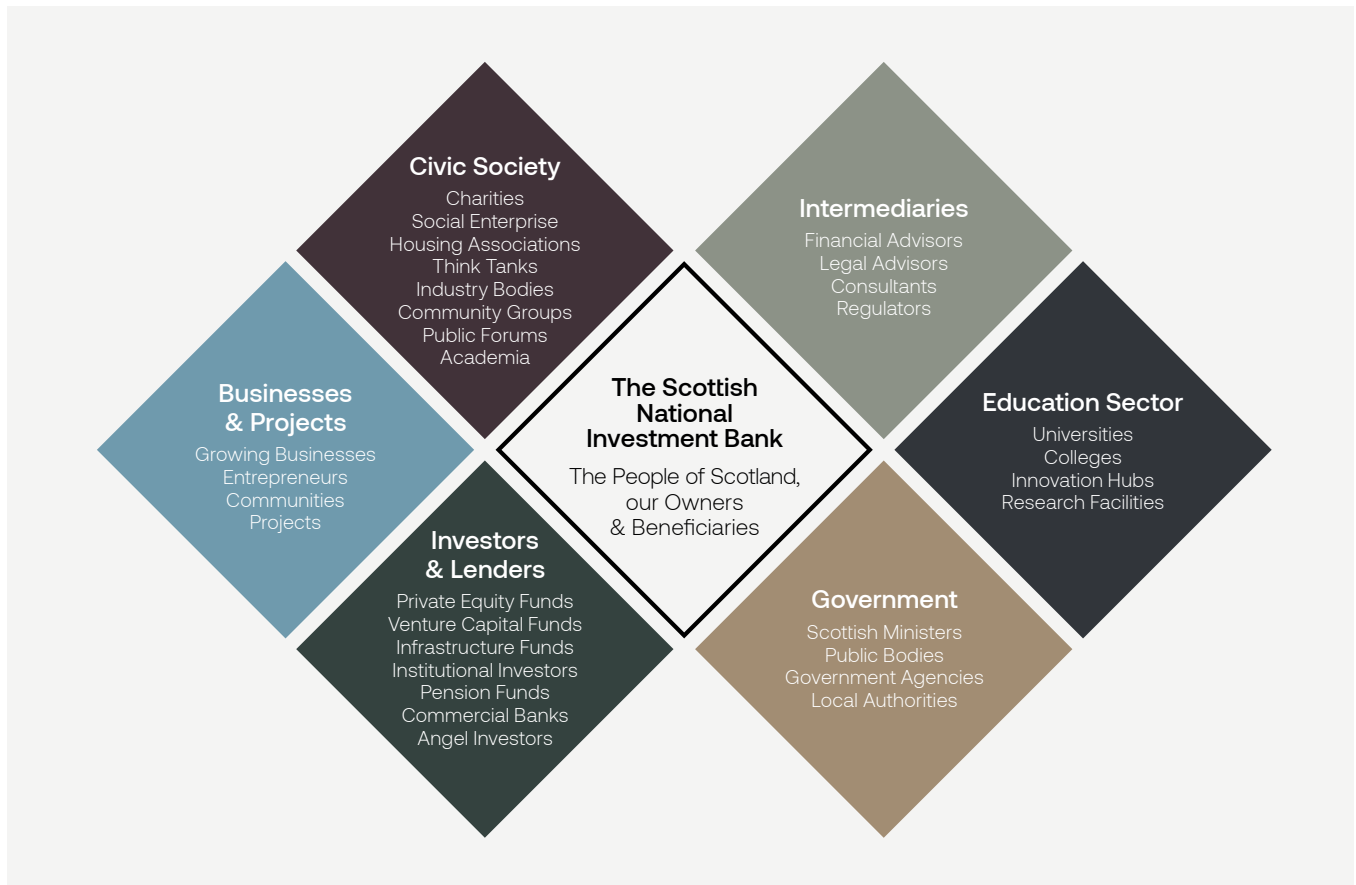
It is the Bank’s ambition to establish the Bank not only as an investor but as a catalyst for change. To enable this the Bank will endeavor to communicate how and why it is making its investments alongside engagement with both the public and private sectors to ensure the market understands both what the Bank has been set up to achieve and how it can achieve this.

The Bank will communicate both directly through one to one engagement with key partners but also through attendance at conferences and market events as well as through engagement with the media.

As a new entrant to the investment landscape, the Bank will seek to establish itself within this ecosystem. In its first years it will seek to continue to establish relationships within this ecosystem, in doing so informing both the private and public sectors on the ambitions of the Bank and the potential of its investment activity to deliver its missions.

The Bank will also publish insights into its investment activity and how it intends to address the delivery of its missions with investment throughout the Business Plan period.

The Bank’s Ecosystem:



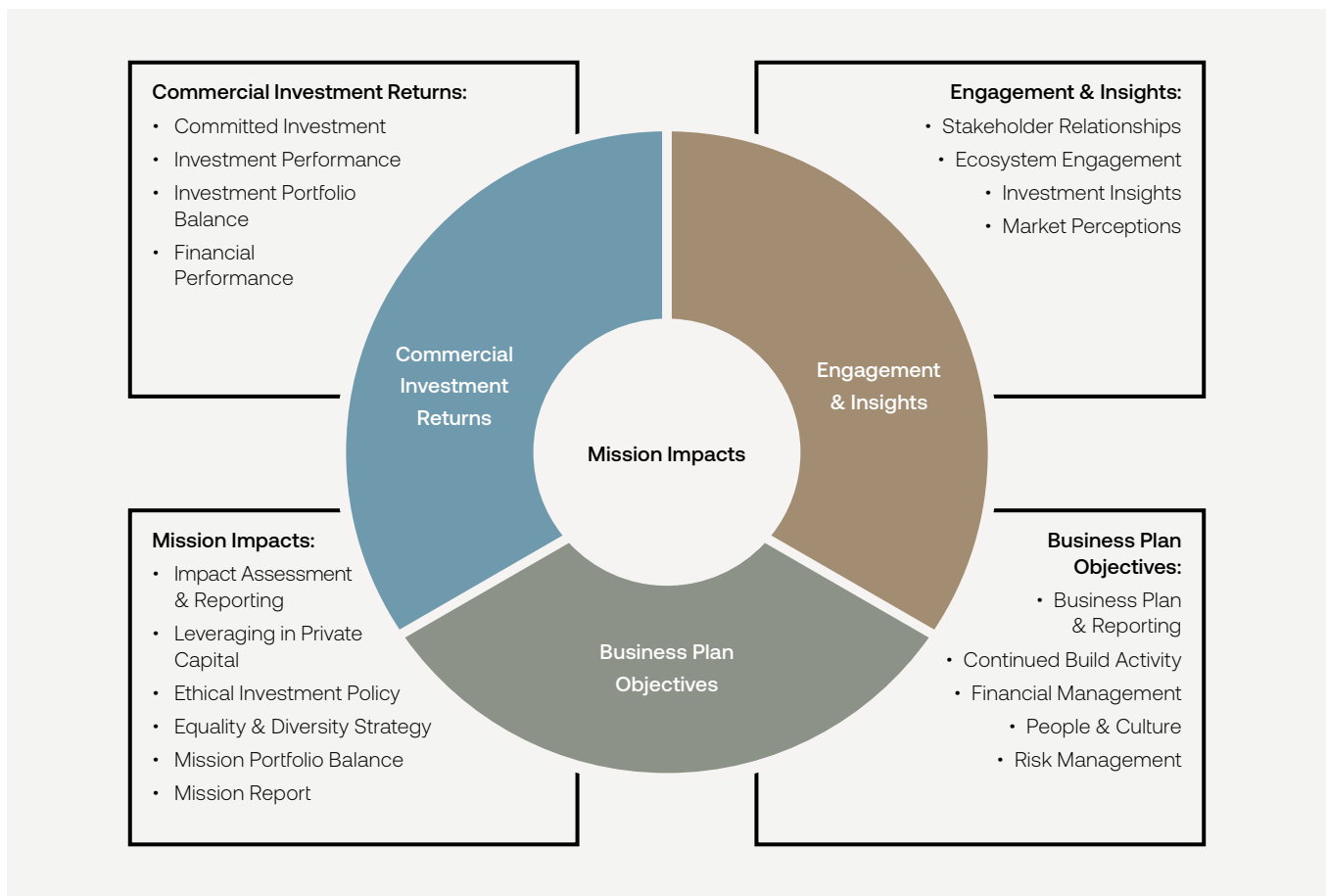


**Core Objective:
Development of The Bank's Balanced Scorecard**

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 Bank will use a balanced scorecard approach to monitor and report on the financial and non-financial returns of its investments.

The Bank will develop its suite of reporting over the Business Plan period based on a balanced scorecard approach, which will support its commitment to transparency.

The Bank's Balanced Scorecard:





**Core Objective:
Continued Build Of The Bank**

The Bank was launched in November 2020 and is fully operational, however there are still many start-up related activities that the Bank needs to continue to invest its time and effort in. The Bank will continue to focus on the delivery of these continued launch activities in the Business Plan period. These activities include:

◆ **Achieving regulatory status to support the growth of the Bank's investment activity and the development of an advisory function.**

Catalysing private investment into the Scottish economy has been a core ambition for the Bank since the Implementation Plan was published in 2018. The Bank believes it can best deliver this ambition through the development of a third-party asset management business. This will allow the Bank to raise and manage third party private capital to invest alongside the Bank's public capital to augment and accelerate the delivery of the Bank's missions.

To enable the Bank to fully deliver the vision and ambition held for it, the Bank must first successfully achieve the relevant required authorised and regulatory status from the Financial Conduct Authority. This is expected to take up to 12 months.

◆ **Consultation on how the Bank supports the development of improved equality and diversity in Scotland:**

The Bank aims to publish its strategy for using its investment to support gender equality and diversity in its first full year of operations. Following this, during the Business Plan period, the Bank will publish its first report on the impacts and outcomes of this strategy.

Concluding Comments

The ambitions and core objectives of the Bank presented in this first Business Plan reflect the early stage of the Bank's life and will help support its development in its early years.

The Bank has been given long term strategic direction in the missions that have been set for it which will enable the Bank to invest to address the persistent grand challenges identified for the Scottish economy. The Bank has been established to be a perpetual institution acting as a lead investor into Scottish businesses and projects, mobilising investment of both public capital and private capital from the start.

The Bank's Executive Team believes the ambitions and objectives outlined here will support the Bank in achieving: its missions in the long term; becoming financially self-sustaining in the medium term; and, ultimately supporting the creation of a fairer, more sustainable Scotland.