



Business Plan

Financial Year 2023/24

The
Scottish
National
Investment
Bank



Contents

Executive Summary	3
Our Ambition Statement.....	4
Introduction from the Chief Executive Officer	5
Progress in 2022/2023 and Strategic priorities	8
Strategic Priorities	
1. Demonstrating and enabling impact.....	12
2. Delivering investment.....	16
3. Building insights, partnerships and our reputation	19
4. Enabling private sector investment.....	22
5. Realising the potential of our People	26
6. Targeting financial self-sustainability	28
Concluding Comments	31

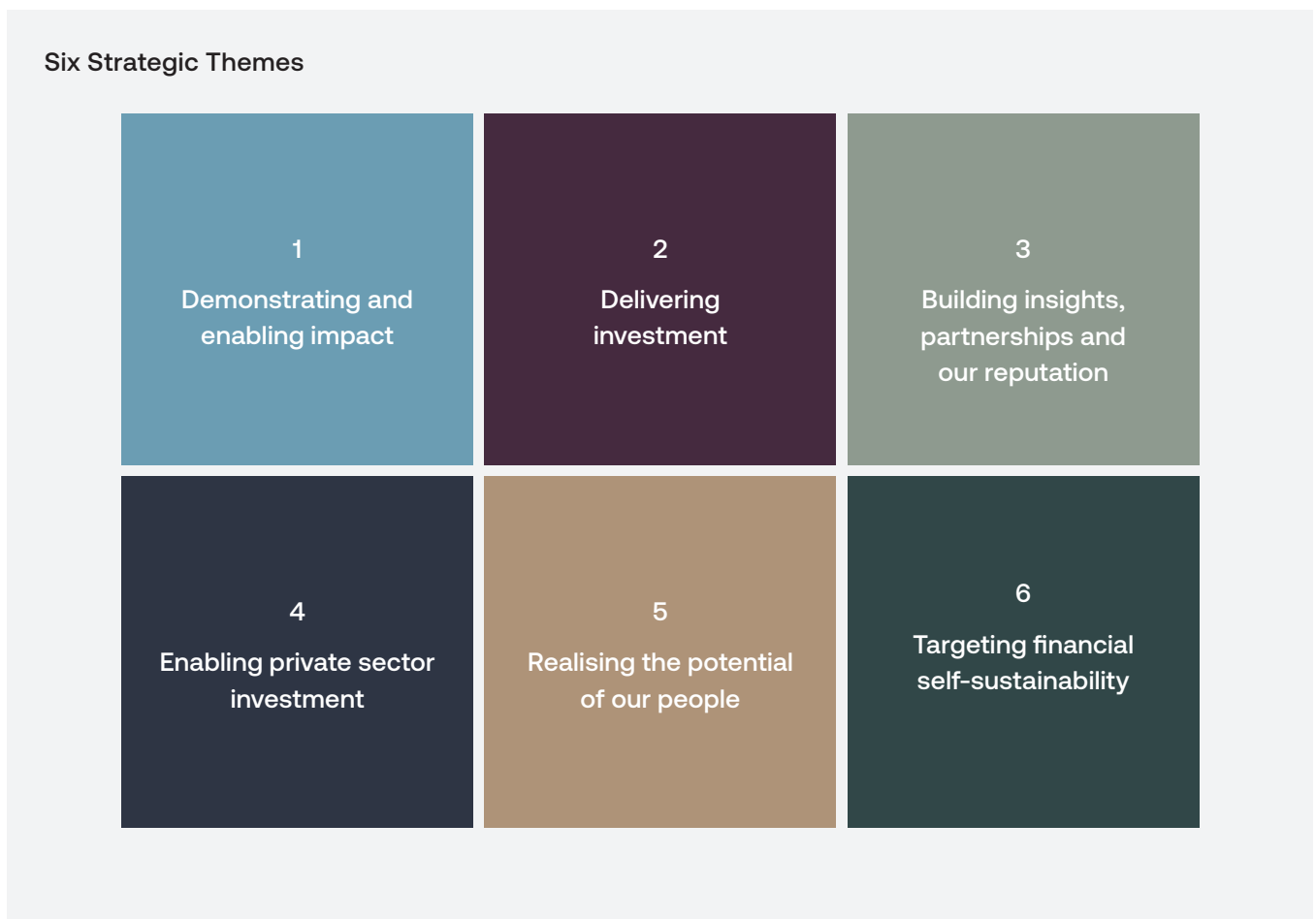


Executive Summary

This Business Plan sets out the ambitions, priorities and key activities that The Scottish National Bank will focus on, both for the year ahead and over a more strategic time horizon.

We are extremely ambitious for the impact we can make. We will develop insights into key markets and technologies, and these insights will enable us – and others – to invest ever increasingly wisely, which will result in positive impacts for Scotland’s communities, society, environment, and economy. Our role is to create insight, deliver investment and generate impact.

To achieve this change, we set out six strategic themes, which build on those we published in our Business Plan last year. They are:



For each of these areas we describe our ambition for what we want to achieve by 2030, how we are approaching this, and what outcomes we expect to see in the upcoming Financial Year 2023 / 2024.



Our Ambition Statement

“Transforming Scotland through
our insight, investment and impact.”

At the Bank we are ambitious for the positive impact
our investments and market insights can deliver.



Introduction from the Chief Executive Officer

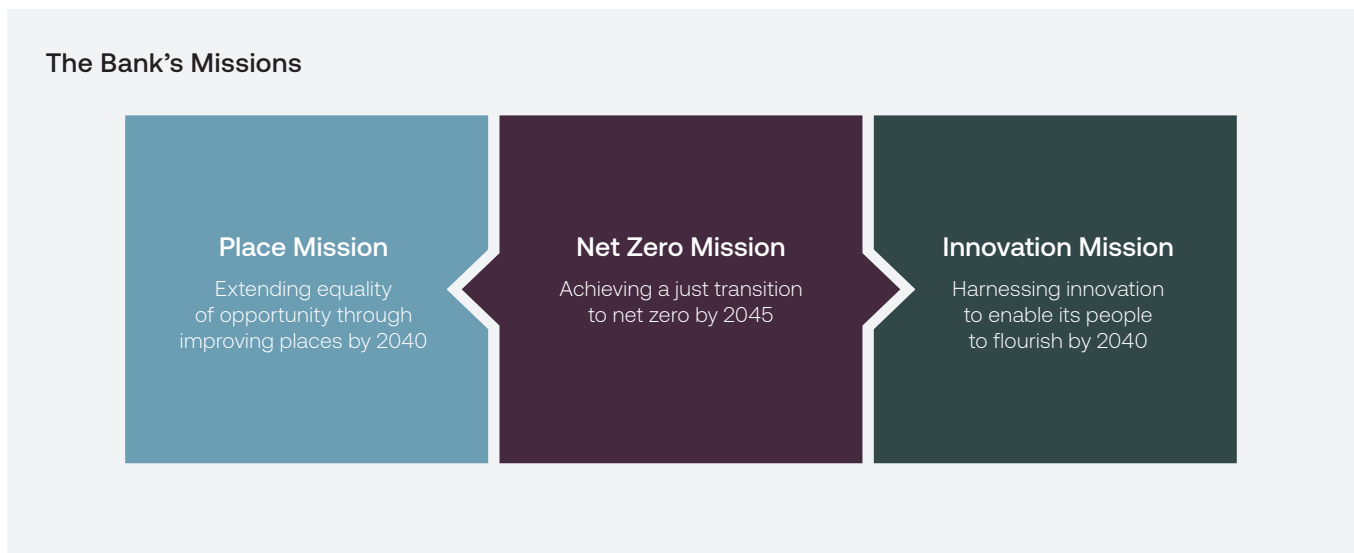
CEO Review

As I look forward to the Financial Year 2023/2024, it is clear that we have evolved from being a ‘start-up’, to an active impact investor that has strong foundations and is now becoming a demonstrable force for good across Scotland. I am extremely proud of the great team we have built at the Bank. We have an exceptional group of motivated, passionate professionals who are providing new insights that we are using to make investments that have clear, intentional, social, environmental, and economic benefits.

As a development bank, we will ultimately be judged on the impact we have made, and the change in society we have driven. The Bank has now been in operation for a little over two years and has committed over £378 million of investment, which has supported additional investment from other sources of over £667 million. Over one billion pounds has therefore been committed to the Scottish economy as a direct result of our engagement with the market. This demonstrates that we are now firmly established.

The billion pounds referenced above does not just support growth in the Scottish economy. We were created to provide capital investment into businesses and projects that support our missions, and by ‘unlocking’ additional investment to help Scotland accelerate towards becoming a fairer, sustainable and more ambitious society. Beyond our investment I have been pleased to see how we work closely with our investee businesses to provide them with support in a range of areas such as Greenhouse Gas reporting, corporate governance, approaches to Equality, Diversity and Inclusion and creating ‘Fair Work’ workplaces.

Our missions continue to drive everything that we do and are summarised below.

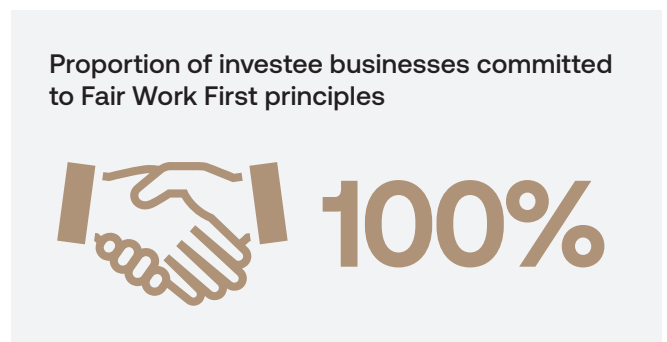
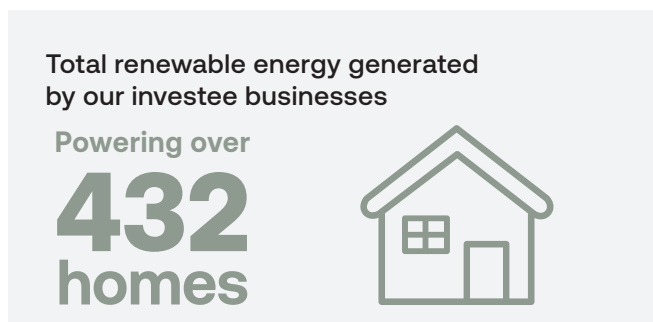
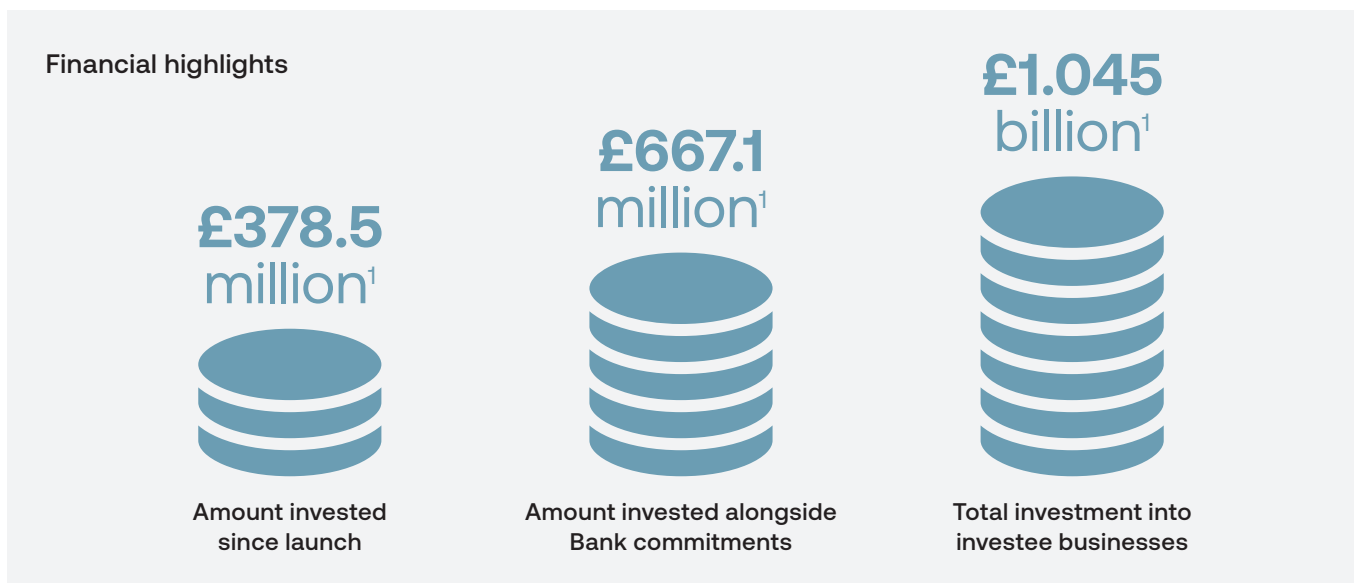




Introduction from the Chief Executive Officer continued

We have now invested in 24 businesses and projects that span the length and breadth of Scotland, from Nova Innovation growing its activities in the Orkney Islands, to IndiNature building new manufacturing operations in the Borders. Our investments support all three of our missions and have demonstrated our flexible approach to the funding we offer. You can read more about these on our website (www.thebank.scot/portfolio).

The impacts that our investments make toward achieving these missions will take time, but we are already seeing the scale and clear benefits from our activity.



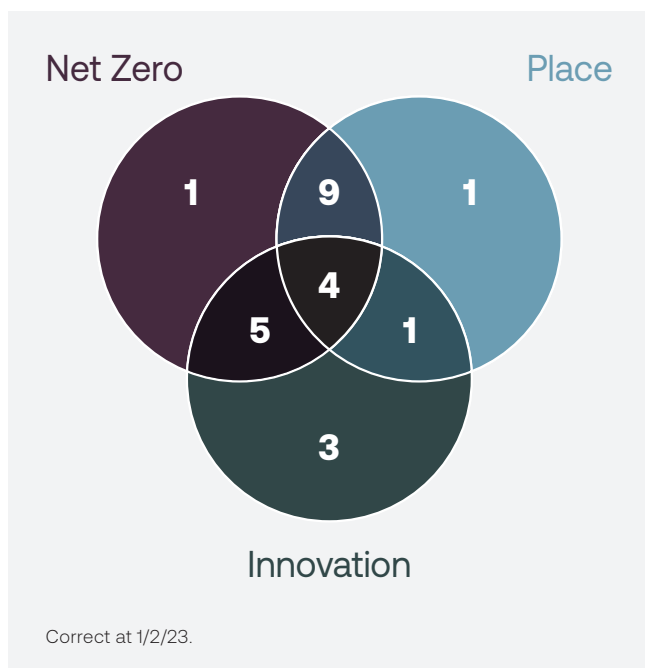
Notes 1. Correct at 1/2/23. 2. This includes 1,200 jobs directly supported in our investees and a further 1,100 across the Scottish economy.



Introduction from the Chief Executive Officer continued

Distribution of investments by mission

We only invest in businesses and projects that align with at least one of our missions, but many support more than one. The diagram below shows how the first 24 investments we have made cover all three of our missions.



Looking forward to the upcoming year, Scotland has many opportunities for investment towards our missions, none less than those that the ScotWind developments should bring. The ambition in evidence here I find extremely inspiring. Scotland is seeking to build on its current 2GW of offshore generation and add an additional 29GW, with the potential for this to provide £29 billion of economic benefit to Scotland. There is more detail about these opportunities later in this document, but it is clear that the Bank has an important and urgent role to play, if this opportunity is to be fully grasped.

In this plan we have set out our ambitions over a time horizon to 2030. We have done this to balance our role as a provider of patient capital with missions that are aimed at the mid-point of this century, with the need to demonstrate our medium-term priorities and approach. We have also described our key priorities for the upcoming year so that our approach to the long term, medium term and short term are all demonstrably aligned.

I am very conscious that the context for the delivery of this plan is a changing one, and one likely to become more challenging as the economy faces into evolving headwinds and uncertainties. This will undoubtedly have an effect on the investment landscape, and one that means that the need for a development bank is even greater. We were expressly referenced within the Scottish Government's National Strategy for Economic Transformation, as a source of growth and an enabler of investment from the Financial Services sector. That may prove to be even more relevant in the next few years. While these economic headwinds may blow, there will still be outstanding businesses that are building towards a stronger Scotland, and we know it is vital that we support these businesses to succeed.

Sarah Roughead
Interim Chief Executive Officer





Progress in 2022/2023 and Strategic priorities

In our Business Plan for 2022/2023 we outlined five strategic themes. This financial year has not fully concluded as we write the plan for the year ahead and our full, audited, results will be published in our Annual Report and Accounts later this year. We do, however, want to provide some commentary on the significant progress achieved and some highlights from the year:

Missions and Impacts

- ◆ All of our investments have clearly defined impact expectations, and we are working closely with our portfolio businesses to support them in understanding, measuring and reporting on impact. In addition, we have encouraged portfolio companies to be progressive in their approaches to Equality and Diversity and in the adoption of Fair Work standards.
- ◆ We have adopted the Principles for Impact Management and have integrated world leading impact investment processes in line with these principles. These have been externally reviewed to enable us to focus on best practice.
- ◆ We established tailored impact KPIs that align to the investment origination strategy. These will be reported through a newly developed impact reporting system and will form the foundation of our future impact targets.
- ◆ We held a successful Impact Investing summit and published an important 'landscape review of impact investing in Scotland' leading to engagement on the opportunities and challenges of impact investment in Scotland. We look forward to further convening an impact investor group across Scotland and developing the summit as an annual fixture.
- ◆ We have also developed our carbon plan and are on target to make TCFD disclosures next financial year.

Investment and financial performance

- ◆ We are on target to deliver in line with planned investment commitment of £218 million, all aligned to at least one of our missions, and in many cases supporting more than one. For example, we have committed £18 million to orbital launch services company Orbex, as part of a £40 million funding round, one of the largest equity raises in Scotland in 2022. We also made our single largest debt investment so far, committing £50 million to North Star Renewables to build service operation vehicles to support the renewable energy sector.
- ◆ Developed and implemented an active origination strategy, focusing our investment activity to where we believe it can have the greatest impact.
- ◆ Supported the management teams of portfolio companies as they navigated a difficult economic landscape. We provided insight on the latest policy developments and acted as a conduit between management teams and policy-makers. We look forward to adding value to the portfolio through a network event focusing on the opportunities and challenges of scale up at the end of the financial year.
- ◆ Supported three portfolio companies through follow on investments in support of our growth and patient capital approach.
- ◆ Driven a value for money culture and recognised the context of our governmental funding with costs on course to be well under budget and remain on the path to financial self-sustainability.
- ◆ As at 31/12/22, we have attracted £667.1 million in additional, external, funds as part of total investment rounds and began to scope a third party management strategy to further drive impact investment.



Progress in 2022/2023 and Strategic priorities continued

Ecosystem engagement and insights

- ◆ We significantly grew our profile in the ecosystem through increased engagement, networking and sharing our insights. For example, we convened Impact Investing experts and leaders of impactful businesses at our 'Impact Investing Summit', which we ran in partnership with The Times and The Sunday Times.
- ◆ Aligned insights and external communication with our origination strategy leading to stronger stakeholder and media engagement, and supporting the delivery of increased impact. For example we published a detailed insight paper on the opportunities and challenges of decarbonising home heat, a review of impact investing in Scotland and a series of pieces focused on many different aspects of the ScotWind developments.
- ◆ Forged a broad range of partnerships across our ecosystem, supporting the acceleration of additional funding (with investors ranging from Octopus Ventures to The Strathclyde Pension Fund), the development of our insights (for example with The Good Economy), and the delivery of our Equality Strategy (including Black Professionals Scotland and Career Ready).
- ◆ As at 1/2/23 we have published eight insight reports and blogs with the resulting level of positive perception being established via an engagement survey of key stakeholders, reporting in line with year-end.

People and Culture

- ◆ Launched the Bank's core values that will underpin our culture, and started to embed these.
- ◆ Published our Equality Strategy (available on our website) and formed an Equality Steering and Delivery Group who have implemented a plan to deliver our Equality Outcomes. Positive progress has been made working with external partners to provide mentoring and internships and upskilling the Bank Team with diversity training.
- ◆ Listening and acting on feedback from the Bank Team through our 'Team Voice' group and bank-wide people surveys.
- ◆ Establishing an internal well-being group to increase awareness of wellbeing and mental health and providing resources through our People Hub. From our last people survey, 90% of the Bank team agree or strongly agree that the Bank cares about their wellbeing.

Governance and Risk

- ◆ We continued to build a robust risk aware culture, reflecting the changing risks of a growing business.
- ◆ Reflected changing macro economic conditions in approach to supporting investments.
- ◆ As a key step on our journey towards managing third party funds, our subsidiary Scottish Investments Limited applied for the first stage of FCA regulation.

These highlights provide an overview of some key achievements in the Financial Year 2022/2023. We believe that these demonstrate how we are transitioning from being a start-up to an organisation already operating at scale, and providing a clear positive impact - although we still have much to do.



Progress in 2022/2023 and Strategic priorities continued

Priorities for the year ahead

For the year ahead we have updated the strategic themes above to recognise that the Bank's period of 'start-up' is now complete. We must now build on what we have created and seek to maximise our impact. To achieve this, our strategic themes for the year ahead are:

- ◆ Demonstrating and enabling impact
- ◆ Delivering Investment
- ◆ Building insights, partnerships and our reputation
- ◆ Enabling private sector investment
- ◆ Realising the potential of our people
- ◆ Targeting financial self-sustainability

A key strategic priority that cuts across all these themes is the opportunity presented by the ScotWind developments. We will be working alongside others in the public sector, other commercial investors, the developers, supply chain businesses and local communities to ensure that the economic and social benefits that Scotland accrues from these developments are in keeping with the environmental benefits.

For each of these themes we describe what our ambitions are over the medium term – to 2030. These ambitions are unapologetically stretching. We want to push ourselves to accelerate towards the delivery of our missions. We also describe how we intend to deliver against these ambitions and define the outcomes and objectives we expect to see at the end of next year, so that we can demonstrate clear and measurable progress.



Strategic Priorities





1. Demonstrating and enabling impact

Our Ambition

“A portfolio of impactful and transformative mission-focused investments that will have enabled sustained change across Scotland.”

What do we mean by ‘Impact’?

The term ‘Impact Investing’ is still relatively new. At the Bank we align to the definition used by the Global Impact Investing Network (GIIN) as “investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return”.

What we will achieve by 2030

- ◆ While our insights enable the investments we make, our primary outcome is the impact we deliver, which is why our first strategic priority is to demonstrate and enable impact.
- ◆ We will have set ambitious and specific mission-aligned impact targets for each area of our investment origination strategy. We will be regularly demonstrating clear progress towards these targets.
- ◆ We will have supported the growth of impact investing in Scotland. We will have convened other organisations from across the Financial Service and Public sectors to significantly enhance the understanding and adoption of impact investing in Scotland.
- ◆ We will have demonstrated the ability to deliver – through our investments – significant impacts together with commercial financial returns to encourage this wider adoption of impact investing.
- ◆ We will be viewed as a leading practitioner of impact measurement and reporting.
- ◆ We will have worked with our growing portfolio of companies to be progressive on their impacts, supporting their carbon emissions reporting, and their strategies for their people (including Equality and Fair Work) with a catalytic effect into the wider supply chain.

How we will make this happen

We are an Impact investor. We will have the values, skills, experience and ambition to deliver our missions. We will actively seek both impact and commercial returns from our investments. These investments, our insights and our passion will ensure that we help to create a fairer, more sustainable Scotland.

We will exemplify globally respected impact processes and standards. Our investments will enable lasting economic, environmental, and social benefits. Over time, our investment portfolio will enable impact in four distinct ways, all of which will be clearly measurable and publicly disclosed:

- ◆ The delivery of our missions:
 - Just Transition to Net Zero.
 - Equality of Place-based Opportunity.
 - Innovative high growth businesses.
- ◆ Demonstrated the advantages of a diverse and inclusive workforce and alignment to the ‘Fairwork principles’.
- ◆ The value of understanding carbon emissions and climate risk, and creating practical, deliverable carbon reduction strategies.
- ◆ Creating equality of investment opportunity for those who currently have limited access to finance.

Our impact approach is based on both the investments we make and also the insights we develop from investments and the wider Scottish landscape. Every investment and insight will contribute towards our missions. By showcasing our impacts and insights and by continuing to work collaboratively with other investors we will support the growth of Impact Investing across Scotland.



1. Demonstrating and enabling impact continued

We have identified, and started to invest in, sectors in which we believe our capital can create the most significant progress towards achieving our missions. This progress towards our missions will benefit Scotland today as well as helping to create a fairer tomorrow, for example.

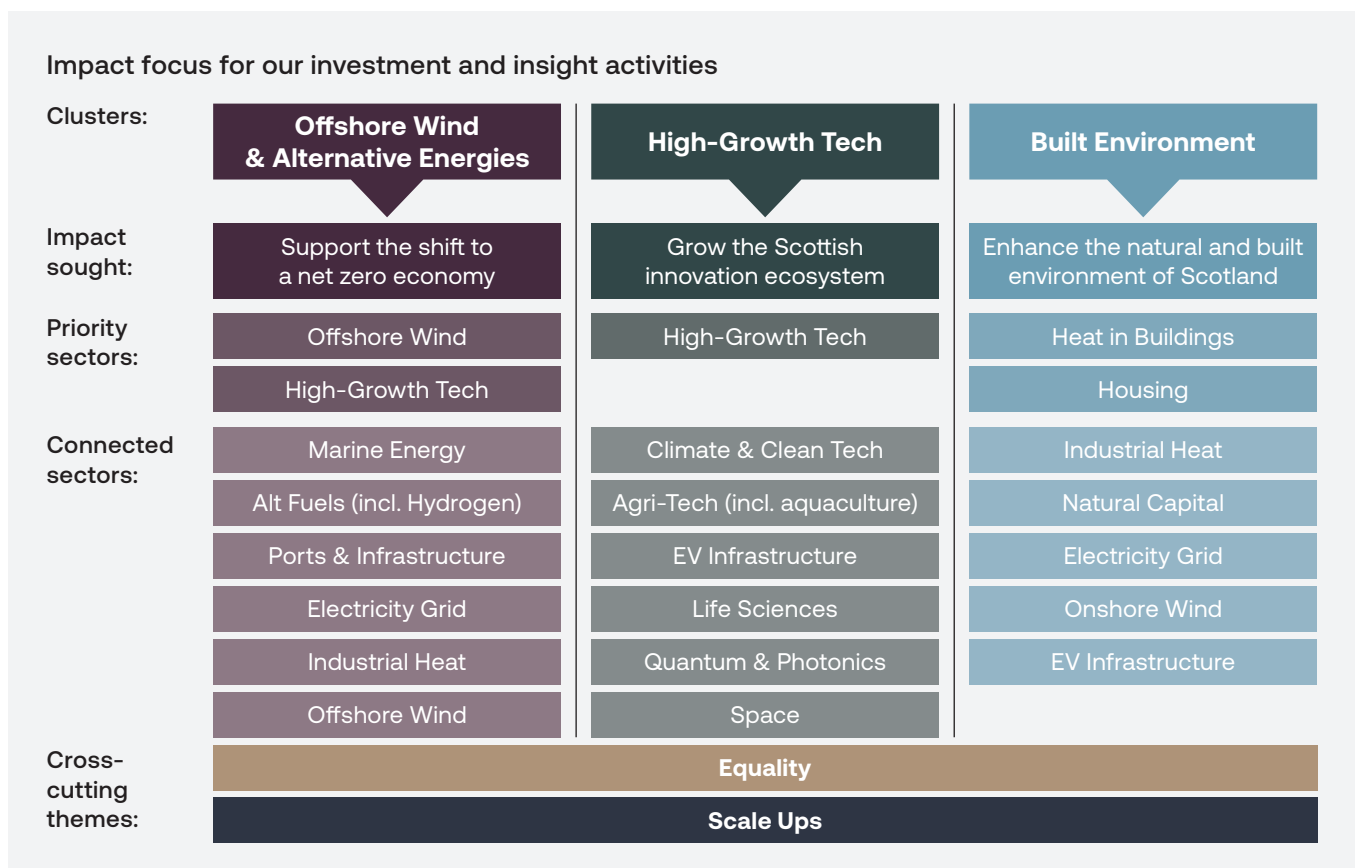
- ◆ **Our Net Zero mission** will support Scotland's Just Transition and the pivoting towards a more sustainable economy.
- ◆ **Our Place mission** will transform communities across Scotland, creating a demonstrable reduction in inequalities. We will be supporting the development of affordable homes, places that provide high quality work and training opportunities, and local services that all combine to provide great communities in which to live.

- ◆ **Our Innovation mission** will increase intellectual capital and productivity, driving Scotland's reputation as an innovator in the global market and creating highly skilled jobs that will address demographic and environmental challenges.

Our investment and insight activities will contribute to additional impacts. These will include helping the businesses we have invested in to:

- ◆ Attract additional investment, both alongside our investments and for future investment rounds.
- ◆ Retain and grow a valued and valuable workforce.
- ◆ Provide benefits and growth in their supply chains.
- ◆ Develop strong and effective Boards and leadership teams.

Where we will focus these impacts is summarised in the table below. The full detail of the KPIs we use to report progress towards the missions is published in our Impact Report.





1. Demonstrating and enabling impact continued

Priorities for 2023 – 2024

- ◆ Developing clear and ambitious impact targets.
- ◆ We will further integrate Key Performance Indicators into our investment strategy and identify a number of impact targets that will drive focus and intent in our investment decisions to support the delivery of our missions.
- ◆ Embedding strong impact governance, and assessment and reporting frameworks.
 - We will make our first public Principles for Impact Management Disclosure Statement.
 - We will publish an updated Ethical Investment Policy.
- ◆ Supporting investee businesses on their impact journey.
 - We will work with investees to integrate and report on impact as part of their business strategies and plans.
 - Our new Portfolio Information Management System will support investees in tracking and analysing their own impact data, helping us and our portfolio companies understand the scale and reach of their impact.
- ◆ Demonstrating leadership in Climate Reporting.
 - We will publish our first TCFD report and work to promote wider uptake of TCFD reporting in Scotland.
 - We will report on the Scope 1 and 2 emissions of investee businesses, in addition to the Bank's operational carbon footprint.
- ◆ Supporting the creation of an Impact Investors network within Scotland.
 - We will leverage our 2022 report 'Unlocking the potential of impact investing in Scotland' to convene and progress the launch of a Scottish Impact Investment Community.
 - We will integrate the insights we develop for equal access to finance into our investment strategy.

Outcomes for 2023-2024

We already have a track record of enabling impact. We will continue to evolve this in the year ahead and our priorities will be:

- ◆ Set ambitious long-term targets, with headline impact KPIs, that are aligned and focused on our missions and our active origination strategy.
- ◆ Implement our plans to support the recommendations from the Taskforce for Climate Related Financial Disclosures (TCFD).
- ◆ Demonstrate best practice in the application of impact through investment, as determined by an external audit - improving on our audit result from last year.
- ◆ Demonstrate progress towards our Equality Outcomes, as published in our Equality Strategy.



1. Demonstrating and enabling impact continued

Case Study

Delivering social impact through the Social and Sustainable Housing Fund

Social and Sustainable Capital state *“Many small and medium sized charities who provide accommodation-based support services struggle to access safe, stable and appropriate housing. This restricts their ability to support disadvantaged individuals and families.”* The restriction affects the most vulnerable in society.

To help address this issue, in November 2022 we invested £15 million to support Social and Sustainable Capital (SASC) to launch their second ‘Social and Sustainable Housing Fund’, in alignment with our ‘Place’ mission. A key part of our role was to help SASC to demonstrate commitment to the fund and hence to attract investment from other sources. Having launched, this fund now allows charities and community interest companies such as Homes for Good, Positive Steps Partnership and Simon Community Scotland, who accessed SASC’s previous housing fund, to buy more properties than they would otherwise be able to. These organisations support some of the most vulnerable people in our society, including asylum seekers, young people leaving care, those with learning disabilities and people fleeing domestic abuse.

Since these charities and companies support highly vulnerable members of society, they need to be able to buy the right properties in the right locations. Our investment into the fund – and the investment from others – provides those with specialist expertise to have the capital they need, in order to deliver life changing support. The homes funded in this way are expected to be raised to high energy efficiency standards, with our investment ensuring that financed properties meet at least the same standards as homes provided by registered social housing providers.

While the fund will invest across the UK, our £15 million investment ensures that at least £20 million of loans will be made to organisations to purchase homes in Scotland. Expected impacts from the fund include:

- ◆ The creation of over 1,500 additional supported bed spaces to help some of the most vulnerable people in society.
- ◆ An increasing number of charities access the fund.
- ◆ All properties are refurbished to strict EPC standards.
- ◆ The Bank’s investment continues to encourage additional capital to be invested.





2. Delivering investment

Our Ambition

“To unlock growth by investing in ambitious businesses and management teams, catalysing and creating new markets and making Scotland an attractive place to invest.”

What we will achieve by 2030

- ◆ Our portfolio of investments is forecast to have a positive, risk-adjusted, financial return.
- ◆ Our portfolio of investments demonstrates the commercial opportunity of emerging business models and new technologies, enabling future investment from the private sector.
- ◆ Our investments will have been targeted into focused sectors with the greatest opportunity for impact.

How we will make this happen

Each of our missions have many challenges within them. For Scotland to achieve net zero by 2045, society will have changed the way it heats its buildings, transports its people and goods, generates its electricity and grows its food. Amongst others.

For our Place mission to have succeeded, and for all people across Scotland to have the same equality of opportunity, there will have been significant changes to our housing stock, greater digital connectivity and fair and equal access to jobs and transport infrastructure.

For our Innovation mission to be met, the opportunities for people to work in businesses and industries of the future that are helping to support a healthy, resilient and happy population will have been radically expanded, and be available to communities across Scotland, driving enhanced demographic productivity.

We cannot make all these changes single-handedly. Our role in these transformational changes is supporting the businesses and technologies that require our investment to deliver at scale.

We will focus on where our investments and insights can make the most powerful impacts whilst making commercial returns. This will often require us to take on the risk associated with investing in new markets and technologies. By taking on this risk we can be a cornerstone investor or by taking on the riskier elements of an investment, we make complex investments possible, accelerating capital from other sources into the businesses and projects that support our missions.

A key area for us will surround opportunities for businesses that are seeking to “scale-up”. Scaleups are those businesses who are consistently demonstrating significant growth in their turnover and/or the number of people they employ. They frequently do this by taking a concept they have already proven to a wider market, either internationally or by creating new opportunities closer to home. These businesses therefore have the opportunity to create sizeable value growth and to provide meaningful volumes of high quality jobs. Culturally, we see scale-ups as ambitious and passionate organisations that are agile in their approach to opportunities. It is for this reason that Scotland’s National Strategy for Economic Transformation identifies the opportunities around scaling businesses, and we intend to have a clear role in supporting that strategy.



2. Delivering investment continued

Our investment will be 'patient', supporting companies for a longer term than is typical in the private sector, being a partner with our investee businesses for the long term. We will consider any investment that aligns to our missions, but the areas that we will focus on are:

◆ **Offshore wind and alternative energies:**

Key infrastructure, technologies, and products and services vital to realising Scotland's offshore wind potential. These are areas where Scotland has the potential to become a global leader and exporter of expertise, with the ScotWind developments demonstrating world-leading ambition. We will also continue to identify new sources of energy and associated supply chains that can achieve scale with investment.

◆ **High growth innovative businesses:** Technologies and innovations that provide solutions to key challenges of the 21st century - including life sciences, communications technology, and climate change. Importantly these are technologies that can address broader impacts globally - positioning Scotland as a global innovator and creating high quality jobs.

◆ **The built and natural environment:** Affordable, energy efficient housing, with supporting digital and physical infrastructure, that addresses inequality and social inclusion. We will also look to invest in businesses and projects that deliver climate adaptation and resilience, and biodiversity benefits for communities across Scotland.

We will grow our investment portfolio by:

- ◆ **Targeting our investments:** As described above, we have identified key areas where our investments can have the most profound effect. These clusters are inter-connected, dynamic and allow us to capture trends and opportunities where Scotland has competitive advantage. As an impact investor we will also continue to consider opportunities outside these target areas.
- ◆ **Investing responsibly and collaboratively:** We are investing for the good of the Scottish people and this starts with how we approach every investment. We will seek fair commercial terms for the investments that we make. We will also ensure that these terms enable other investors and management teams to reap the rewards of their success. We approach every investment as a partnership.
- ◆ **Creating a balanced portfolio:** We will invest across all three of our missions and across all of Scotland, focusing on areas where this investment can have greatest effect. We will invest across debt, equity and in third party funds to achieve a commercial return that reflects the risk we take, and provide impact across the portfolio. It is important that the risk profile and net returns across our portfolio are positive, to demonstrate our appropriate stewardship of public capital.
- ◆ **Enabling private sector investment:** A key role of the Bank is to help accelerate investment from all sources into businesses and projects that will support our missions. We will continue to work collaboratively with others in the market to maximise their opportunity to invest alongside us.



2. Delivering investment continued

Priorities for 2023 – 2024

- ◆ Drive forward and cement the Bank’s role as a key enabler for the ScotWind strategic market opportunity.
- ◆ Execution of our active origination strategy to focus the deployment of our capital with precision into the sectors and opportunities offering the greatest impact.
- ◆ Continue to evolve our tools and processes for enabling investment decision making and the capturing of key insights.
- ◆ Tightly monitor the near-term horizon for changes in the economic climate so that we can ensure our opportunities are calibrated for value against an accurate risk profile, as well as alignment with missions.
- ◆ In line with our active origination strategy, target our market engagement approach, building relationships and partnerships that can help to inform our understanding of opportunities, and with whom we can share our insights.
- ◆ Continue to improve the efficiency of our investment process, including greater use of experts within our network to better inform early decision-making.

Outcomes for 2023- 2024

- ◆ We will commit over £211 million of capital in mission aligned investments in the year.
- ◆ We have added value to the businesses we have invested in, as established by a survey of our investee businesses.

Case Study

Supporting the growth of Life sciences and ‘Med tech’ across Scotland.

Life Sciences, including medical technology (‘Med tech’), has been an area of historic strength across Scotland. It is an industry where people with high quality jobs create new discoveries following on from investment in Research & Development. As part of our Innovation mission we are supporting sectors and businesses that can provide both quality employment opportunities – a key benefit in itself – as well as supporting health, wellbeing and resilience at a population level.

We believe we have a key role to play in this sector. Historically, new businesses in this field have been able to attract grant and seed investment to develop initial concepts, but the growth capital – typically investment of £5 million to £10 million – have not been so readily available within Scotland, and this is a gap we are seeking to close.

We have already made two investments in this sector, £3.5 million in Aberdeen-based and female-founded Biologics company Elasmogen, and £5.2 million in Med tech pioneer PneumoWave. This £8.7 million that we have invested has unlocked additional investment of £6.8 million from other investors.

We intend to make more investments into scaling Life Sciences businesses, leading to the growth of the sector and the acceleration of home-grown expertise. We believe that this ultimately will support Scotland in being seen as a global centre for entrepreneurship across Life sciences and Med tech, which in turn supports a healthier and more resilient population.





3. Building insights, partnerships and our reputation

Our Ambition

“To be a trusted and credible Impact Investor at the forefront of using insights collaboratively to transform markets.”

What we will achieve by 2030

- ◆ We will be known for the collaborative generation and sharing of leading insights. Our analyses will focus on the sectors and technologies aligned to our active origination strategy.
- ◆ We will have built meaningful, mutually beneficial, partnerships across our ecosystem, in both the public and private sectors.
- ◆ Our insights, our investments and our collaborative approach will make us known and respected as the Impact Investor that helped to transform key markets within Scotland.
- ◆ Internally, our insight development will shape how we focus and prioritise our investment activity and will support the analysis of individual investment decisions.
- ◆ Our owners and beneficiaries – the Scottish public – will understand that the Bank is a force for good in transforming Scotland.

How we will make this happen

We have more to offer Scotland than just our investment capital. We are investing into emerging sectors and technologies, within evolving commercial and policy landscapes. The experience we gain from this, our collaborative approach and our curious, active research into our target markets will enable us to publish insight that is of direct value to others who share our interests. Our insights will also inform us of where there are areas, communities and founders who do not yet have equality of opportunity

for investment. This insight will reflect the nuance and practical realities that define the real-world experience of those operating in our target sectors. To deliver this we will:

- ◆ **Build on our investment experience:** We will create evidence-based analysis that supports new and valuable insight – increasing the understanding of stakeholders across the markets in which we operate. We will also inspire other investors by sharing details of the investments we make, including how they will make a positive impact on progress towards our missions.
- ◆ **Work collaboratively with other thought leaders:** We will share and refine our insights with other experts in the market, being open to emerging ideas and concepts.
- ◆ **Seek challenge through collaboration:** To ensure our insights are tested rigorously we will collaborate with think tanks, industry bodies and academia, and by doing so build the reputation of the Bank through trusted networks.
- ◆ **Support the creation of public policy:** Our insights and experience will be routinely sought as an input into areas of policy generation associated with our missions.
- ◆ **Be bold in sharing our insights:** Our insights will sit at the cutting edge of the sectors in which we operate. They will be nuanced, unique and actionable, so we will be bold in sharing them, unafraid to provoke debate.



3. Building insights, partnerships and our reputation continued

In addition to this, we will continue to build mutually beneficial partnerships with other organisations with whom we have a shared interest, these include:

- ◆ **Organisations that can help us to invest:** While we have demonstrated leadership in making investments, our role as a development bank is to encourage investment from other sources. To support this, we have already invested alongside a wide range of investors, including specialist Venture Capital such as Octopus Ventures, traditional providers of business finance such as Santander, and institutional investors such as The Strathclyde Pension Fund. In addition, we have worked alongside The Hunter Foundation to support their ScaleUpScotland 2.0 programme.
- ◆ **Organisations that provide insight, and enable us to share ours:** We are members of the British Venture Capital Association, the UK Sustainable Investment and Finance Association and Scottish Financial Enterprise.
- ◆ **Organisations that facilitate our Equality, Diversity and Inclusion strategy:** So far, we have worked with Black Professionals Scotland, Diversity Scotland, Investing Women's Fund and Career Ready.

Priorities for 2023 – 2024

- ◆ Publish and seek feedback on insights that build on our investment experience and our own research that demonstrate original thinking within our target market sectors.
- ◆ To support the delivery of our investments by using our insight to ensure we are focused on where we can make the most impact, and also to help with decision making for each individual opportunity.
- ◆ Work with teams across the public sector to support the creation of a policy landscape that enables the delivery of our missions.
- ◆ Use the insights we publish and the investments we make to grow awareness and understanding of the role of the Bank across our ecosystem, and to support positive relationships with the media.
- ◆ Continue to build our relationships and partnerships across key networks within the public and private sector to enable the generation of insight, the delivery of investments and that support our Equality Strategy and outcomes.

Outcomes for 2023- 2024

In addition to creating the insight required to enable us to make our impact investments we will:

- ◆ Deliver insights, thought leadership and stakeholder engagement that is valued by our ecosystem, as established through an independent survey.



3. Building insights, partnerships and our reputation continued

Case Study

Decarbonising Home Heat

Scotland is not going to achieve Net Zero without substantially reducing the emissions from heating buildings. This challenge creates a clear example of how we have more to offer Scotland than simply investment capital. In order to meet this multi-headed challenge, there will be key policy considerations. It will also require insights and understanding into new technologies and approaches to creating warm buildings, as well as investment to support this critical transition.

In May 2022 we published our first insight paper, where we explored some of the issues – and substantial opportunities – of this transition to net zero heat for our buildings. We focussed the analysis on how homes might be heated, as well as how to address the need for improved energy efficiency in many houses across Scotland.

We drew on data and evidence from a range of sources and brought our own perspective to bear on a subject that continues to receive increasing attention from both the public and private sectors.

The report highlighted five key themes:

- ◆ **The transition to net zero heat is a challenge:** With 81% of homes relying on mains gas, this source contributes over 20% of Scotland’s carbon emissions. The fact that Scotland has a comparatively high proportion of homes that are flats, creates additional technical challenges and is in part why the Scottish Government estimates it will cost £33 billion to fund the required changes.
- ◆ **This challenge brings a significant opportunity:** Solutions such as Heat Networks will require significant investment which will create new types of jobs and skills. It also highlighted that addressing the energy efficiency problem of the Scottish property stock (85% of Scottish homes have an EPC rating of C or worse) would reduce fuel poverty – a point that has been brought into sharp relief in the period since publication.
- ◆ **We believe that priority should be given to insulating homes with the lowest energy efficiency:** EPC data provides a clear source of evidence for which dwellings are contributing the most by way of emissions and would therefore benefit the most from enhanced insulation.
- ◆ **There are barriers to market creation that need to be addressed to bring in private investment:** Uncertainty around commercial viability and the projected rate of return of projects are inhibiting private sector investment. We proposed options for how this uncertainty might be reduced such as an equivalent scheme following the principles of the ‘Contract for Difference’ offered in the renewable power sector.
- ◆ **That we have an important role to play:** As a mission-led development bank, with strong links across both the public and private sector, we can use our investments, partnerships and insights to have a clear impact on this challenge.

These insights have informed our investment origination strategy and have also provided input for policy development teams.





4. Enabling private sector investment

Our Ambition

“To accelerate private capital alongside investments that support our missions.”

What we will achieve by 2030

- ◆ Subject to having the required regulatory permissions, we will be advising on or managing the capital of others. This capital will be being effectively deployed with demonstrable impact in support of our missions.
- ◆ Working with other investors to encourage their investment alongside us on an opportunity-by-opportunity basis.

How we will make this happen

Our missions represent enormous challenges facing the people of Scotland, but challenges that must be met and will require significant capital to do so. We cannot meet these challenges alone – no one organisation can. As a development bank our role is to help open markets and find ways that we can increase the flow of capital from all sources into businesses and projects that will support the delivery of our missions.

We will increase this flow of capital by:

- ◆ **Encouraging others to invest alongside us:**
As we make our investments, we will seek to find other investors to invest alongside us. By taking on increased levels of risk, our capital can reduce risk for other investors. This can enable them to make investments that otherwise might be outside

their risk appetites. We already have a proven track record in being able to make this happen. In the first two years of our operations, we have committed over £378 million of investments, supporting a further £667 million to be invested alongside us. We will continue to work with investors in Scotland, the rest of the UK and internationally as we make our investments. We recognise that we are entering a period where economic headwinds are likely. Our role in the market will be increasingly important if the risk appetite of private investors reduces. Therefore, our ability to support investments with higher risk profiles will be increasingly critical in working with other investors.

- ◆ **Advising on or managing other investor’s capital:**
Analysis undertaken for us estimates that there are already significant funds aligned to impact investing in Scotland, with that number growing quickly. Impact investing is a distinct discipline and the markets, sectors and clusters aligned to our missions require detailed insights and understanding. So, we anticipate that there will be other investors who want to have funds invested in a similar way to how we invest. As such, we believe we have an important service to offer the market – potentially advising on or managing the capital of others. This will be subject to achieving the required regulatory permissions from the FCA.



4. Enabling private sector investment continued

Case Study ScotWind

The ambition for growth in the offshore wind electricity generation sector in Scotland is extraordinary on a global level. In 2021 the amount of installed generation capacity of offshore wind in Scotland's waters was about 2GW. Excluding the UK, the entire European offshore wind energy capacity was 15.5GW. The current proposed pipeline for developments for offshore wind in Scotland is 42GW. This could provide over 50% of the UK's forecast electricity needs by 2035.



The single largest element of this transformational development is 'ScotWind', which was the first round of Offshore Wind Leasing in Scottish waters for a decade. The ScotWind programme leases areas of the seabed around Scotland for wind farm developments.

In January 2022, the results of the initial licensing round were announced, and saw 17 projects with an estimated 25GW of generation capacity of offshore wind proposed, the majority floating. In October 2022 a further three projects were approved adding an estimated additional 3GW of capacity. Final investment decisions on the projects will be reached towards the middle of this decade with build-out scheduled to last until late 2033.

As part of the licencing process, developers provided commitments for supply chain investment, with these commitments estimating that as much as £29 billion should benefit the Scottish economy.

These benefits will only be realised if the businesses across the supply chain are available to fulfil demand, creating an imminent requirement for financing. In particular in order for these developments to succeed a new technology will have to go from its current nascent state, to operationalised at an industrial level – this is Floating Offshore Wind.

To grasp this time sensitive opportunity, we are working with the ScotWind developers, businesses and organisations in the supply chain, other investors as well as the public sector to maximise Scotland's share of the opportunity. The combination of new technologies, complex supply chains, a wide variety of investment requirements and an evolving policy landscape highlights ScotWind as a stark example of the transformative role an impact focused development bank could have. This will continue to be an area of strategic focus in the year ahead.

We highlight below some of key areas where investment will be required, and initial estimates of what that investment could be. These funds will need to come from a broad range of sources including the developers themselves, institutional capital and beyond. What is clear is that ScotWind represents a significant opportunity for Scotland that could contribute enormously to decarbonisation, and as such will remain a priority for the Bank.

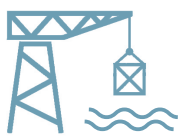


4. Enabling private sector investment continued

Case Study continued

ScotWind will require a broad variety of businesses and industries to receive significant growth investment. For example, some of our initial estimates suggest:

Port & Harbour infrastructure, grid connections and further infrastructure:



£140 million
to more than
£1 billion

Manufacture of key components e.g. Cables, blades, vessels and nacelles:



£800 million
to more than
£1.3 billion

Energy storage and transportation e.g. hydrogen electrolysis, ammonia production, grid enhancements:



£150 million
to more than
£1.2 billion

Engineering, consulting and service businesses with supporting technologies e.g. drone inspection:



£10 million to
£130 million

Skills and training, with supporting infrastructure:



£5 million to
£50 million

These investments have the ability to fundamentally change how Scotland generates electricity and could transform the whole economy more broadly.

- ◆ Over **2,200** new towers
- ◆ Nearly **7,000** new blades
- ◆ Over **1,200** floating foundations
- ◆ More than **23,000 km** of cables

Source: BVG Associates and Scottish National Investment Bank analysis. Note that this represents the maximum currently envisaged pipeline and outturn is likely to be far below this.



4. Enabling private sector investment continued

Priorities for 2023 – 2024

- ◆ As part of cementing the Bank as a key enabler of private capital for the ScotWind strategic market opportunity, we will work closely with other investors and across the public sector to ensure investment is available.
- ◆ To support the above work, we will develop options for how we can most effectively support the growth of the ScotWind supply chain.
- ◆ We will continue to work collaboratively with other investors who share our interest in supporting the growth of the businesses and projects that will have a positive impact towards our missions.
- ◆ To maintain our robust risk aware culture reflecting the changing risks of a growing business and the potential impact of a changing macro-economic environment.

Outcomes for 2023- 2024

In the coming year our priorities for how we will catalyse the market, beyond the market-opening effects of our investment delivery, will be:

- ◆ That we will define and deliver our Third Party Capital strategy in line with plan.
- ◆ That we will encourage and enable others to invest alongside us.



5. Realising the potential of our People

Our Ambition

“We are delivering for Scotland through a passionate, collaborative and curious team who are motivated and ambitious for the impact we can make.”

What we will achieve by 2030


- ◆ We will continue to have a motivated, professional team, viewed as playing a demonstrable role in transforming Scotland through insights, investments and impact.
- ◆ Be known as an employer that is creating investment industry experts and the leaders of the future.

Why is this critical to Bank success?


We will only achieve our missions by having a diverse, highly motivated and skilled team who can deliver on our ambitions.

Our strategy will create unique and varied opportunities for people to learn, grow and succeed. A key driver of our success will be equipping and developing the team in support of our business goals; ensuring we have the skills and behaviours required to deliver.


Our Values



Our missions are at the heart of everything we do



We are passionate and progressive



We work in partnership towards a fairer, sustainable, more innovative Scotland

We are already proud of our Bank team with its supporting culture. This culture reflects what is important to us. This guides both what we do and how we do it.

Our team know that we can achieve our goals more effectively through collaborating across our stakeholder groups, sharing our insights and experience, having curiosity and learning from others.



5. Realising the potential of our People continued

To achieve our ambitions, we will have a team who are:

- ◆ Advocates of the Bank's purpose and passionate about delivering our missions.
- ◆ Continually seeking to learn and improve.
- ◆ Creating a culture with personal development at its core.

How we will make this happen

Our team are strongly motivated by the desire to achieve our missions and live our values. This passionate culture is a precious asset, and we will ensure that it is retained and grown by:

- ◆ **Providing unique opportunities to learn and develop:** The insights we develop and the diverse investments we make create real opportunities for team members to gain breadth of experience and enhance their skills and expertise.
- ◆ **A flexible, outcome-focused environment:** Our people are empowered, and supported to work in a flexible way that achieves the right outcomes.
- ◆ **Living our ambition:** We will continue to inspire and motivate our team and prospective team members with our commitment to transforming Scotland through the delivery of our missions.
- ◆ **Inspirational and inclusive leadership:** We will develop leaders throughout the Bank to exemplify our values, nurture talent, and seek diversity of thought.
- ◆ **Setting high and clear expectations:** Delivery of our missions will require creativity, collaboration and a real conscious effort. Our team know what is expected of them, and are supported to deliver.

Priorities for 2023 – 2024

- ◆ **Personal development:** Our team have had the opportunity to develop their skills and have been supported in achieving their development goals. People managers are equipped to coach, develop and support individuals.
- ◆ **Embedding our values:** We will continue to bring to life our values, and how these apply to everyone across the Bank.
- ◆ **Enhance leadership communication:** We will continue to support our 'Team Voice' to ensure that everyone across the Bank has a clear opportunity to ensure their thoughts, feelings and opinions are heard, and to monitor this through twice-yearly staff surveys.

Outcomes for 2023- 2024

- ◆ We continue to have a strong culture and a motivated team across the Bank, as evidenced by our people surveys.



6. Targeting financial self-sustainability

Our Ambition

“To be a perpetual development Bank for Scotland that is self-funding from a mission-aligned portfolio of impact investments.”

What we will achieve by 2030

- ◆ To be recycling capital within our £2 billion portfolio, supporting the next generation of impact investments.
- ◆ To have a portfolio and third-party management structure that provides commercial returns that supports the continued growth of the Bank and more than cover associated operational costs.
- ◆ To resolve budgetary challenges with a framework that supports the long-term strategic direction of the Bank in being a perpetual fund.

How we will make this happen

We are envisaged to become a permanent, growing, investment fund for Scotland. To achieve this, we need to ensure that the returns we earn from our investment activities more than covers our costs and are re-invested to enable the funds we invest to grow beyond the £2 billion of capital committed by the Scottish Government. As described above, many of the investments we make will be higher risk than those typical within the private market. We will ensure that the returns we agree are fair for this increased risk, and fully acknowledge that as a result we will inevitably incur a higher loss rate with respect to company failures. This will mean that our portfolio has a greater level of volatility in investment gains and losses. To achieve our ambition, we will:

- ◆ **Re-invest £2 billion public capital:** We will recycle repayment of investment capital, gains from investment and any profits from operations back into mission aligned impact investment to create a perpetual investment fund.

- ◆ **Achieve fair returns:** We will invest our own funds directly and over time intend to be trusted to manage the funds of third parties. From this activity we will ensure that the income and returns we earn are fair, more than cover our costs and enable the funds we invest in to grow.
- ◆ **Define our funding model:** We will agree an approach to the structure of our funding that is supported by our shareholder and that eliminates our current annual budgetary challenges and allows reinvestment of capital.
- ◆ **Drive a value for money culture:** We will consider and challenge ourselves around the cost, resource and quality requirements for our operational delivery.

Priorities for 2023 – 2024

In addition to the objectives for delivering direct investment and identifying an approach for managing third party capital articulated above, we will:

- ◆ Target a more even deployment profile across the year aiding income generation and balance sheet management.
- ◆ Invest in an appropriate mix of Debt, Equity and Fund opportunities to ensure a balance of ‘in year’ income and longer-term, exit derived returns.
- ◆ Support the operational development of an appropriate, investible third party capital structure.
- ◆ Work with our shareholder to identify potential solutions to our annual budgeting that support our role as a patient capital investor.



6. Targeting financial self-sustainability continued

Outcomes for 2023- 2024

In addition to the objectives for delivering direct investment and identifying an approach for managing third party capital articulated above, we will:

- ◆ Ensure our income and costs are in line with our agreed budget and we are on track to be financially self-sufficient by the Financial Year 25/26.
- ◆ Our portfolio of investments is forecast to have commercial financial performance that reflects investment risk.

Financial Forecasts

We are a patient capital investor – investing for the long term. So, while we have a growing portfolio and a strong pipeline, our track record is still relatively short, therefore our income projections still have the potential to vary to the forecasts outlined in the table on page 30.

We report the amount of investment we have committed, as this is what our investee businesses use for their growth and delivery plans. We also report the investment capital drawn, demonstrating how the public funds entrusted to us have been deployed. The timing of capital drawdown will vary depending on the requirements of the business or project and may run across financial years. The capital for investment budget for a given year will therefore include amounts drawn for both new investment commitments and to satisfy drawdowns from prior year commitments. Our investment mix ensures that our deployment is often income generative from day one, for example through debt instruments which generate interest and/or arrangement and monitoring fees.

In this business plan period, we will:

- ◆ Ensure we have a balance between deploying capital from investments committed in previous years, with the ability to make new investment commitments.
- ◆ Aim to generate sufficient income to cover our operational costs by FY25/26, and therefore become operationally, financially, self-sufficient.
- ◆ Continue to build our investment portfolio management function to reflect our growing portfolio.
- ◆ Develop our third party capital management capability.

By the end of the business plan FY 2026/2027, we anticipate we will:

- ◆ Have committed £1.45 billion to mission aligned investment and deployed £1.325 billion, not including potential investment through management of third party capital

We are also very aware that Scotland has entered a period of economic headwinds. Our role in the market will be increasingly important if the risk appetite of private investors reduces. Therefore, our ability to support investments with higher risk profiles will be increasingly critical in working with other investors.

The higher risk profile, range, and number of investments that we make will increase the volatility of our portfolio in comparison to the private sector. To reflect this, we have prudently made provisions within our ‘Unrealised Gains and Losses’, and – also prudently – we have not assumed any realised gains.

We continue to monitor the performance of our investments on a regular basis and have a formal quarterly valuation process which provides analysis of the performance of individual portfolio companies. In addition, our Investment Risk team perform a regular assessment of the portfolio considering trading performance and key risks, recommending, where appropriate, a close monitoring status.



6. Targeting financial self-sustainability continued

£ million	FY21/22 Actuals	FY22/23 Project Outturn	FY23/24	FY24/25	FY25/26	FY26/27
Gross Investment Budget	129	156	240	250	250	250
Reinvested capital returns	0	(1)	(2)	(3)	(3)	(7)
Net Investment Budget	129	155	238	247	247	243
Investment income	2	10	13	21	30	37
Operating expenditure						
Employee costs	(6)	(8)	(12)	(13)	(14)	(15)
Non-employee operational costs	(4)	(5)	(7)	(8)	(8)	(9)
Total operating costs	(10)	(13)	(19)	(21)	(22)	(24)
Net Profit (excl. capital movements)¹	(8)	(3)	(6)	0	8	13
Capital Budget²	0	0	4	0	0	0
Unrealised Losses	(3)	(10)	(30)	0	0	0
Net Assets (£ million)³	165	314	548	797	1,031	1,257

Note: subject to confirmation of government budgeting guidance, if further budget becomes available, or for any other reason the Bank is allocated additional budget in year as agreed with the Board and Shareholder these metrics will be adjusted accordingly in line with original assumptions.

1. Assumed within Net Profit is a positive net contribution from a proposed third party vehicle of £2.5 million in FY25/26 and FY26/27 within the business plan period. We anticipate the vehicle to launch in FY24/25 but have taken the prudent assumption that any fees received are offset by set-up costs.

2. Still to be allocated by Scottish Government.

3. Excluding capital managed in a third party capital structure.

We now have a more mature pipeline of investment opportunities and, coupled with a pattern of deploying capital from investments committed in prior years, we anticipate the ability to invest circa £250 million per year for the business plan period. While our budgetary challenges are unresolved, we have also assumed that we will recycle anticipated returns ‘in year’ throughout the business plan period which reduces the Investment funding requirement from the shareholder.

As our investment portfolio grows, our income also increases which steadily reduces the requirement for the shareholder to support our operational costs. We have reflected the impact of a high inflationary environment on our cost base and additional costs anticipated in launching and managing third party capital. Our employee costs are also forecast to increase in FY 23/24 with the main contributors being annualisation (the effect of a number of hires in FY22/23 being in place for a full year), pay progression and new hires to support an expanding portfolio and strategic projects. Our anticipated operational funding requirement from our shareholder is £6 million in FY23/24.

We anticipate achieving financial self-sustainability within the business plan period.



Concluding comments

As you will have seen, this Business Plan demonstrates that we have clear and high ambitions for the future of the Bank, and that these ambitions build on the strong foundations we have laid in the brief period since our launch.

As we referenced in the introduction, the creation of the Bank has led – between the funds we have committed to invest, and the additional capital that this has mobilised – to over £1 billion supporting the Scottish economy by growing businesses and delivering projects that will play a part in transforming Scotland.

As well as setting out our overall ambition – “Transforming Scotland through our insights, investment and impacts” – we have articulated specific ambitions that relate to our areas of strategic focus.

By **Demonstrating and enabling impact** we can provide an example to both other investors and those seeking investment of the value that this discipline can bring and be able to provide evidence of the clear progress we are making towards the delivery of our missions.

Through **Delivering investment** with a targeted and deliberate focus, we can start to make transformational change happen across Scotland, with this change developing new technologies and markets for private investment and resulting in a growing suite of world-leading, scalable, innovative companies.

Building insights, partnerships and our reputation will ensure that we offer more to Scotland than just our investment capital. It will see us working collaboratively across the public and private sectors to bring together organisations with a shared interest in delivery of our missions.

We will **Enable investment from the private sector**, alongside our own funds. While this will be something we will pursue for all our investments, nowhere will this be more important than the opportunities around ScotWind. This will be an area of specific focus for the year ahead.

None of the above will happen without our team. **Realising the potential of our People** across the Bank is vital for us to achieve the opportunities before us. We are extremely fortunate with the team we have, and know it is a key responsibility for us to offer them the opportunities to grow, learn and have fulfilling careers with us.

Finally, as we continue to grow, we will become fully **Financially self-sustaining**, removing the requirement for the Scottish taxpayer to fund our operations, and to create a sustainable, perpetual fund for Scotland.

We see the year ahead as an extremely exciting time and are looking forward to continuing to help Scotland transform to be a fairer, more sustainable, more ambitious society.



The Scottish National Investment Bank

Scottish National
Investment Bank plc
Waverley Gate,
2-4 Waterloo Place,
Edinburgh,
United Kingdom
EH1 3EG

www.thebank.scot
enquiries@thebank.scot

Scottish National Investment Bank plc is wholly owned by Scottish Ministers
Registered in Scotland with Company number SC677431