



# Impact Report 2023



The  
Scottish  
National  
Investment  
Bank



## Report Overview:

This report provides an overview of how and why we invest, the 2022 impact performance of our portfolio and our impact priorities for 2023 and beyond.

- ◆ **Section One** identifies our investment motivations and near-term impact priorities.
- ◆ **Section Two** provides an overview of how our portfolio has performed against our missions during 2022<sup>1</sup> and illustrative case studies of our investments.
- ◆ **Section Three** sets out our responsible investing framework.
- ◆ **Section Four** outlines our Impact Investment Governance, including our approach to mission risk and climate reporting.
- ◆ **Section Five** provides a concluding summary.
- ◆ **Annex One** contains an overview of our impact assessment and reporting frameworks.
- ◆ **Annex Two** provides an overview of our Responsible Investor KPIs.



## Foreword



We are delighted to present the Bank's first full year of impact reporting. In this report, covering the 2022 calendar year, we summarise what we can already see across our portfolio and provide forecasts of the longer term impacts we envisage.

Enabling impact takes time and we are at the start of our impact journey, but I am very pleased that we can already see significant progress in important areas.

- ◆ By the end of 2022, we had committed over £378 million of investment and mobilised a further £667 million, ensuring that within the first two years of the Bank's existence we have enabled over a billion pounds of investment commitment to the Scottish economy.

- ◆ We have made significant progress in understanding and managing climate related impacts across our portfolio, including a commitment to adopt the Task Force on Climate related Financial Disclosure (TCFD) as our climate risk and reporting framework. We have already made investments which are forecast to generate over 3,332 GWh of renewable energy on a rolling five-year period, equivalent to powering one third of all Scottish households. Our investments are also forecast to avoid, reduce or remove over 18 million tCO<sub>2</sub>e over the lifetime of our existing portfolio (the equivalent of over 470,000 full capacity, return flights from Glasgow to London).
- ◆ Our investments have directly impacted businesses and communities in 20 Scottish Local Authorities, and 100% of the businesses and projects we have directly invested in have committed to adopting Fair Work First Principles that ensure high-quality employment for Scottish workforces.
- ◆ We are actively investing in companies that seek to grow the Scottish innovation ecosystem through the development of new products, processes and technologies, and since launch our investment has supported 43 patents.

We hosted an inaugural Impact Investing Summit in Glasgow in November which provided a platform for over 100 impact investors, private sector business and wider stakeholders to discuss ways of enabling greater, faster and more impactful investment across Scotland. Looking forward, this summit will become a regular event to showcase our impact and insights, and also to create a broader opportunity for impact investors to collaborate and share experiences.



## Foreword continued

2022 was a very challenging year on many fronts, with geopolitical tensions, pressure on global supply chains and a cost-of-living crisis for many. In that context, proving that impact investing enables commercial returns along with social and environmental dividends is increasingly important and urgent, and the commitment that our investees have put into supporting and driving impact is both commendable and reassuring. Ultimately, our portfolio companies, with our investment and support, are the change agents that deliver the impacts we want to see.

As a development bank, we are judged on the impact we have made, and the change in society we have enabled. I am confident that the investments we have made will demonstrate the role impact investors can play – encouraging others to follow suit so that we can be part of a truly transformative change agenda for Scotland.

A key element of this change will be the energy transition. Scotland has enormous opportunity to demonstrate leadership in the renewables sector and we are actively working to accelerate and scale this opportunity through investment in the infrastructure, services and technologies, and supply chain that will help deliver Scotland's net zero future. By deploying transition finance and taking market risk in a considered manner, we will support a just transition for businesses that need to transition to a new economic model. Next year's impact report will provide further evidence of our commitments in this space.

The impact that we have enabled and that is forecasted to be achieved through our investments is both exciting and progressive and mirrors the ambition of our team.

**Sarah Roughead**  
**Interim Chief Executive Officer**



## Executive Summary

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

### 2022 - A Year in Review

As a development bank, our performance is demonstrated by the impact we have made and the change in society we have driven. We have now been in operation for a little over two years and had by the end of 2022 committed £378.2 million of investment across 24 businesses and projects, which has supported additional investment from other sources of £667.1 million. Over one billion pounds has therefore been committed to the Scottish economy as a result of our engagement with the market. For our earliest investments, 2022 is the first full year of impact reporting and the impact performance set out in this report illustrates the progress we have made in achieving our objectives, and how a focus on impact can also generate financial and commercial benefits.

As part of our portfolio management activity, we work closely with our investee businesses to provide them with support in a range of areas such as Greenhouse Gas reporting, corporate governance and approaches to Equality, Diversity and Inclusion and creating ‘Fair Work’ workplaces. The benefits of this engagement and our focus on supporting high quality fair work can be seen in our performance data – 100% of the businesses and projects we have directly invested in have committed to adopting Fair Work First Principles, and from the next financial year all investments will involve a commitment to develop a Carbon Management or Net Zero plan, thereby ensuring that all our capital supports Scotland’s transition to net zero.

Beyond investment we develop insights into key markets and technologies to provide thought leadership to encourage the growth of impact investing within the wider investment community.

In November 2022 we held our inaugural Impact Investing Summit, which brought together over 130 stakeholders, including leaders of businesses, who have received impact focused investment, and investors who are developing and shaping how impact can be enabled via investment. The event showcased the enormous benefits of creating a community of impact investors and we will look to maintain the momentum in 2023 through a series of round table events and a second summit.

### Our Vision

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

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

- ◆ To invest in projects or businesses requiring between £1 million and £50 million to support their growth, where investment may take the form of debt, fund or equity investment.
- ◆ To be a patient investor, providing long-term capital to businesses and projects connected with Scotland.
- ◆ To generate commercial returns on our investments to support the Bank becoming financially self-sustaining.
- ◆ To create a perpetual investment fund for the people of Scotland through profits and re-investment of repaid capital.
- ◆ To attract private sector funds to co-invest alongside our public sector capital.



## Executive Summary continued

### Mission Led Impact Investing

We are a mission led impact investor. Our missions have been set by our Shareholder, Scottish Ministers, to address three grand challenges facing Scotland – the climate emergency, place-based opportunity, and demographic change.

Our missions are outcome orientated and serve as the primary filter through which our investment decisions are made. We invest in businesses, projects and private sector funds to facilitate positive economic, societal, and environmental impact for the people of Scotland, supporting the growth of a more globally competitive and inclusive Scottish economy.

Our organisation has much to contribute but we acknowledge that the complex nature of the grand challenges means that our investments alone will not be enough to deliver solutions; they require a

mix of public policy, private and third sector initiatives, delivered by a range of stakeholders drawing on both public and private finance to achieve the necessary scale and impact.

In this context, our investments are designed to enable conditions for change, providing capital and investment support so that our investees can deliver for Scotland. Where possible our investment will be direct, but we recognise the benefits of investing in private sector funds to increase the scale and reach of impact, especially where these funds deliver technical or specialist expertise.

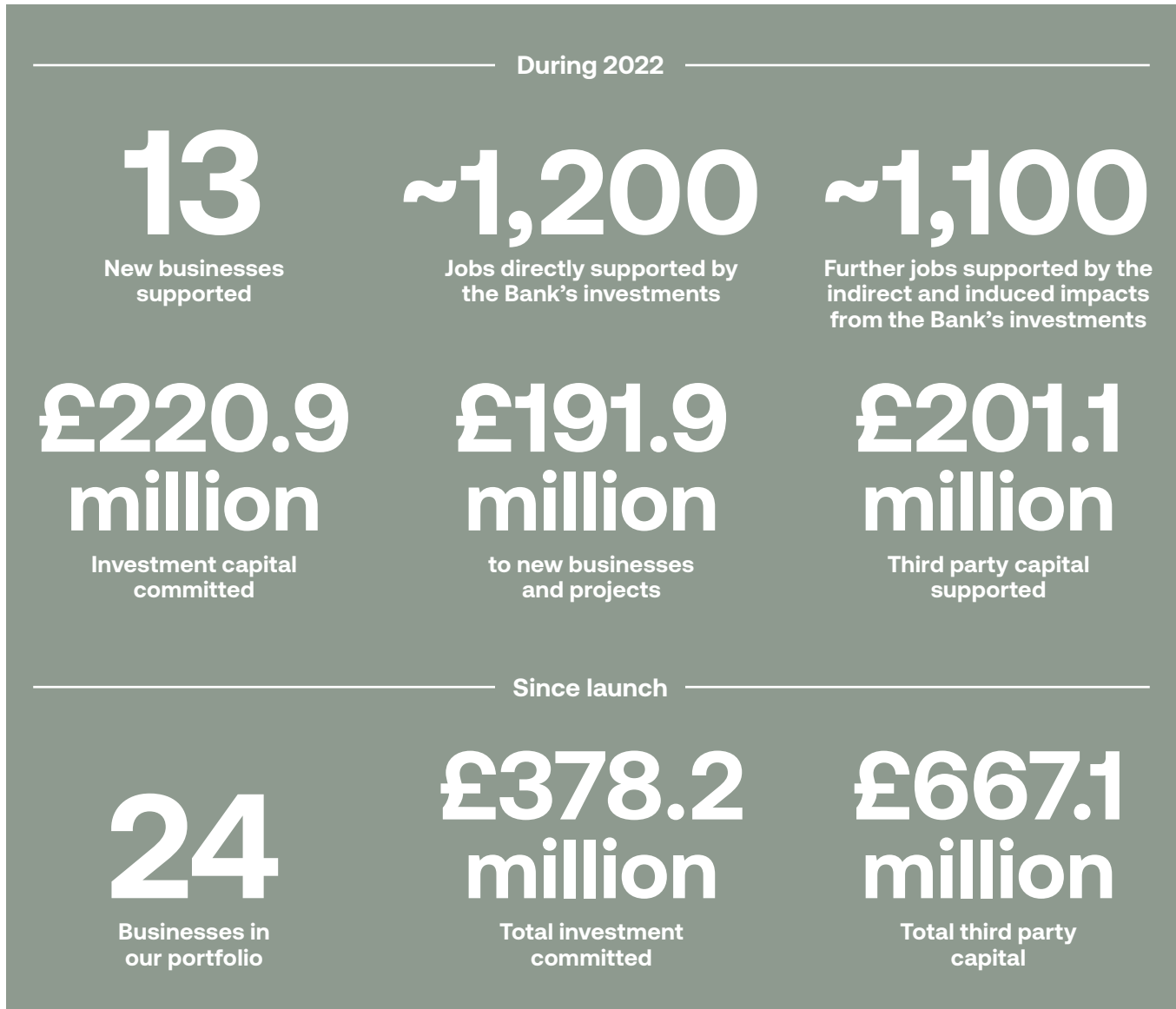
We also work with others in the public and private sector to support the growth of Impact Investing in Scotland and beyond to generate systemic change in the investment ecosystem and harness more investment into projects and businesses that can deliver real world positive impacts.





## Executive Summary continued

### Impact Performance Highlights



#### During 2022 we:

- ◆ Supported **13** new businesses bringing our total portfolio to **24**.
- ◆ Committed **£220.9 million** investment capital, including **£191.9 million** to new businesses and projects, bringing our total investment committed since launch to **£378.2 million**.
- ◆ Supported **£201.1 million** third-party capital, bringing the total amount of third-party capital associated with our investments since launch to **£667.1 million**.
- ◆ Directly supported around **1,200** jobs with our investments. The indirect and induced impacts from the Bank's investment supports a further **1,100** jobs across the Scottish economy.



## Executive Summary continued

Portfolio impact performance from November 2020 until 31 December 2022:

### Net Zero

**£227.2m**

50% of our total investment portfolio contributed to the shift to a net zero economy.\*

**1.8GWh**

Our investment portfolio had generated approximately 1.8 GWh of renewable energy, powering the equivalent of 472 homes in a year.

**9,071.4  
tCO<sub>2</sub>e**

Our investment portfolio has avoided, reduced or removed approximately 9,071.4 tCO<sub>2</sub>e, the equivalent of 229 full capacity, return flights from Glasgow to London.

### Place-Based Opportunity

**£281.1m**

50% of our total investment portfolio contributed towards improving place-based opportunity.\*

**100%**

100% of the businesses and projects directly invested in had committed to adopting Fair Work First Principles.

**20**

20 Scottish local authority areas had benefitted from our investment (see Figure 1).

**£16m**

Over £16 million supply chain spend was reported by our portfolio companies as having been spent in Scotland, which equates to an average of ~58.5% of all supply chain spend reported.

### Innovation

**£97.9m**

50% of our total investment portfolio contributed towards developing the Scottish innovation ecosystem.\*

**43**

43 patents had been reported as being supported by our investment since launch.

**100%**

100% of our investment portfolio who contributed to developing the Scottish innovation ecosystem introduced new product, process or technological innovation to their business in 2022.

\*Percentage contribution is calculated on the basis of whether an investment explicitly supports the delivery of one or more mission objectives. Investments may contribute towards the delivery of more than one mission. From the 2023/24 FY all portfolio companies will be expected to develop a Carbon Management or Net Zero Plan. All investments within our portfolio will therefore support Scotland's transition to net zero irrespective of their specific mission focus.





## Executive Summary continued

**Figure 1: Overview of Scottish local authority areas that have benefitted from our investment.**

- |                          |                       |
|--------------------------|-----------------------|
| 1. Aberdeen City         | 11. Midlothian        |
| 2. Aberdeenshire         | 12. Moray             |
| 3. Argyll and Bute       | 13. North Lanarkshire |
| 4. City of Edinburgh     | 14. Orkney            |
| 5. Dumfries and Galloway | 15. Perth and Kinross |
| 6. East Ayrshire         | 16. Renfrewshire      |
| 7. East Lothian          | 17. Scottish Borders  |
| 8. Fife                  | 18. South Ayrshire    |
| 9. Glasgow City          | 19. South Lanarkshire |
| 10. Highland             | 20. Stirling          |





## Introduction

The Bank was established to provide targeted impact investment activity and insights into key markets and technologies to support Scotland’s economy in adapting to 21st-century needs and changing demographic trends. Our public private hybrid approach places us in a unique position within the Scottish investment community to act as a conduit between business and policy, and deliver investment impact on key government policy objectives at a scale previously unseen in Scotland.

Our Shareholder, Scottish Ministers, set us three missions that were designed to address the most significant grand challenges facing Scotland over the coming decades – the **climate emergency**, **place-based opportunity**, and **demographic change**.

Our mission led approach builds on the growing global interest in ‘Impact Investing’ to deliver positive change across environment and society. We invest with conscious intent in businesses, projects and funds that will generate a commercial return and demonstrate a measurable benefit for the people of Scotland. Since our launch over one billion pounds has been committed to the Scottish economy as a result of our engagement with the market to date. This investment is directly facilitating long-term positive change in Scotland and beyond, future proofing our economy and addressing demographic changes through the expansion of our innovation ecosystem, development of our renewables sector, provision of new affordable homes and contribution to delivery of global sustainability goals.

In addition to our investment origination activity, we work with the wider investment ecosystem to promote the benefits of impact investing with three objectives: (i) maximising our ability to deliver our mission impacts; (ii) leveraging additional capital to increase potential scale and reach of investment related impacts; and (iii) supporting the development of impact investing in Scotland and the UK; enabling us and others to demonstrate the value such an investment approach can add beyond the standard measures of financial return.

The cover of the report features a scenic landscape with a river and trees. The title is 'Unlocking the potential of impact investing in Scotland' with the subtitle 'A landscape review'. It is published by 'The Scottish National Investment Bank' in partnership with 'THE GOOD ECONOMY'.

### Impact Investing and ESG

Impact investing is a broad term that encompasses a range of themes, asset classes and investment return expectations.

Our recent publication in partnership with The Good Economy – *Unlocking the Potential of Impact Investing in Scotland* – sets out a range of capital that illustrates how impact investment goes beyond the risk management approach of more traditional “Environmental Social and Governance – ESG” investing to actively address societal challenges.

Our investment profile, investment strategy and approach to ESG risk management sit firmly in the impact space, deploying public capital to crowd in private investment; contributing to solutions, which are delivered through our investees.

This report sets out why and how we invest and provides an overview of our 2022 impact performance. It identifies the steps we will take in 2023 and in subsequent years to maximise our impact as an investor, and to support both the delivery of our missions and to evidence our progress towards meeting them.



# 1. Mission Led Impact Investing

## 2022 Impact Priorities

Recognising the Bank's recently established status, our priorities within the 2022/23 Business Plan<sup>2</sup> focussed on *“developing a world class investment impact assessment and reporting framework to evidence the delivery of the Bank's missions.”*

An overview of the Impact Framework developed during this period is provided in Annex 1 and a summary of our 2022 impact deliverables is shown below:

### **2022 Business Plan Deliverables: Missions and Impacts**

During 2022:

- ◆ We adopted the Operating Principles for Impact Management within our investments and embedded an impact assessment and reporting framework based on international impact management practices.
- ◆ We established a suite of Key Performance Indicators to ensure we capture the right impact data at an individual investment and portfolio level, enabling us to demonstrate mission delivery and track impact performance against expectations.
- ◆ We initiated the design of a new portfolio information management system.
- ◆ We held a successful Impact Investing Summit (November) to convene impact investors in Scotland and worked with The Good Economy to publish an important “landscape review of impact investing in Scotland”.
- ◆ We committed to report climate related performance under the Taskforce for Climate-related Financial Disclosures (TCFD) framework.
- ◆ We continued to support our portfolio companies to be progressive in their approaches to diversity, equity and inclusion, and in the adoption of Fair Work principles.
- ◆ We grew our Impact Assessment and Reporting Team to increase organisational capacity, knowledge, and experience.

## Impact Priorities for 2023 and Beyond

In 2023 we will consolidate this work through:

### **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 Operating 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 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<sup>3</sup> 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.



# 1. Mission Led Impact Investing continued

By 2030 we will:

- ◆ Have defined and be working towards impact targets for each priority area of our investment strategy. Progress will be demonstrated towards these targets through our annual Impact Report.
- ◆ Support the growth of impact investing in Scotland, being a leading voice in the market for impact investment and convener of impact investment into Scotland.
- ◆ Demonstrate the ability to enable significant impacts together with commercial financial returns to encourage wider adoption of impact investment.
- ◆ Work with other impact investors, including other development banks, to develop the field of impact measurement and reporting.
- ◆ Support our portfolio companies to be progressive in managing and reporting their impacts, their carbon emissions, and strategies for their people (including Equality and Fair Work) with a catalytic effect into the wider supply chain.
- ◆ Have developed proven investment theses in new markets and technologies for private investment, supporting a more diverse and sustainable Scottish economy.

## How we will make this happen

As an impact investor our missions and the wider environmental and societal benefits our investments can deliver are central to our decision-making, and we will remain focussed on seeking both an impact and commercial return from our investments.

Over time, our investment portfolio will enable impact in four distinct ways:

### 1. Delivery of our missions:

**Net Zero** – We will have supported Scotland’s journey to net zero, contributing to a Just Transition and a more sustainable economy.

**Place-Based Opportunity** – We will have provided communities with investment that delivers an increase in equality of opportunity, supporting the development of affordable homes, places that provide high quality work and training opportunities, and local services that combine to provide great places to live.

**Innovation** – We will have helped to scale innovative, high growth businesses across Scotland increasing intellectual capital and productivity and driving Scotland’s reputation as an innovator in the global market, creating highly skilled jobs that will address demographic and environmental challenges.

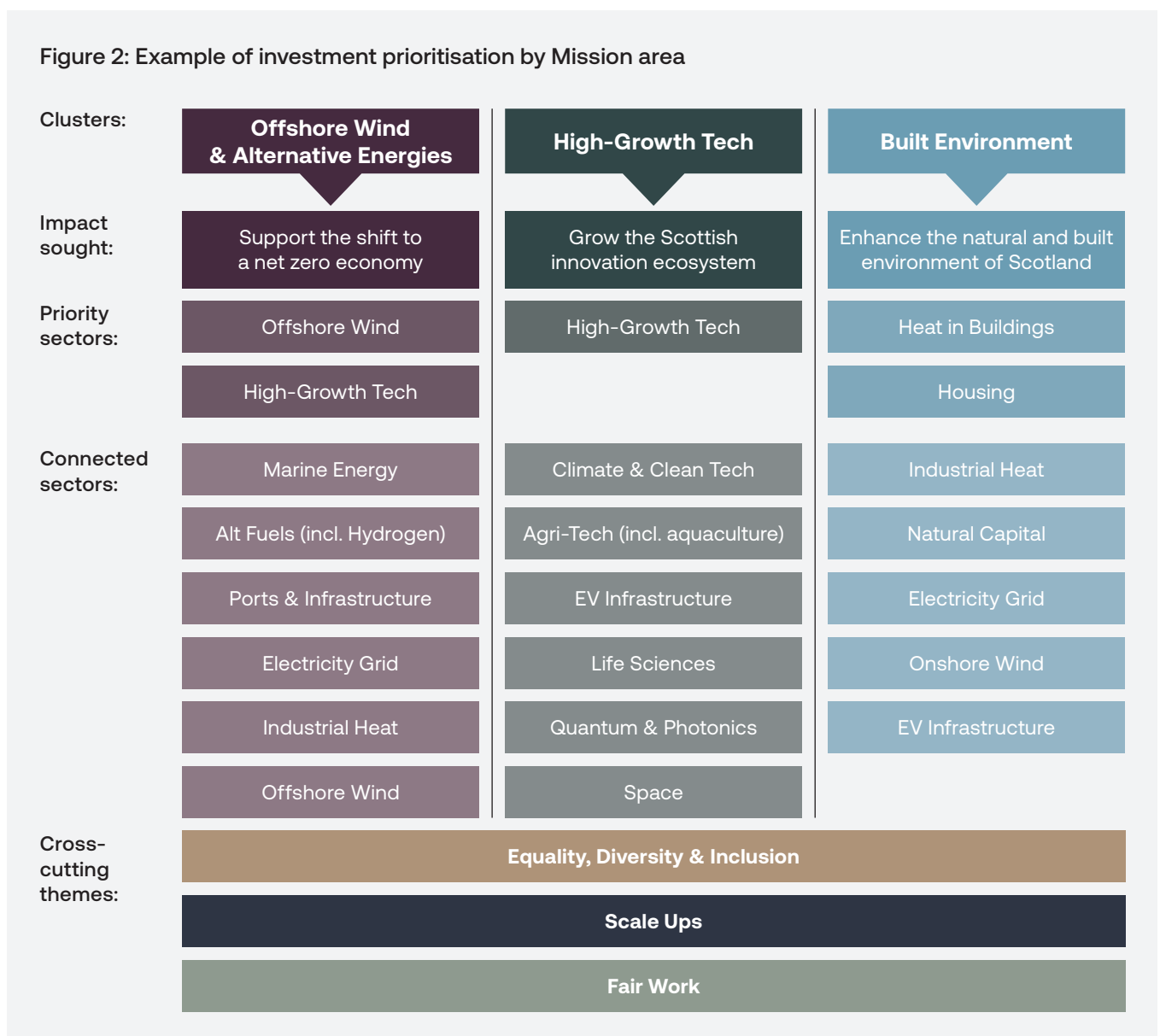
2. The promotion of a diverse and inclusive workforce through high-quality employment aligned to the “Fair Work First Principles”.
3. Increasing business understanding around carbon emissions and climate risk.
4. Creating equality of investment opportunity for people who are marginalised, minoritised, or under-represented.



# 1. Mission Led Impact Investing continued

By showcasing our impacts and insights and by continuing to work collaboratively with other investors we aim to support the growth of Impact Investing across Scotland and the UK, encouraging others to contribute to the delivery of our missions and address the wider grand challenges.

As we build our knowledge of the Scottish investment landscape we have sought to identify and invest in sectors in which we believe our capital can create the most significant progress towards achieving our missions. An example of how we look to prioritise is shown in Figure 2. This prioritisation will be regularly reviewed and where appropriate refined over time to ensure our investment adds greatest value:



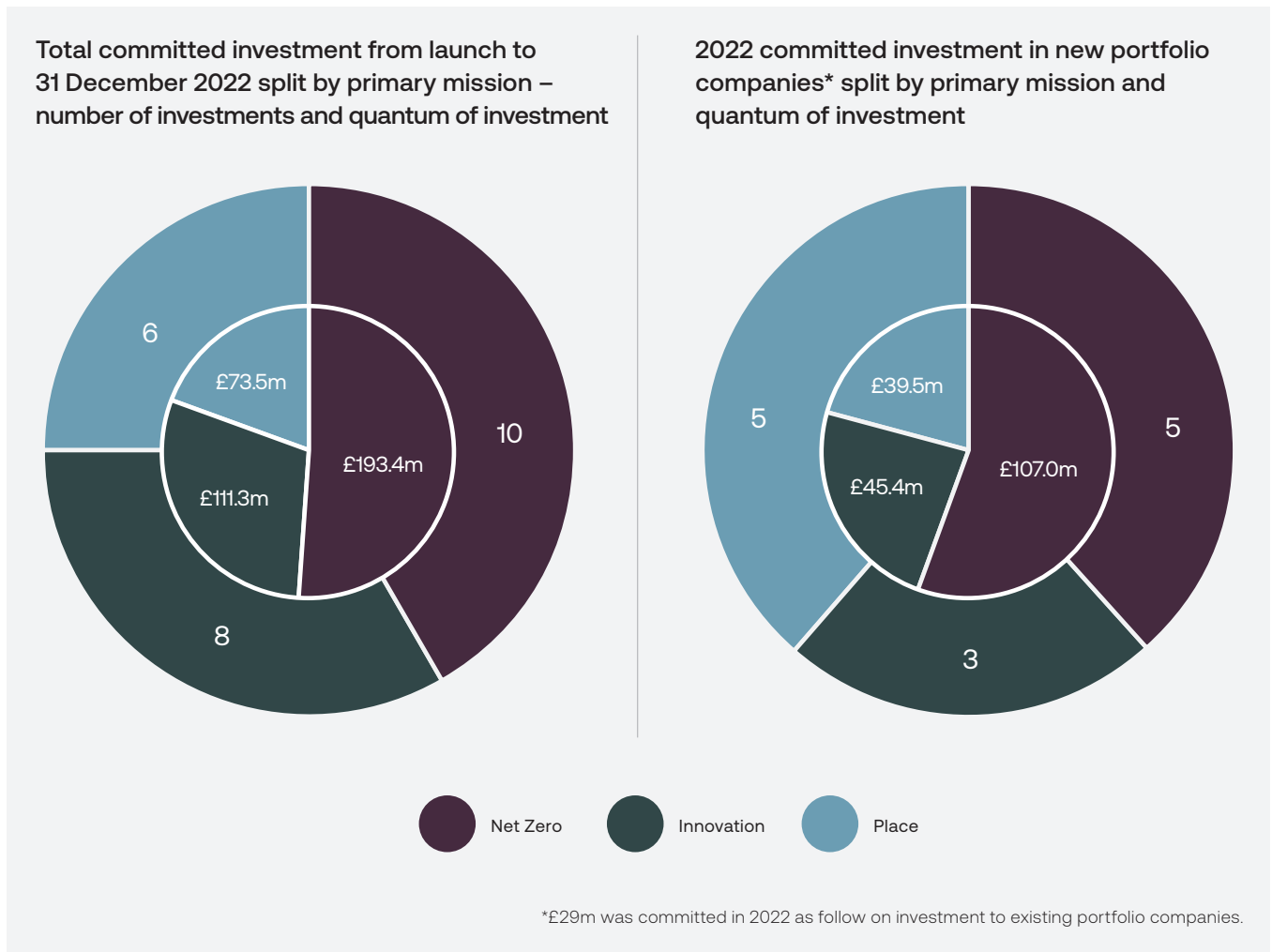


## 2. 2022 Impact Performance

### Impact Summary

An overview of the Bank’s investment portfolio and each investment’s expected mission impact(s) can be found on our website<sup>4</sup>.

### Mission Delivery Overview



### UN Sustainable Development Goals

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

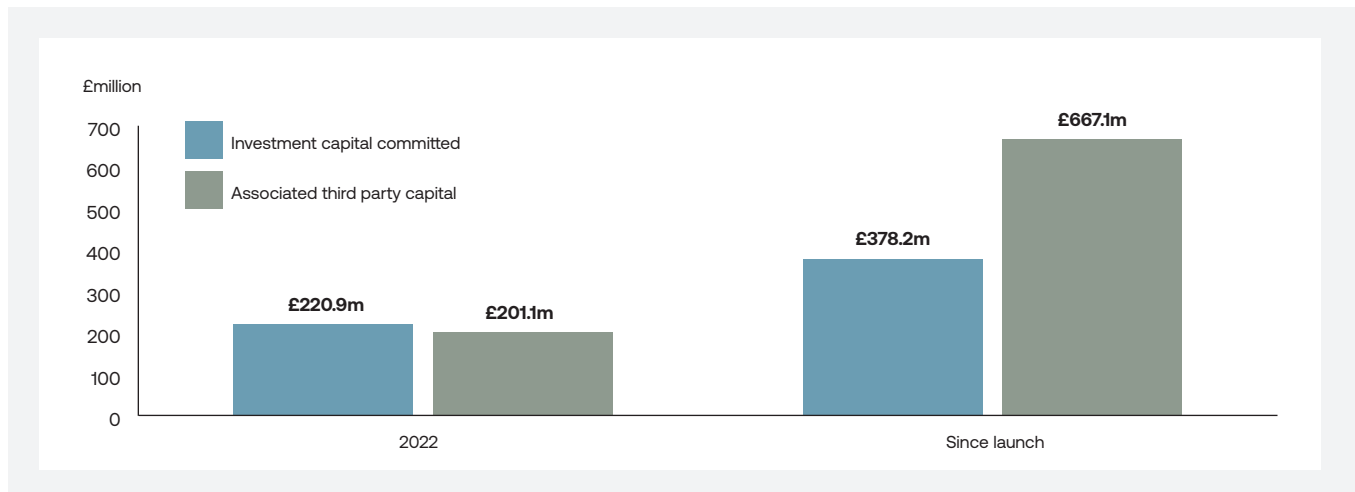




## 2. 2022 Impact Performance continued

### Portfolio Investment Overview

Over one billion pounds has been committed to the Scottish economy as a result of our engagement with the market to date:



### Employment and Fair Work

- ◆ In 2022, the Bank's investments directly supported around **1,200** jobs. The indirect and induced impacts from the Bank's investment supports a further **1,100** jobs across the Scottish economy.<sup>5</sup>
- ◆ We influence and challenge management teams to ensure that there is a mix of both males and females on the shortlist for Board membership. Women represent on average **13%** of Board members across our portfolio. We will continue to encourage and influence for gender balanced boards.
- ◆ **94.1%** of companies which committed to undertake an annual gender pay gap analysis have reported for 2022:
  - **One** portfolio company reported a negative gender pay gap (i.e., women earning more than men on average).
  - The average pay gap across all companies reporting a positive figure was **18.2%** (the average across Scotland<sup>6</sup> is 12.2%). This is an area that we will continue to review and discuss with our portfolio companies.
- ◆ **100%** of the businesses and projects directly invested in:
  - Committed to supporting Fair Work First Principles.
  - Offer flexible working practices.
  - Pay at least the Real Living Wage to all permanent direct employees.
  - Have no inappropriate<sup>7</sup> zero-hour contracts.
  - Offer training opportunities to all employees.
  - Committed to undertake an annual gender pay gap analysis.



## 2. 2022 Impact Performance continued

### Net Zero

#### Investment Impact:

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



#### Actual Data

- ◆ In 2022 our investment portfolio generated **1.7 GWh** of renewable energy. The equivalent of powering **450** homes.
- ◆ In 2021 our investment powered the equivalent of **22** homes.

- ◆ In 2022 our investment portfolio avoided, reduced or removed **8,008 tCO<sub>2</sub>e** of carbon.
- ◆ The equivalent of **202** full capacity, return flights from Glasgow to London<sup>10</sup>.

#### Forecast Data

- ◆ Over a rolling five-year period our investment portfolio is forecast to generate **3,332 GWh** of renewable energy. The equivalent of powering over **850,000** homes<sup>9</sup>.
- ◆ This equates to one third of all Scottish households<sup>9</sup>.

- ◆ Over the lifetime of our portfolio, we estimate our investments will avoid, reduce or remove **18,879,922 tCO<sub>2</sub>e**.
- ◆ The equivalent of **478,505** full capacity, return flights from Glasgow to London.





## 2. 2022 Impact Performance continued

### Mission Objective 1: Catalysing investment in businesses and projects connected to Scotland to move towards a net zero economy.

- ◆ Percentage of our investment portfolio where the primary mission identified is Net Zero:
  - 38%** of new investments in 2022
  - 42%** of total investments since launch
- ◆ **50%** of our total investment portfolio contributes to the shift to a net zero economy.
- ◆ Amount invested by the Bank supporting businesses and projects contributing to the shift to a net zero economy:
  - £146.8 million** in 2022
  - £227.2 million** since launch
- ◆ Third party capital associated with Bank investment supporting businesses and projects contributing to the shift to a net zero economy:
  - £134.6 million** in 2022
  - £478.7 million** since launch

### Mission Objective 2: Investing to increase Scottish based expertise in technology, services and industries that support decarbonisation, mitigation, and climate change amelioration activity.

- ◆ **37.5%** of our investment portfolio contributes to accelerating decarbonisation.
- ◆ **50%** of our investment portfolio contributes to ameliorating the effects of climate change.
- ◆ By the end of 2022, **170** Electric Vehicle (EV) charging points had been installed in total spanning **seven** Scottish Local Authority Areas.
  - **160** EV charging points were installed in 2022.
  - Over the lifetime of the portfolio our investment is forecast to provide over **29,000** new charging points.

### Mission Objective 3: Growing the circular economy within Scotland by 2045.

- ◆ In 2022 we committed **£9 million** to support businesses and projects that contribute to the shift to the circular economy.

### Mission Objective 4: Supporting Scotland's transition to Net Zero

- ◆ In 2022 our portfolio reported a total of **1,572.3 tCO<sub>2</sub>e** of Scope 1 and Scope 2 emissions. Broken down at a primary mission level, emissions were as follows:
  - **Net Zero: 992.46 tCO<sub>2</sub>e**
  - **Innovation: 94.08 tCO<sub>2</sub>e**
  - **Place: 485.77 tCO<sub>2</sub>e**



## Case Study: Aberdeen South Harbour

Catalysing investment in businesses and projects connected to Scotland that support the shift to a net zero economy and providing employment and training opportunities for those currently working in Greenhouse Gas (GHG) intensive industries.



**Amount committed:**

£35 million out of a total project cost of £420 million.

**Location:**

Aberdeen

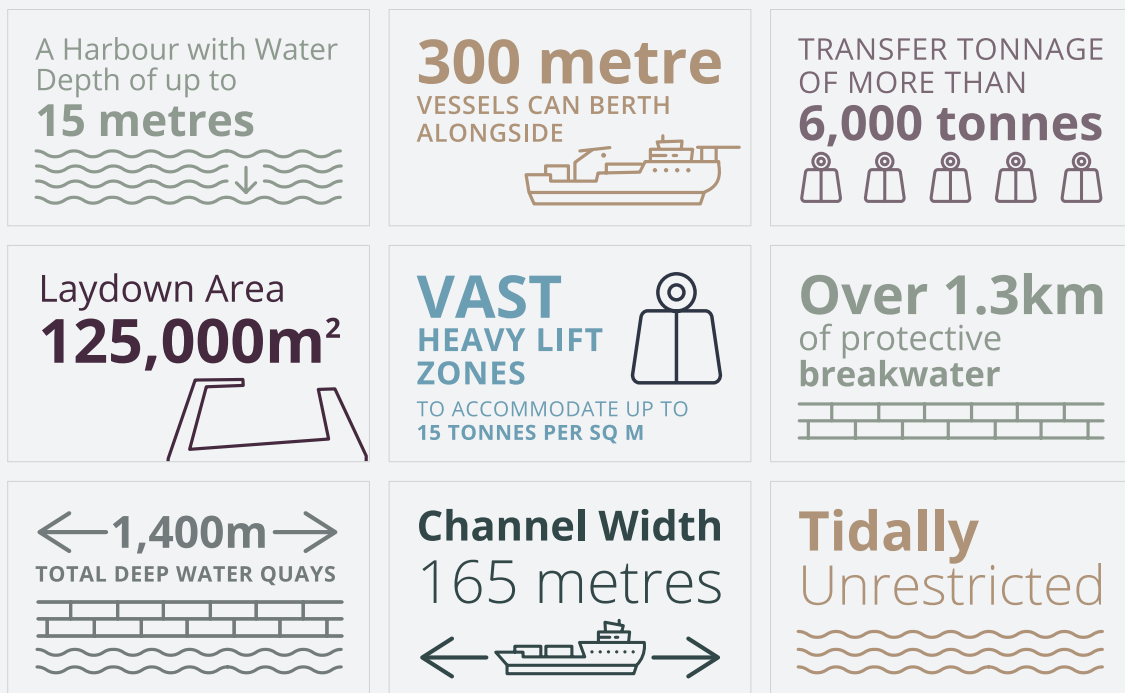
**Case study:**

The Aberdeen South Harbour (ASH) expansion is the largest marine infrastructure project underway in the UK and will deliver a deeper and larger harbour capable of servicing the infrastructure needs for offshore wind projects such as ScotWind<sup>11</sup>, as well as providing increased capacity for the leisure and cruise industry. (See Figure 3.)



## Case Study: Aberdeen South Harbour continued

Figure 3: What sets South Harbour apart?



Source: portofaberdeen.co.uk

The expansion has been recognised as an infrastructure project with national significance in Scotland's third and fourth National Planning Frameworks, which set out how Scotland will address climate change and meet its 2045 net zero targets through investment in places. Specifically, the ASH expansion is expected to:

- ◆ Enable supply chain support, including from Aberdeen's Energy Transition Zone (ETZ) to the ScotWind leasing round.
- ◆ Maintain a critical mass of engineering and infrastructure experience to drive a just transition to a low carbon economy in the North-East.
- ◆ Reinforce North-East Scotland's existing reputation as a centre for energy excellence – pivoting from fossil fuels to renewable energy as a consequence of ScotWind.
- ◆ Support Port of Aberdeen's (PoA) aim in becoming a leading exemplar in environmental stewardship and sustainability, pioneering green port innovation and facilitating energy transition solutions in the UK.

To deliver this, ASH has been designed to reflect industry leading construction and operations (through PoAs Green Port Strategy) and has a range of international quality, environmental and health and safety standards in place, including alignment with European Ecoport standards.

The Port's Green Port Strategy explores a wide range of emissions reduction opportunities – including quayside electrification, the use of alternative fuels and lower carbon power supplies, and sustainable waste management, that support the Port's net zero ambitions.



## Case Study: Aberdeen South Harbour continued

### Investment rationale and impact assumptions

Our investment in ASH focuses on delivering our net zero ambition but will also support our place-based objectives.

Our funding enabled the procurement of the outstanding construction items needed to complete the development of the South Harbour by Summer 2023 and PoA have estimated that if they had not secured funding from us, completion of the South Harbour would have been delayed by 4+ years with higher costs to complete.

### Net Zero

Enabling infrastructure development that delivers ScotWind is critical to Scotland's net zero ambitions, and a key consideration in our decision to provide investment. See Figure 4 below, which illustrates ASH's strategically important location.

ASH will develop and deliver a range of energy efficiency and renewable energy innovations as part of its Green Strategy, and will report regularly on GHG emissions to us, as well as information on the extent and scale of support to Offshore Wind and Renewable Energy build out over time.

Nevertheless, the construction of ASH has resulted in significant embodied carbon in concrete and other construction materials (See Box 1 below). Our investment in ASH should therefore be viewed as one which supports Scotland's wider net zero ambitions rather than a direct net zero project itself. Overtime ASH will develop a credible route-map to evidence that the harbour's operations can be defined as net zero.

#### Box 1: Net Zero Challenges for investors

As a financial institution, measuring investment emissions across our portfolio is an essential starting point to:

- (i) manage risk and identify opportunities associated with greenhouse gas emissions; and
- (ii) assess the volume of CO<sub>2</sub>e that we have financed (so that we are able to report on progress to enabling Scotland's transition to a low carbon economy).

As a development bank with a focus on supporting Scotland's transition to net zero, we have a leading role in investing in the delivery of critical infrastructure that will enable a low carbon Scottish economy. Investment in large infrastructure projects will result in significant quantities of embodied carbon, and these financed emissions will be held on our balance sheet. We therefore recognise that in supporting the expansion of Scotland's renewable energy sector it is unlikely that we will ever achieve a net zero portfolio as we are actively taking on that carbon debt to facilitate a long-term climate solution.

However, as an organisation we remain committed to influence and support the mitigation of emissions and specifically identify improvements that will assist in the transition rather than add to the burden of emissions. Thereby seeking to ensure that where carbon emissions are unavoidable, they are minimised as much as possible.



## Case Study: Aberdeen South Harbour continued

Figure 4: Port of Aberdeen and energy transition opportunities



### Place

In line with our mission to extend equality of opportunity through improving places, ASH has committed to a range of good employment and industry practices including:

- ◆ Proactive support to training and support to the just transition.
- ◆ Implementing Fair Work (including the Real Living Wage and proactive approaches to creating more diversity and inclusivity) to all employees and as appropriate through contracts to third parties.
- ◆ Contracting that promotes local employment and supply chain growth.
- ◆ Community benefit programmes in Aberdeen and areas adjacent to ASH.

As part of our impact monitoring work, we will track employment data, supply chain spend and wider impact over time.



## Case Study: Aberdeen South Harbour continued

### UN Sustainable Development Goals



Scotland's energy targets require the energy system to be almost fully de-carbonised by 2050.



**The expansion of the harbour provides critical infrastructure to enable ScotWind and grow Scotland's renewables sector.**



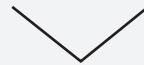
A significant % of Aberdeen's workforce is currently employed in the oil and gas and associated supply sectors, new opportunities through projects supporting a Just Transition will be critical for the local economy.



**The project is projected to support circa 15.5k of jobs, providing employment opportunities outside of the traditional oil and gas sector.**



New innovation and the upgrading of Scotland's ports is critical to delivering Scotland's offshore wind potential.



**The project is pioneering green port innovation, including piloting new technology.**



The Scottish Government has committed to Scotland becoming net zero by 2045.



**The project directly supports Scotland's net zero objectives as well as enabling Aberdeen Harbour to better adapt to and mitigate climate risks.**



## Case Study: Aberdeen South Harbour continued

### Theory of Change Assumptions

Our investment	Outputs	Medium / Longer Term Outcomes	Ultimate Impact*
<ul style="list-style-type: none"> <li>◆ We invest £35 million as part of £420 million total project cost.</li> <li>◆ We support PoA in the application of Fair Work and evolution of environmental and social management systems.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Active deployment of low carbon infrastructure and technologies in the design and development of ASH.</li> <li>◆ Green Port Strategy launched and capacity to deliver in place (including environmental manager, ISO 9001, 14001 and 45001 in place).</li> <li>◆ Use of ASH by renewable energy focused shipping on target.</li> <li>◆ Renewable energy Jobs and apprenticeship programme created (with a focus on just transition), and engagement with local schools.</li> <li>◆ Local supply chain spend (and relationships with key local agencies including ETZ).</li> </ul>	<ul style="list-style-type: none"> <li>◆ ASH supports ScotWind build out as projected.</li> <li>◆ ASH on target to deliver an estimated £2 billion Gross Value Add to the Scottish economy each year, supporting circa 15,500 of jobs that support the local economy, a just transition and retain a highly skilled work force in and around Aberdeen.</li> <li>◆ Pilot project for shore-to-ship plug-in electric power deployed.</li> <li>◆ A range of community benefits have been designed and delivered in collaboration with ETZ and local communities.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Scotland is internationally recognised as a leader in sustainable technology (offshore wind capacity and offshore wind supply chain in particular), services and industry.</li> <li>◆ Aberdeen is thriving as a centre of excellence in the renewable energy sector.</li> <li>◆ Scotland's economy contributes to and is aligned to Global GHG emission reduction targets and goals by 2045.</li> <li>◆ ASH will support alternative fuels and Smart Port technology with the Bank's finance enabling service trenches to be built with alternative fuel capability.</li> </ul>

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



## 2. 2022 Impact Performance continued

### Place-Based Opportunity

#### Investment Impact:

- ◆ Place-based regeneration – our natural and built environment in Scotland is valued, protected, enhanced and enjoyed.
- ◆ Reduction in inequality – our communities are inclusive, empowered, resilient and safe.
- ◆ Improved outcomes for people and communities.



#### Employment

In 2022, the Bank’s investments directly supported around **1,200** jobs. The indirect and induced impacts from the Bank’s investment supports a further **1,100** jobs across the Scottish economy.<sup>5</sup>

#### Overview

- ◆ % of our investment portfolio where the primary mission identified is Place-Based Opportunity.
  - 23%** of new investments in 2022
  - 25%** of total investments since launch
- ◆ **50%** of our total investment portfolio contributes towards improving places.
- ◆ Amount invested by Bank (£) supporting businesses and projects that contribute to improving places.
  - £162.7 million** 2022
  - £281.1 million** since launch
- ◆ Third party capital associated with Bank investment supporting businesses and projects that contribute to improved places.
  - £172.4 million** 2022
  - £458.1 million** since launch





## 2. 2022 Impact Performance continued

### Mission Objective 1: Enhancing the natural and built environment of Scotland through utilisation of undervalued space and the regeneration and improvement of built and natural environments.

- ◆ **5.79** hectares of urban land regenerated or improved as a result of our investment.
- ◆ **8,940** hectares of rural land regenerated or improved as a result of Bank investment. **8,230** hectares of which is in Scotland (92%).

### Mission Objective 2: To improve by 2040 the physical and digital connectivity across Scotland to increase access to services, training and employment opportunities, and greenspace.

- ◆ **5,411** homes and businesses have access to improved connectivity as a result of our investment (Physical and/or Digital).
- ◆ **70,000** homes and businesses are forecast to have access to improved digital connectivity by end of 2026. With a focus placed on provision of service to rural and hard to reach areas of Scotland<sup>13</sup>.

### Mission Objective 3: To increase the supply of high-quality affordable homes and support the transition to net zero for existing homes with corresponding sustainable infrastructure by 2040.

- ◆ Our investment supported the building of **193** homes in 2022.
- ◆ Since our launch **481** of a planned **1,500** homes have been built and are available for mid-market rent.
- ◆ **99.6%** of homes financed through our investment achieved an energy efficiency rating of EPC B or higher.

### Mission Objective 4: Investing in businesses and projects that promote high quality place-based employment and training opportunities.

- ◆ **100%** of our direct investee's HQ based in Scotland.
- ◆ **100%** of our portfolio businesses offer training opportunities to all employees.
- ◆ **29.2%** of portfolio businesses have operations in the 20% most deprived areas of Scotland (Scottish Index of Multiple Deprivation: <https://simd.scot>).

### Mission Objective 5: Investing in businesses and projects that provide community benefit and support local supply chains.

- ◆ **100%** of our portfolio businesses are SMEs.
- ◆ **60%** of total supply chain spend by reporting portfolio businesses was expended in Scotland. This equated to £15.6 million.
- ◆ **20.8%** of our portfolio businesses or projects have reported that they have provided community benefit through their operational practices within the reporting period.



## Case Study: Social and Sustainable Capital (SASC) – SASH II Fund



Increasing the supply of high-quality affordable homes and supporting the transition to net zero for existing homes with corresponding sustainable infrastructure by 2040.

**Amount committed:**

£15 million

**Location:**

UK wide with £20 million committed to Scotland

**Case study:**

SASC was founded in 2014 as one of the UK's first social investment fund managers. SASC launched its first Social and Sustainable Housing fund (SASH) in 2019. SASH raised £64.5 million that has been used to provide flexible debt funding to social sector organisations that provide supported housing. Its intended impact comes from reducing homelessness and increasing community inclusion, while also increasing the capacity of strong social providers.

The Fund targets the provision of supported housing for tenants who may have complex needs. This includes groups such as asylum seekers, young people leaving care, those with learning disabilities and people fleeing domestic abuse. These groups may require a level and quality of support that mainstream social housing providers are not equipped to provide. The current SASH I portfolio includes properties across Scotland owned and managed by Homes for Good, Positive Steps Partnership and Simon Community Scotland.

Following the success of the original fund, SASC launched a follow-on fund – SASH II – in November 2022. SASH II offers the same kind of flexible mortgage. This allows high performing charities to build portfolios of properties to support some of the most vulnerable members of society. SASH I and II funds have dual aims to:

- ◆ improve the lives of vulnerable individuals by increasing their access to safe, stable and appropriate housing.
- ◆ make small to medium sized charitable organisations financially stronger, by allowing them to buy housing in a low-risk way.

To date SASH I has supported 20 social sector organisations which are expected to purchase nearly 900 bed spaces over the lifetime of the fund.



## Case Study: Social and Sustainable Capital (SASC) – SASH II Fund continued

### Preventing and responding to people's risk of homelessness – SASH I fund

*“What we weren't expecting but what is going well already is how quickly our tenants have settled into their new homes, despite their many challenges and their chronic experiences of homelessness. It can't be overstated just how much impact this has had. Even on just one life. It is giving people a sense of hope and aspiration and offering them something they have never had.*

*Being in control of the purchasing means we can buy in areas where people want to live. Near their families or a location that will work best for them. It means we can give them the best possibility of service.”*

**Lorraine McGrath – CEO – Simon Community Scotland (SCS)**

### Investment rationale and impact assumptions

Our investment in the SASH II Fund enables both place-based and net zero impacts.

SASH II will allow charities and community interest companies to buy properties which they would otherwise not be able to attain, building their financial strength, capacity and resilience to enable them to provide high quality services to their tenants.

The SASH II Fund will invest across the UK, with our £15 million investment unlocking at least £20 million of loans to organisations purchasing homes in Scotland. SASH II aims to unlock more than 1,500 new supported housing bedspaces (over 200 in Scotland) and house over 10,000 people over the lifetime of the fund, helping to alleviate homelessness and reduce inequalities.

In addition to the clear social and community benefits, the homes funded by SASH II are expected to be refurbished to high energy efficiency standards. Our investment will ensure that the properties being financed meet the same standards as homes provided by registered social housing providers, thereby supporting this sector's transition to net zero and reducing fuel poverty for tenants.

Like the Bank, SASC is an impact investor. The SASH I and II funds have been intentionally designed in a way that will deliver measurable economic, social and environmental impact through the work that it does. SASC shares our impact values and utilises comparable measurement and reporting frameworks, ensuring synergy in our approach to understanding and unlocking impact through investment.



## Case Study: Social and Sustainable Capital (SASC) – SASH II Fund continued

### UN Sustainable Development Goals



In the UK, more than 250,000\* people are reported homeless or living in inadequate homes.



**SASH enables charities to purchase residential property and offer safe, stable and appropriate housing to disadvantaged people.**



People living in 'non decent accommodation' suffer disproportionate levels of physical and mental ill health.



**SASH requires all housing to meet Decent Homes Standard.**



36%† of working age households in the Private Rental Sector and in receipt of benefit live in non-decent accommodation.



**SASH is supporting the expansion of charity sector landlords, who are committed to providing safe, decent and appropriate housing for the disadvantaged people they support.**



The UK suffers from an acute shortage of decent affordable housing.



**SASH sets a new benchmark for how decent and affordable housing can be made available to the charitable sector and disadvantaged people, who would otherwise be excluded.**



The Scottish Government has committed to Scotland becoming net zero by 2045.



**Properties financed through SASH II will meet the same standards as homes provided by registered social housing providers, thereby supporting this sector's transition to net zero as well as providing energy efficiency and fuel bill benefits to tenants.**

\*[https://england.shelter.org.uk/media/press\\_release/homeless\\_in\\_a\\_pandemic\\_253000\\_people\\_are\\_trapped\\_in\\_temporary\\_accommodation\\_](https://england.shelter.org.uk/media/press_release/homeless_in_a_pandemic_253000_people_are_trapped_in_temporary_accommodation_)  
†<https://www.parliament.uk/globalassets/documents/commons-committees/public-accounts/Correspondence/2017-19/mhclg-gcgp-housing-300118.pdf>



## Case Study: Social and Sustainable Capital (SASC) – SASH II Fund continued

### Theory of Change Assumptions

Our investment	Outputs	Medium / Longer Term Outcomes	Ultimate Impact*
<ul style="list-style-type: none"> <li>◆ We invest £15 million in Fund as part of wider raise to support organisations to purchase residential properties.</li> <li>◆ We support SASC in the application of Fair Work and evolution of environmental and social management systems.</li> <li>◆ Bank is member of the Limited Partner Advisory Committee (LPAC) and will drive climate agenda.</li> <li>◆ We support SASC to develop Scottish networks.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Up to 25 organisations able to access finance to increase housing stock.</li> <li>◆ Increased service provision for vulnerable groups: 1,500 additional supported bedspaces available to vulnerable individuals across the UK. Approx. 240 bedspaces in Scotland on a proportionate basis.</li> <li>◆ Purchased properties are refurbished to the energy efficiency standards required by social housing regulations, by the time these requirements come into force.</li> <li>◆ Fund Manager supports borrower organisations to strengthen governance and succession planning through diligence and portfolio management engagement.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Increased stability and capacity in service provision across geographies.</li> <li>◆ Increased number of vulnerable individuals able to access quality, safe, energy efficient homes in places where they want to live.</li> <li>◆ Increased number of existing properties meeting higher energy efficiency standards.</li> <li>◆ Reduced likelihood of fuel poverty for those in accommodation purchased with Fund loans.</li> <li>◆ Increased capacity and resilience of service providers to respond to future policy and funding changes, and therefore continue to meet their tenants' needs.</li> </ul>	<p>Impact to be observed across UK:</p> <ul style="list-style-type: none"> <li>◆ Reduction in homelessness through increased service quality in the supported housing sector.</li> <li>◆ Increased community inclusion through provision of service in areas of need.</li> <li>◆ Increased health and wellbeing outcomes for vulnerable groups.</li> <li>◆ Net zero ambition supported through ensuring housing stock is fit for the future.</li> <li>◆ Financially stronger, more resilient small to medium size charities providing supported housing.</li> </ul>

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



## 2. 2022 Impact Performance continued

### Innovation

#### Investment Impact:

- ◆ Scotland is recognised as a leader in innovation and technology, including net zero.
- ◆ Scotland has domestic based expertise to solve future challenges.
- ◆ Scotland has a healthier and more resilient population.
- ◆ Scotland’s economy is internationally recognised as sustainable, productive, competitive and entrepreneurial.



Our innovation investments typically focus on companies looking to scale and to date are often pre-revenue. The impact of these investments will therefore often be harder to forecast and take longer to demonstrate. The performance data presented below reflects the nascency of the businesses that we have invested in.

#### Mission Objective 1: Growing our innovation ecosystem by supporting innovative businesses to have a catalytic effect in their sector.

- ◆ Percentage of our investment portfolio where the primary mission identified is innovation:
  - 38%** of new investments in 2022
  - 33%** of total investments since launch
- ◆ **50%** of our total investment portfolio contributes to developing the Scottish innovation ecosystem.
- ◆ Amount invested by Bank (£) supporting businesses and projects contributing to developing the Scottish innovation ecosystem:
  - £69 million** in 2022
  - £97.9 million** since launch
- ◆ Third party capital associated with Bank investment supporting businesses and projects contributing to developing the Scottish innovation ecosystem:
  - £42.4 million** in 2022
  - £64.3 million** since launch
- ◆ **88.9%** of innovation-focussed businesses who reported Research & Development (R&D) spending, expended more than 20% of budget on R&D.
- ◆ **100%** of innovation-focussed businesses within our portfolio actively supported the broader innovation community during 2022.



## 2. 2022 Impact Performance continued

### **Mission Objective 2: Increasing investment in the scaling of disruptive, transformation and emerging technologies and discoveries.**

- ◆ **11** of our portfolio businesses and projects are involved in developing disruptive and/or transformational technologies and discoveries.
- ◆ **95% (£92.7 million)** of our total innovation investment is directed at businesses involved in developing disruptive and/ or transformational technologies and discoveries.

### **Mission Objective 3: Developing products, services and technology that improve Scotland's human wellbeing and environmental resilience.**

- ◆ **Two** of our portfolio businesses and projects are involved in developing technology that mitigates and protects against future risks to human welfare, wellbeing, and environmental resilience.
- ◆ **8.9% (£8.7 million)** of our total innovation investment is directed at businesses involved in developing technology that mitigates and protects against future risks to human welfare, wellbeing, and environmental resilience.

### **Mission Objective 4: Investing in businesses and projects that enhance productivity through product or process innovation.**

- ◆ **43** patents had been reported as being supported by our investment since our launch.
- ◆ **100%** of our investment portfolio who contributed to developing the Scottish innovation ecosystem introduced new product, process or technological innovation to their businesses in 2022.



## Case Study: Orbex

Investing in the scaling of disruptive, transformational, and emerging technologies and discoveries.



**Amount committed:**

£17.8 million.

**Location:**

Forres and Sutherland

**Case study:**

Orbex is a private, low-cost orbital launch services company serving the needs of the small satellite industry. The Company is focused on the development of low carbon, high performance, environmentally friendly micro-launch vehicles and aims to develop and provide launch services for the small satellite industry direct from Scotland. We invested £17.8 million in Orbex in October 2022 to enable the Company to continue development of its Prime rocket technology and its Spaceport launch site near Tongue in Sutherland. Orbex is expected to make its first commercial launch in 2023.





## Case Study: Orbex continued

### Investment rationale and impact assumptions

Our investment in Orbex supports our innovation mission to grow the Scottish innovation sector and invest in emerging technology, and specifically addresses the four aims of the 2021 Scottish Space Strategy<sup>14</sup> to:

- ◆ Position Scotland as a global leader for commercial space development.
- ◆ Establish a range of managed launch and orbital services, supporting the largest launch capability in Europe.
- ◆ Develop a world-leading environmental strategy for Scotland's space industry, from reducing emissions to supporting the use of satellite data for environmental monitoring.
- ◆ Build Scotland's international economic opportunities through increased exports and targeted inward investment to plug critical gaps in capability.

Our investment in Orbex will help realise the Strategy's ambition for Scotland to achieve a £4 billion share of the global space market and create 20,000 jobs in the sector by 2030.

The design of the technology also supports our net zero mission, as Orbex's innovative Prime rocket will be largely re-useable and will be fuelled by bio-fuel, which recent research by Exeter University shows will reduce the carbon footprint of a launch by up to 96% in comparison with launchers using fossil fuels. The re-usability of their rocket components supports important "circular economy" innovation and Orbex's goal to create the "cleanest" rocket in the market. This would be a world first protected by a range of intellectual property regulations and patents.

The Sutherland Spaceport is located in an ecologically important area, and a great deal of work has taken place with planning agencies and NatureScot to mitigate impacts and develop a Biodiversity Action Plan that will protect peat bogs and biodiversity, ultimately generating net biodiversity gain.

There are also place-based benefits through the creation and support of quality full-time jobs in the technology and space sector in Forres and Sutherland.



## Case Study: Orbex continued

### UN Sustainable Development Goals



Scotland has a space industry estimated to generate £880 million GVA for the Scottish economy in 2017/18 with a sustained annual growth rate of 12%. Scotland has seen an increase in employment of almost 10% since 2016.<sup>15</sup>

Scotland is well placed to develop a world-class space enterprise infrastructure and research environment to enable economic growth through increased exports, innovation opportunities, access to investment for company growth and the attraction of inward investment.



**Orbex’s aerospace engineers have developed innovative solutions and harnessed new and emerging technology and materials to re-imagine a more sustainable and efficient microlauncher.**



NASA estimate that there are more than 23,000<sup>16</sup> pieces of space debris larger than a softball orbiting the Earth, with another half million pieces roughly the size of a marble and a further 100 million pieces 1mm and larger in orbit.

All space debris represent risk to all space vehicles and contribute to space pollution.



**Orbex’s Prime rocket was designed to not leave any debris on Earth or in the Earth’s atmosphere.**



## Case Study: Orbex continued

### Theory of Change Assumptions

Our investment	Outputs	Medium / Longer Term Outcomes	Ultimate Impact*
<ul style="list-style-type: none"> <li>◆ We invest £17.8 million development capital and act as the lead investor for the funding round.</li> <li>◆ We support Orbex in the application of Fair Work and evolution of environmental and social management systems.</li> </ul>	<p><b>Operations</b></p> <ul style="list-style-type: none"> <li>◆ Development of launch vehicle in time for 2023 launch from Sutherland Spaceport.</li> <li>◆ Sutherland Spaceport is operating at capacity, (12 launches per year).</li> </ul> <p><b>Employment</b></p> <ul style="list-style-type: none"> <li>◆ Over 100 FTE employees are working with the Company within 3 years, in part supporting the just transition.</li> <li>◆ Orbex has developed and implemented Fair Work practices (as appropriate) for all employees and provides training, and internship programme and strong links to academia and the wider innovation community in Scotland.</li> </ul> <p><b>Environmental</b></p> <ul style="list-style-type: none"> <li>◆ Habitat management and restoration at the Space hub will restore c60 hectares of peat bog and other habitats.</li> <li>◆ Commitment to monitor and remain carbon neutral.</li> <li>◆ Evidence of rocket re-usability assumptions are being met.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Orbex has successfully developed and operationalised medium-capacity, low carbon re-useable launch vehicles, and the technology is recognised as credible and endorsed by industry agencies e.g. European Space Agency, UK Space Agency.</li> <li>◆ Low carbon, reliable route to orbit created in Scotland, attracting custom from Scottish, UK and EU satellite manufacturers.</li> <li>◆ Reduced GHG emissions through abatement of emissions associated with shipping and transport to non-EU locations, and low carbon launch capabilities compared to other launch service providers.</li> <li>◆ Increase in FTE opportunities in an area of Scotland with typically less high earning job opportunities.</li> <li>◆ Community/businesses in and around Sutherland benefit from new employer in the area.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Contributes to delivering aims set out in 2021 Scottish Space Strategy with Scotland established as a mature space nation, making foreign direct investment into Scottish space sector commonplace.</li> <li>◆ Scotland becomes an attractive place for satellite firms to establish themselves, attracting further investment in this area. Economic GVA impacts over a 25-year term expected to be: <b>£1.1 billion</b> to highlands. <b>£2.8 billion</b> to rest of Scotland.</li> <li>◆ Scottish innovation in Space and related industries is bolstered and success inspires next generation of engineers and scientists.</li> <li>◆ The creation of a new high skill and high paying industry outside of the Central belt. Sutherland established as Scotland's "Space Place".</li> </ul>

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



## 3. Responsible Investing

### Introduction

Above and beyond the impacts we aim to deliver via our missions, the Bank is a responsible investor which aims to promote better outcomes in all its investments where we can. This starts with a commitment to 'do no harm' through the implementation of the Bank's Ethical Investment Policy (EIP), through the promotion and support of a range of Fair Work and employment opportunities that we agree with investees, and in the broader influence we have across Scotland's investment and private sector communities. Key elements of this broader responsible investing agenda are outlined below.

### Ethical Investment Policy

As an institution we not only invest to enable the Bank's missions, but we also act as a responsible investor, adopting a 'do no harm' approach in all investments. Our Ethical Investment Policy<sup>17</sup> sets out Environmental Social and Governance ('ESG') requirements applied to all our investments and outlines how we aim to enhance ESG outcomes where practical.

### Employment, Equalities and Fair Work

Promoting diversity, equity and inclusion is a core component of our activity both within the Bank and through our external engagement and investments. We support the OECD's position that a fair and equal society and a wealthier, greener economy are mutually reinforcing and that one cannot be achieved without the other.

We recognise the current systemic challenges that lead to inequality of access to finance and are actively working to understand and reduce these inequalities, as described in our Equality Strategy<sup>18</sup> published in 2022. That Strategy also set out four Equality Outcomes for the period to 2025. These are designed to cover all protected characteristics, and a commitment to consider socio-economic disadvantage.

**Outcome 1** – Positive impact on equality in Scotland through the Bank's investments and improved equal access to investment.

**Outcome 2** – Improve diversity of the Bank team.

**Outcome 3** – Inclusive environment.

**Outcome 4** – Positive impact on equality within suppliers and partners of the Bank.

We collect diversity monitoring information from our portfolio and will support investees to implement more ambitious and impactful approaches to diversity, equity, and inclusion as appropriate.

Many of the businesses within our portfolio are in the early stages of their growth and we can use our knowledge to share and instil positive practices that support equality as their business grows. For example, we use investment covenants in a proportionate and relevant manner to positively influence change. As a minimum these covenants will include:

- ◆ Reporting of diversity data.
- ◆ Development and or review of Equality, Diversity and Inclusion (EDI) policies.
- ◆ Requirement to put a plan in place to increase equality of opportunity as well as diversity and inclusion where appropriate.
- ◆ Monitoring progress of agreed actions.

Where we invest equity, we also typically have observer rights on investee boards. This allows us to better understand the needs and challenges of individual businesses, enabling us to support and signpost relevant guidance as required.

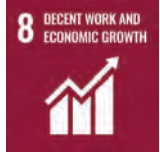
Outside of our investment activity we believe there is a wider role for us in actively promoting diversity, equity, and inclusion in business. An overview of our activity in this area will be provided in our Mainstreaming Equality Report.

A core part of addressing inequality is ensuring that employment is high-quality and fair, and we support the adoption of the Fair Work Principles<sup>19</sup> through our investments in a practical and proportionate manner.



### 3. Responsible Investing continued

Employment, Equalities and Fair Work		
Outputs in 2022	Outcomes (medium-term)	Impacts (longer-term)
<p>100% of the businesses and projects directly invested in:</p> <ul style="list-style-type: none"> <li>◆ Committed to supporting Fair Work First Principles.</li> <li>◆ Offer flexible working practices.</li> <li>◆ Pay at least the Real Living Wage to all permanent direct employees.</li> <li>◆ Have no inappropriate zero-hour contracts.</li> <li>◆ Offer training opportunities to all employees.</li> <li>◆ Committed to undertake an annual gender pay gap analysis.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Increased opportunities for high quality training and employment across sectors and associated supply chain. Supporting a Just Transition.</li> <li>◆ Increased awareness and adoption of Fair Work First Principles within Scottish businesses.</li> <li>◆ Increased engagement within the Scottish workforce through development of appropriate channels for effective employee voice.</li> <li>◆ Increased awareness and promotion of EDI within the businesses and projects the Bank invests in, and the wider Scottish investment ecosystem.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Scotland has a fairer and more equal society, meeting its Fair Work and Business National Performance Outcome</li> <li>◆ Higher skilled Scottish workforce through greater training opportunities.</li> <li>◆ A more secure workforce through reduced use of zero-hours contracts</li> <li>◆ Improved standard of living through increased application of the Real Living Wage.</li> <li>◆ The gender pay gap is reduced and Scottish workplaces are more diverse and inclusive.</li> </ul>





### 3. Responsible Investing continued

#### Impact Investing Summit, November 2022

At the Impact Investing Summit, the Bank alongside The Times & The Sunday Times Scotland, brought together over 130 stakeholders, including leaders of 'impact' businesses, who have received impact focused investment, and investors who are developing and shaping how impact can be enabled via investment.

The Summit focussed on five themes:

1. How making impact investments differs from traditional investing.
2. How impact investing goes beyond, and is different from, ESG investing.
3. How the FCA is defining 'impact' so that businesses, investors and consumers are all speaking the same language.
4. How to attract 'impact' capital into your business.
5. How impact investing is already making a difference across Scotland.

The Summit was supported by the publication of a research paper, produced in partnership with The Good Economy – 'Unlocking the potential of impact investing in Scotland'.

The Summit was warmly welcomed by attendees and speakers and the Bank will look to build on the success of its first impact investing event through a series of round table events and further summit in 2023.

*"The Bank's Impact Summit was an important event in Scotland's impact journey. It brought together impact investors and businesses to explore how the private sector can play a bigger and more significant role in enabling a fairer and more sustainable Scotland. There is an urgency to this conversation – driven by climate change and the need to address social equity in the face of challenging economic headwinds – that the Bank is well placed to support through its unique position in the Scottish investment landscape."*

**Michele Giddens OBE – Co-Founder and Co-CEO of Bridges Fund Management**

#### Supply Chain

We are subject to the Public Contracts (Scotland) Regulations 2015 and Procurement (Scotland) Regulations 2016; award criteria are designed to be related and proportionate to the subject matter of the contract or framework.

While we consider the requirements for each contract on a case-by-case basis, we therefore consider the requirements of the Act as part of the process of selecting our suppliers and build in questions regarding equality and Fair Work into our procurements.

We also work with our portfolio businesses to encourage them to consider the application of Fair Work First Principles in their own supply chains and procurement exercises.



## 4. Impact Investment Governance

### Introduction

This section sets out our impact governance and mission risk framework and explains how we are establishing governance around our climate risk assessment and carbon accounting practices.

We assess the risks in achieving our strategic objectives through the Bank’s Risk Management Framework which is guided and informed by our strategic objectives:

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

The approach we take to Impact is integrated within this framework, with Mission Risk identified as a ‘Principal Risk’<sup>20</sup>. Additionally, to provide credibility and consistency with peers, our impact governance has integrated the Operating Principles for Impact Management within our investment processes.

### Operating Principles for Impact Management

The Operating Principles for Impact Management\* were launched in 2019 to establish a common discipline around the management and reporting of impact investing. The framework has been widely adopted within the global impact investment community and provides a framework against which the impact management systems of funds and institutions can be assessed, supporting the development of impact investing norms and expectations across the impact investment community.

The Bank has integrated the Principles into its investment processes and became an official Signatory during the FY22/23. As a Signatory we will make an annual public disclosure to demonstrate our adherence to the nine operating principles:

<b>Principle 1</b>	Define strategic impact objective(s), consistent with the investment strategy.
<b>Principle 2</b>	Manage strategic impact on a portfolio basis.
<b>Principle 3</b>	Establish the Manager’s contribution to the achievement of impact.
<b>Principle 4</b>	Assess the expected impact of each investment, based on a systematic approach.
<b>Principle 5</b>	Assess, address, monitor, and manage potential negative impacts of each investment.
<b>Principle 6</b>	Monitor the progress of each investment in achieving impact against expectations and respond appropriately.
<b>Principle 7</b>	Conduct exits considering the effect on sustained impact.
<b>Principle 8</b>	Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.
<b>Principle 9</b>	Publicly disclose alignment with the Principles and provide regular independent verification of the alignment.

\*[www.impactprinciples.org/9-principles](http://www.impactprinciples.org/9-principles)



## 4. Impact Investment Governance continued

### Mission Risk

To achieve our missions, we assume a certain level of risk. A wide range of risk types are inherent to the Bank’s mandate. We aim to effectively manage and mitigate these risks and recognise that excessive risk taking, and poorly managed risks can lead to financial losses and adverse non-financial impacts, negatively impacting the delivery of the missions over time and causing reputational damage, including the perception of failing to deliver value for public money.

We recognise that, as a development bank, our investments should carry a higher degree of risk than commercial investors. This requires the return profiles of the investments to be structured to ensure the commensurate level of return.

We have established a framework of policies, procedures and structures to manage risk. These are described in the Risk Management Framework<sup>21</sup>, which identifies seven principal risks (‘Level 1’ risk type) and our appetite for each.

‘Mission Risk’ is identified as a Principal or Level 1 risk type, with ‘Mission Alignment’ and ‘Mission Reporting’ identified as secondary risks.

### Principal and Emerging Risks and Uncertainties

Level 1 Risks	Definition	Principal Risks	Risk appetite statement	Mitigants
<b>Mission</b>	The risk that the type, kind, or number of investments or loans originated or held by the Bank are not sufficiently aligned to a mission or fail to deliver the desired benefits.	<b>Mission alignment</b> The Bank is exposed to the risk that its portfolio, or individual loans and investments are not aligned with or do not perform well against its Missions and/or objects.	The Bank has clear mandated objectives to make mission-oriented investments, and Mission Risk reflects the potential that investments do not deliver the expected mission related benefits. The Bank will mitigate this through only making investments that align with its missions, ensuring that sound governance and reporting processes are in place.	<ul style="list-style-type: none"> <li>◆ Mission alignment considered at every stage of investment governance process.</li> <li>◆ Investment risk process considers mission concentration.</li> <li>◆ Investment management process to ensure ongoing benefit realisation.</li> </ul>

All investments are subject to ongoing performance review, additionally, as an Impact Principles Signatory, we will be expected to undertake regular independent audits of our impact governance framework to ensure that the principles are being upheld.





## 4. Impact Investment Governance continued

### Climate Risk Assessment and Carbon Reporting

During financial year FY22/23, we committed to TCFD as our climate risk and reporting framework. As such, Climate Risk Assessment is now a standard component of our investment decision-making process, and all investees report their Scope 1 and 2 emissions on an annual basis as part of our impact monitoring requirements.

We are in the process of developing a Carbon Management Plan (CMP), which is expected to be formally adopted during 2023. The CMP will:

- ◆ Enhance our current mechanisms for measuring and monitoring our corporate carbon emissions related to our internal operations.
- ◆ Outline how we measure and attribute investment emissions from across our portfolio.

The CMP is an important first step in understanding both the Bank’s impact on the climate and the climate related risks and/or opportunities associated with our investments.

Progress towards targets identified within the CMP will be reported through our mandatory annual Public Bodies Climate Change Duties report. We adopted the TCFD as our climate risk and reporting framework this year and will publish our first TCFD report in the coming financial year. These initiatives will strengthen our ability to manage our carbon accounting obligations and understand, quantify and manage climate-related risks and opportunities across the Bank’s operations and investments.

A key area of net zero investment for the Bank is in financing the supply chain and built infrastructure projects required to support Scotland’s net zero and renewable energy ambitions, such as our investment in Aberdeen South Harbour. Such investments are critical for the long-term delivery of Scotland’s low carbon economy but means that we will inevitably increase the financed emissions on our own balance sheet and as a result we recognise that we will never have a net zero portfolio.

As part of our engagement with investees we are committed to supporting the reduction, mitigation and amelioration of emissions through identifying improvements that will assist in the transition to net zero.

This is a relatively new and evolving area for financial institutions, and we aim to work with investees to support them in developing their own capability around carbon management, net zero strategies and GHG reporting. The collection and reporting of emission-related data and energy metrics across from our portfolio will allow us to track emissions associated with our investments over time. This data will assist us in our future investment decisions and portfolio management processes to ensure we meet our net zero mission objectives.



#### Our Carbon Emissions

On 31 November, we submitted our Public Bodies Climate Change Duties Report to the Scottish Government. The report is a statutory requirement under Schedule 44 of the Climate Change (Scotland) Act 2009 and Schedule 1 of the ‘Climate Change (Duties of Public Bodies; Reporting Requirements) (Scotland) Order 2015’.

For the reporting year 2021/22, the Bank’s overall operational emissions were 17.19 tCO<sub>2</sub>e, with home working forming the largest emissions source.



## 5. Conclusions

Since our launch in November 2020, over one billion pounds has been committed to the Scottish economy as a result of our engagement with the market. This investment has not only supported broad economic growth but has been invested in businesses and projects that will deliver targeted mission led impact for Scotland.

As an impact investing development bank, we have a clear leadership role in demonstrating to other investors and Scottish based businesses the value that mission led impact investing can make. This report, outlining our portfolio's impact performance and the impact investment frameworks we apply, not only demonstrates the clear progress we are making towards the delivery of our missions but also the potential to deepen and extend the reach of our impact objectives through growing the impact investment community in Scotland.

Through delivering investment with a targeted and deliberate focus, we can catalyse and support transformational change across Scotland. We already see this through our investment in new technology to generate renewable energy, the development of affordable and efficient homes, and our impact focused investment in disruptive and transformational innovation.

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



## Annex 1: Our Impact Framework

### How Our Investments Support Mission Impact

Our missions offer a clear strategic direction and focus for our investment activity. They are outcome orientated and set out the impact that our investments are designed to enable over the longer term.

Our role as a mission led impact investor is to:

- ◆ Ensure that investments are assessed through an impact lens and aligned with our mission ambitions at point of investment.
- ◆ Ensure that investments support greater EDI, and high-quality fair employment.
- ◆ Ensure that mission impacts are evident in investee's business plans and strategies, holding businesses and projects to account through impact covenants as terms of investment.
- ◆ Define appropriate impact performance indicators.
- ◆ Track and report on progress towards our investment impacts.
- ◆ Enable and support more sustainable business practices through advice and guidance to our portfolio companies.
- ◆ Demonstrate how a focus on impact can also generate financial and commercial benefits and provide thought leadership to encourage the growth of impact investing within the wider investment community.

Our focus on patient capital means that in the early years of an investment our reporting data will focus on the outputs and shorter-term outcomes. This helps us build a picture over time to demonstrate how our investments contribute to delivering the longer-term mission impacts set by our Shareholder.

This Annex sets out the assessment frameworks and reporting tools that we use to review, monitor and determine impact from our investments.



## Annex 1: Our Impact Framework continued

### Key Impact Performance Indicators for our Investment Portfolio

To support the measurement of our investment impact performance, we have designed a performance reporting hierarchy that will be formally embedded from the 2023 reporting year (see Figure 5 below).

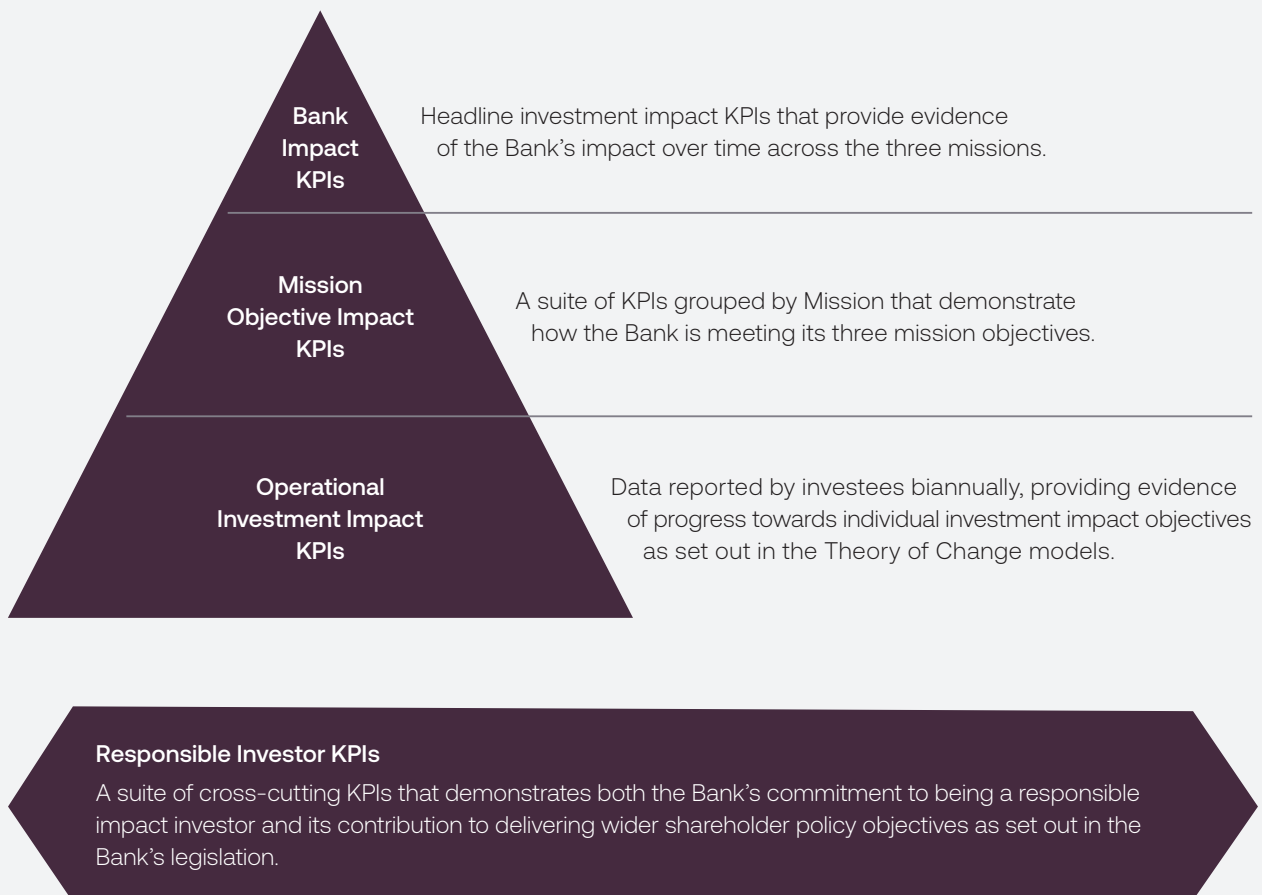
As we move towards a more targeted investment strategy (see Figure 2) that prioritises investment in sectors that we believe will provide the greatest impact for our capital we will also identify a number of impact targets that will further drive focus and intent in our investment decisions to support the delivery of our missions.

#### Forecasts and Targets

**Forecasts** are the projections that a company provides, that relate to growth targets and which we build into our investment Theory of Change models. They allow us to monitor investment progress against investment assumptions.

**Targets** are the quantitative goals that the Bank sets (at Mission and Bank level) that drive and focus our investments.

Figure 5: Reporting Hierarchy





## Annex 1: Our Impact Framework continued

### Bank Impact KPIs

From the next reporting period we will introduce a number of portfolio level KPIs that will provide a high-level overview of our investment impact over time across our three missions. Provisional KPIs are provided below and are designed to demonstrate actual performance, and where appropriate forecast performance. It is expected that the Bank would report annually within its Impact Report against these metrics, and that this reporting framework will evolve as our portfolio grows.

Actual Performance	Forecast Data
<p><b>Total renewable energy generated within Bank Portfolio</b></p> <p>Per reporting year and cumulative over portfolio lifetime.</p> <p>Measure: kWh/GWh and equivalence to number of homes powered.</p>	<p><b>Total projected renewable energy generated within Bank Portfolio</b></p> <p>Estimated over a rolling five year period.</p> <p>Measure: kWh/GWh and equivalence to number of homes powered.</p>
<p><b>Total carbon avoided, reduced and removed</b></p> <p>Per reporting year and cumulative over portfolio lifetime.</p> <p>Measure: tCO2e and include equivalence to number of return Glasgow to London flights.</p>	<p><b>Total carbon expected to be avoided, reduced and removed</b></p> <p>Estimated over investment lifetime.</p> <p>Measure: tCO2e and equivalence to number of return Glasgow to London flights.</p>
<p><b>Number of jobs supported through direct investment</b></p> <p>Per reporting year and cumulative over portfolio lifetime.</p>	<p><b>Number of jobs expected to be supported over the life of the direct investment</b></p> <p>Measure: total number of jobs expected to be supported over the lifetime of the direct investment aggregated at portfolio level.</p>
<p><b>Innovation Metrics</b></p> <p>To be developed during 2023.</p>	<p><b>Innovation Metrics</b></p> <p>To be developed during 2023.</p>
<p><b>Number of Scottish local authority areas benefiting from Bank investment</b></p> <p>Measure: total number x/32.</p>	
<p><b>Supply chain spend in Scotland</b></p> <p>Measure: Investee supply chain spend in Scotland (Amount (£) or % of total spend) per reporting year and cumulative over portfolio lifetime.</p>	



## Annex 1: Our Impact Framework continued

### Mission Impact Objectives

To support our impact framework, we have developed a set of 'mission impact objectives' for each of the three missions and an accompanying set of mission level KPIs that will be rolled out in FY2023/24.

The mission impact objectives provide greater understanding of our strategic impact and are, where appropriate, common to other impact investors and aligned to the National Outcomes and Indicators within the Scottish Government's National Performance Framework. They will shape our investment origination activity and enable us to better demonstrate the impact our investments enable.

The impact objectives assigned to each mission are outlined below alongside provisional associated KPIs<sup>22</sup>. These will be refined and agreed with the Bank's Board and Shareholder in 2023 and will inform impact assumptions and reporting in subsequent impact reports.



## Annex 1: Our Impact Framework continued

### Mission Impact Objectives: Net Zero

- ◆ Achieve a Just Transition by 2045
- ◆ Leader in sustainable technology, services and industries that specifically drive for less than 1.5C warming / promote net zero

Mission Objective	Proposed KPI(s)
1. To catalyse investment in businesses and projects connected to Scotland that support the shift to a net zero economy and / or provide employment and training opportunities for those currently working in Greenhouse Gas (GHG) intensive industries.	<p><b>NZ1:</b> % of the Bank's investment portfolio where the primary mission identified is Net Zero.</p> <p><b>NZ2:</b> % of the Bank's investment portfolio that contributes to the shift to a net zero economy.</p> <p><b>NZ3:</b> Amount invested by Bank (£) supporting businesses and projects contributing to the shift to a net zero economy.</p> <p><b>NZ4:</b> Third party capital (£) leveraged by the Bank supporting businesses and projects contributing to the shift to a net zero economy.</p> <p><b>NZ5:</b> Number of Just Transition Jobs supported through Bank investment.</p>
2. To increase Scottish based expertise in technology, services and industries that: <ol style="list-style-type: none"> <li>Accelerate decarbonisation.</li> <li>Mitigate climate change through capturing GHGs from the atmosphere.</li> <li>Ameliorate the effects of climate change.</li> </ol>	<p><b>NZ6:</b> % of the Bank's investment portfolio that contributes to accelerating decarbonisation.</p> <p><b>NZ7:</b> % of the Bank's investment portfolio that contributes to mitigating climate change through capturing GHGs (natural / technological processes) from the atmosphere.</p> <p><b>NZ8:</b> % of the Bank's investment portfolio that contributes to ameliorating the effects of climate change.</p>
3. To grow the circular economy within Scotland by 2045.	<p><b>NZ9:</b> Amount invested by the Bank (£) supporting businesses and projects that contribute to the shift to the circular economy.</p> <p><b>NZ10:</b> % of the Bank's investment portfolio that contributes to the circular economy.</p> <p><b>NZ11:</b> Volume of waste reduced over reporting period.</p>
4. To support Scotland's transition to Net Zero.	<p><b>NZ12:</b> Portfolio Scope 1 emissions</p> <p><b>NZ13:</b> Portfolio Scope 2 emissions</p> <p><b>NZ14:</b> Portfolio Scope 3 emissions</p>



## Annex 1: Our Impact Framework continued

### Mission Impact Objectives: Place-based Opportunity

- ◆ Place-based regeneration
- ◆ Reduction in inequality
- ◆ Improved outcomes for people and communities

Mission Objective	Proposed KPI(s)
Overarching Place Mission	<p><b>P1:</b> % of the Bank's investment portfolio where the primary mission identified is Place.</p> <p><b>P2:</b> % of the Bank's investment portfolio that contributes towards improving places.</p> <p><b>P3:</b> Amount invested by Bank (£) supporting businesses and projects that contribute to improving places.</p> <p><b>P4:</b> Third party capital (£) leveraged by the Bank supporting businesses and projects that contribute to improved places.</p>
1. To enhance the natural and built environment of Scotland through utilisation of undervalued space and the regeneration and improvement of built and natural environments (including use of natural capital and nature-based solutions).	<p><b>P5:</b> Hectares of urban land regenerated or improved as a result of Bank investment.</p> <p><b>P6:</b> Hectares of rural land regenerated or improved as a result of Bank investment.</p>
2. To improve by 2040 physical and digital connectivity across Scotland to increase access to services (including health care and education), training and employment opportunities, and greenspace.	<p><b>P7:</b> Number of homes and businesses with improved connectivity as a result of Bank investment (Physical and/ or Digital).</p> <p><b>P8:</b> % of portfolio businesses and projects that contribute to inclusive community service provision.</p>
3. To increase the supply of high-quality affordable homes and support the transition to net zero for existing homes with corresponding sustainable infrastructure by 2040.	<p><b>P9:</b> Number of homes financed through Bank investment (new and repurposed).</p> <p><b>P10:</b> % of homes financed through Bank investment achieving an EPC C rating or higher.</p>
4. To invest in businesses and projects that promote high quality place-based employment and training opportunities.	<p><b>P11:</b> % of portfolio businesses offering training opportunities to all employees.</p> <p><b>P12:</b> Number of jobs supported through direct investment.</p> <p><b>P13:</b> % of portfolio businesses that have operations in the 20% most deprived areas of Scotland (SIMD).</p>
5. To invest in businesses and projects that provide community benefit and support local supply chains.	<p><b>P14:</b> % of portfolio businesses that are SMEs.</p> <p><b>P15:</b> % of total supply chain spend that is spent in Scotland within portfolio businesses.</p> <p><b>P16:</b> % of portfolio businesses or projects that have provided community benefit through their operational practices within the reporting period.</p>





## Annex 1: Our Impact Framework continued

### Mission Impact Objectives: Innovation

- ◆ Innovation and industries of the future
- ◆ Healthier and resilient population
- ◆ Increased productivity

Mission Objective	Proposed KPI(s)
1. To grow the Scottish innovation ecosystem, by supporting innovative businesses to have a catalytic effect in their sector.	<p><b>I1:</b> % of investment portfolio where the primary mission identified is Innovation.</p> <p><b>I2:</b> % of Bank's investment portfolio that contributes to developing the Scottish innovation ecosystem.</p> <p><b>I3:</b> Amount invested by Bank (£) supporting businesses and projects contributing to developing the Scottish innovation ecosystem.</p> <p><b>I4:</b> Third party capital (£) leveraged by the Bank supporting businesses and projects contributing to developing the Scottish innovation ecosystem.</p> <p><b>I5:</b> Number of portfolio businesses and projects contributing to developing the Scottish innovation ecosystem.</p> <p><b>I6:</b> % of innovation-focussed businesses spending &gt;20% of budget on R&amp;D.</p> <p><b>I7:</b> % of innovation-focussed businesses actively supporting the broader innovation community.</p>
2. To increase investment in the scaling of disruptive, transformational and emerging technologies and discoveries.	<p><b>I8:</b> Number of portfolio businesses and projects involved in developing disruptive and/ or transformational technologies and discoveries.</p> <p><b>I9:</b> % of the Bank's total innovation investment directed at businesses involved in developing disruptive and/ or transformational technologies and discoveries.</p>
3. To develop products, services and technology that improve Scotland's human wellbeing and environmental resilience.	<p><b>I10:</b> Number of portfolio businesses and projects involved in developing technology that mitigates and protects against future risks to human welfare, wellbeing, and environmental resilience.</p> <p><b>I11:</b> % of the Bank's total innovation investment directed at businesses involved in developing technology that mitigates and protects against future risks to human welfare, wellbeing, and environmental resilience.</p>
4. To invest in businesses and projects that enhance productivity through product or process innovation.	<p><b>I12:</b> Number of new products / services introduced as a result of Bank investment.</p> <p><b>I13:</b> Number of new patents issued as a result of Bank investment.</p>

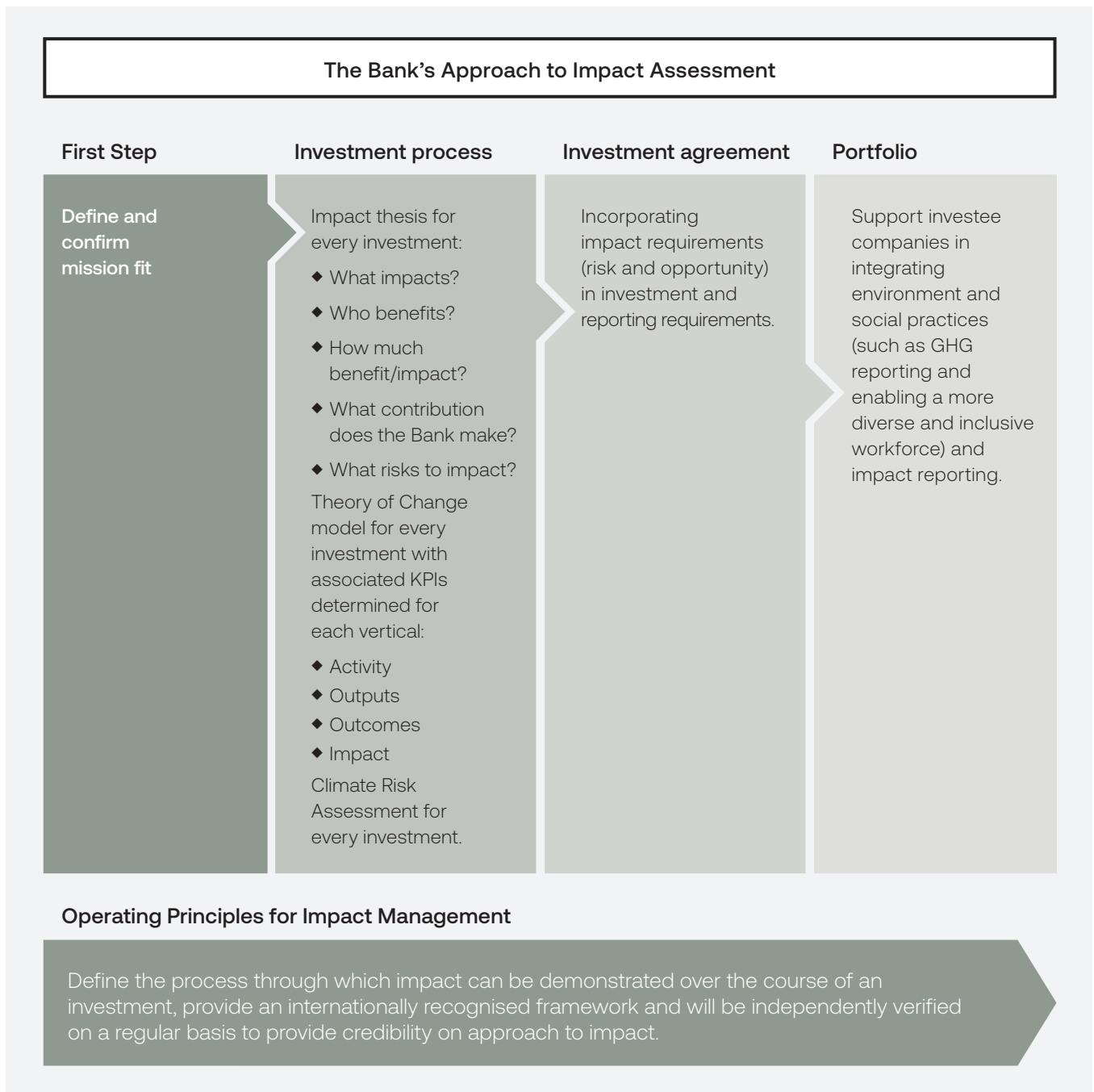


## Annex 1: Our Impact Framework continued

### Our Impact Investment Framework

#### Overview

Our approach to impact investing has been built on international good practices. We have developed an impact assessment and reporting framework which considers investment impact from the point of origination through to portfolio management, ensuring consistency and transparency in our assessment and reporting processes.





## Annex 1: Our Impact Framework continued

### Our Impact Thesis - Five Dimensions of Impact

Each investment proposition that we receive is filtered through a mission impact lens. Once mission fit is established, we consider all investment opportunities against the five dimensions of impact identified by the Impact Management Project\* to create a bespoke 'Impact Thesis'.

This is an industry recognised framework which supports a consistent approach to assessing the potential scale of impact based in five dimensions.

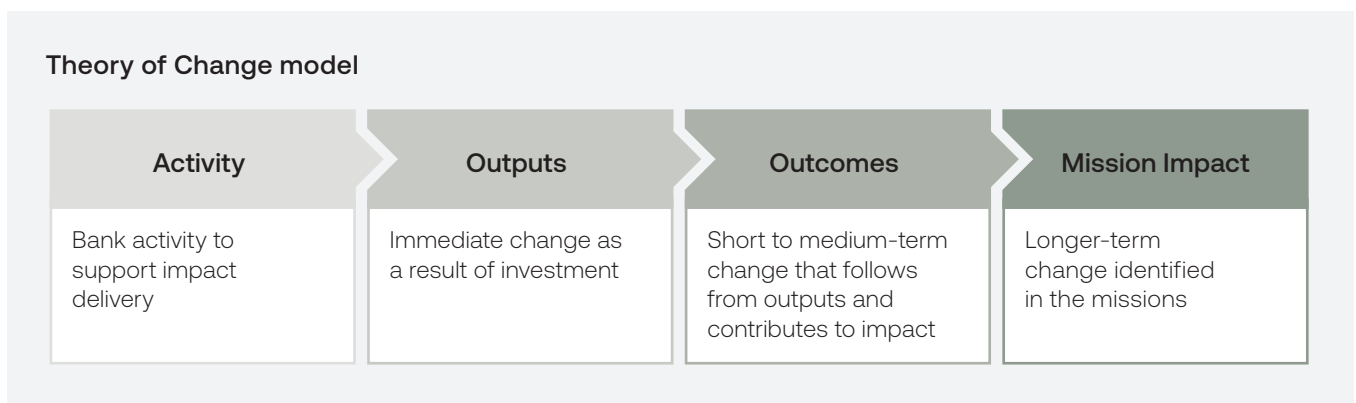
1. **What** – what outcome the enterprise is contributing to, whether it is positive or negative and how important the outcome is to stakeholders.
2. **Who** – which stakeholders are experiencing the outcome and how underserved they are in relation to the outcome.
3. **How much** – how many stakeholders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

This process, alongside individualised Theory of Change models that we create for each investment, helps us to identify the type, scale and beneficiaries of the investment, alongside understanding the specific contribution our finance and involvement is adding. We then use this thesis to assess the performance of our investments at an individual and portfolio level, and to consider any ESG risks that require ongoing management or mitigation.

### Theory of Change Models

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

The model is comprised of four key pillars:



These models are co-created with our investees and include mutually agreed Key Performance Indicators that allow us to monitor and assess impact performance against expectations over time.

\*<https://impactfrontiers.org/norms/five-dimensions-of-impact/>



## Annex 1: Our Impact Framework continued

Our missions were set by the Scottish Government in 2020. They were informed by the UN Sustainable Development Goals<sup>23</sup> and are aligned with the outcomes set out in the Scottish Government’s National Performance Framework<sup>24</sup>. All our investments support the delivery of the outcomes identified within these policy frameworks.

### UN Sustainable Development Goals

All the investments we make support the delivery of the UN’s Sustainable Development Goals with the mission focus specifically contributing to delivering the six goals shown opposite.



### Scotland’s National Performance Framework

The National Performance Framework (NPF) aims to bring together everyone in Scotland to work towards achieving a common set of outcomes, which focus on creating a more successful country with opportunities for all of Scotland to flourish through increased wellbeing, and sustainable and inclusive economic growth.

Our investment strategy actively supports the delivery of the NPF through mission led impact investment in sectors that support positive social, economic and environmental change within and beyond Scotland.





## Annex 2: Responsible Investor Indicators

As a Responsible Investor we are committed to investing in businesses, projects and funds that both support the delivery of our missions and share our wider economic, environmental and social values.

As part of our due diligence and on-going monitoring activity we are developing a suite of performance indicators. These indicators help ensure we invest responsibly and in line with accepted investment industry ESG principles (Principles for Responsible Investing and the Bank's Ethical Investment Policy) and our Shareholder's policy delivery expectations<sup>25</sup>.

These indicators will be reviewed and refined during 2023.

### Indicative Responsible Investor Indicators

#### Economic

% of portfolio businesses that have made a commitment to support Fair Work First principles.

% of portfolio businesses paying direct permanent employees at least the Real Living Wage.

% of portfolio businesses that don't inappropriately utilise zero hour contracts.

#### Environment

% of portfolio businesses and Funds that have a Carbon Management Plan and/or Net Zero Plan.

% of portfolio businesses and Funds which impact biodiversity/ natural capital and have a Biodiversity Strategy.

% of portfolio businesses and Funds that utilise an Environmental and Social Management System.

#### Social

% of portfolio businesses and Funds that undertake an annual gender pay gap analysis and have developed an accompanying strategy.

% of portfolio businesses and Funds where there is an equal gender balance on the Board.

% of portfolio businesses and Funds that have an Equality, Diversity and Inclusion Strategy.

#### Governance

% of portfolio businesses and Funds that hold formalised corporate governance policies.

% of portfolio Funds that hold an ESG policy.

% of portfolio businesses and Funds where at least 50% of Board Members are Non-Executive Directors or Independent Directors.



## End Note: How we calculate our data

### **Investment information included in our 2022 impact Report:**

We report impact performance on a calendar year basis. This report contains data relating to investments held in our portfolio up-to and including 31 December 2022.

Impact data is typically collected on a biannual year basis. Investments held for less than 6 months of the reporting period may be exempt from reporting and therefore excluded from reporting calculations.

### **Carbon Emission Reporting**

Emissions associated with our investments have been calculated in line with the GHG Protocol Corporate Accounting and Reporting Standard, and the UK Government Conversion Factors for greenhouse gas (GHG) reporting. The reporting of Scope 1 and 2 emissions represent the totality of each business' emissions. As the Bank moves towards refining its carbon reporting in line with the GHG protocol relating to investments and our TCFD requirements we will seek to calculate emissions relating specifically to our investment.

As the Bank's portfolio and reporting matures, selected Scope 3 emissions will be identified and included in our reporting, specific to the type of investment we are making.

### **Fair Work**

Investments made prior to the Bank's Fair Work Direction<sup>26</sup> (October 2021) may not be subject to our Fair Work reporting requirements and may therefore be excluded from any analysis on the adoption of the Fair Work Principles within our portfolio.

### **Jobs Impact Reporting**

The Bank calculates the indirect and induced impact of job creation based on the direct employment from the Bank's activities and, in line with Scottish Government and standard methodologies, uses Leontief Type I and Type II Employment Effect multipliers for indirect and induced impacts respectively. The calculations do not include the activity of our Fund investments e.g. the direct, indirect, or induced impacts of the construction activities through our investment in PfP Capital.



## References

1. Our impact performance is measured on a calendar year basis.
2. <https://www.thebank.scot/sites/default/files/2022-10/snib009-business-plan-fy22-23.pdf>
3. Scope 1 covers emissions from sources that an organisation owns or controls directly. Scope 2 are emissions that a company causes indirectly when the energy it purchases and uses is produced.
4. <https://www.thebank.scot/portfolio>
5. See Jobs Impact Reporting on page 54.
6. <https://www.gov.scot/news/scotland-leads-on-the-real-living-wage/>
7. The Bank recognises that appropriate use of zero hours contracts may offer mutual benefit to the employee and employer when it is mutually requested.
8. Based on business as usual from current generation and projected generation from our investment in Asper Iona Fund.
9. <http://bit.ly/3Z2F7pu>
10. Flights are estimated based on a British Airways Airbus A319-100 with 144 passengers travelling from Glasgow International to London Heathrow (556 km) and calculated using BEIS emission factor 0.24587 kgCO<sub>2</sub>e/passenger km: 556 x 0.24587 = 0.137 tCO<sub>2</sub>e x 144 = 19.728 tCO<sub>2</sub>e for capacity flight).
11. ScotWind is a ~28GW offshore wind licencing round run by Crown Estate Scotland and directly supports the delivery of Scotland's net zero targets and a just transition for the North East. There are currently no floating offshore wind projects at the scale of ScotWind anywhere in the world. ScotWind therefore provides a huge opportunity for Scotland to become world leaders in a technology area that will drive decarbonisation forward.
12. The Bank prioritises investment in high quality fair work. Jobs supported includes all current and new permanent employees present in the workforce during the reporting period.
13. [https://www.ofcom.org.uk/\\_data/assets/pdf\\_file/0033/249288/connected-nations-scotland.pdf](https://www.ofcom.org.uk/_data/assets/pdf_file/0033/249288/connected-nations-scotland.pdf)
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16. [https://www.nasa.gov/mission\\_pages/station/news/orbital\\_debris.html](https://www.nasa.gov/mission_pages/station/news/orbital_debris.html)
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19. <https://www.gov.scot/publications/fair-work-action-plan-becoming-leading-fair-work-nation-2025/>
20. <https://www.thebank.scot/sites/default/files/2022-10/the-bank-annual-report-2022.pdf>
21. <https://www.thebank.scot/sites/default/files/2022-11/risk-management-framework-2022.pdf>
22. KPIs may be reviewed and refined over the reporting period.
23. <https://sdgs.un.org/goals>
24. <https://nationalperformance.gov.scot/>
25. Policy expectations are set out in Scottish National Investment Bank Act 2020 (<https://www.legislation.gov.uk/asp/2020/3/contents/enacted>)
26. <http://bit.ly/3JzH9rr>



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