Annual Report and Accounts 2023

The Scottish National Investment Bank plc

Company number SC677431

Contents

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

Image above: Trotternish, Isle of Skye
Cover image: The Clyde Arc Bridge, Glasgow

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

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

The Bank's Ambition

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

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

Performance Highlights

Financial Highlights

Gross Operating Income

463% increase year-on-year

Accelerated income generation of £10.7 million in the year

(2022: £1.9 million)

Committed Investment

55.5% increase year-on-year

Increase in Committed Investment of £220.7 million in the year

(2022: £141.9 million)

Investment Drawdown

17.5% increase year-on-year

Ramping up of investment activity with investment capital deployed of £151.9 million in the year

(2022: £129.3 million)

Mission Delivery Highlights

Net Zero

1.8GWh of renewable energy generated by our portfolio

Place

481 homes built and available for mid market rent

Innovation

43 patents supported by our investment

Salisbury Crags, Edinburgh

Strategic Report

Chairman's Statement

Following our launch in November 2020, the Scottish National Investment Bank has been operational for over two years. Our capacity as an organisation to deliver insight, investment and impact has grown significantly. As an institution we are moving out of our start-up phase and are becoming an increasingly established organisation which is delivering solidly against our business plans.

The three grand challenges that the Bank was established to help address – the climate emergency, place-based inequality and innovation challenges – have formed the basis of a developing portfolio of diverse, innovative investments. We have published thought leadership across a range of topics encompassing scaling businesses, impact investment, and net zero. We are an impact investor using world class investment impact assessment and reporting frameworks to evidence our impact.

This year has brought significant economic challenges. High levels of inflation have driven up businesses' operating costs and impacted upon their supply chains. The overall economic climate has been challenging for companies seeking to raise investment.

As a development bank with a particular focus on long-term and strategic investment, we have worked to support innovative, growth-oriented businesses to navigate these conditions while delivering on their ambitious business strategies. We have worked flexibly when making investments, and in supporting our portfolio of investee companies to realise their growth ambitions and plans.

By focussing on the fundamentals of businesses, and taking a long-term view, we have added 13 new investments to our portfolio, in addition to the 14 investments we held at the start of the year, and have extensively supported our investee companies through follow on investments. In doing so we have successfully committed £221 million of capital in Financial Year 22/23 (FY22/23) (FY21/22: £142 million). This investment activity has spanned all our missions, in a range of businesses and projects, and reaches widely across Scotland.

We have also seen our income increase in this financial year. This is particularly important to us as the Bank moves towards a position of operational financial self-sustainability. Growing our revenues, alongside reinvestment of our returns into other businesses and projects, will in turn enable us to build the Bank as a perpetual fund for Scotland.

Through our engagement and our co-investment, we are increasingly established within the Scottish investment ecosystem and have built positive relationships with partners across the private, public and third sectors. As a development bank our role is not to displace private sector investment, but instead to enable and encourage private capital. We are ambitious for the impact our investments can deliver and want to work and convene other impact investors in Scotland.

Continuing to build our reputation as a credible and robust investor, and developing positive relationships with our ecosystem, will be important to the Bank's engagement with key economic opportunities facing Scotland.

One of these economic opportunities is the need for a competitive and resilient offshore wind supply chain. The 40GW worth of projects in the pipeline for offshore wind is more than the US Inflation Reduction Act is envisaged to deliver. This must be a strategic investment opportunity. Similarly, the need to find new ways of heating the 2 million properties – more than 80% of homes in Scotland – that use mains gas as their primary heating fuel, will require new and innovative financing solutions.

Given our role within the Scottish funding ecosystem it is also imperative that we help address long standing issues such as the fact that more than half of the workforce in Scotland is earning less than £25,000 per year, or the need to support communities, workforces and companies in transitioning from local economies based on fossil fuels to being based on the industries of the future.

We aim to act as a catalyst to encourage investment in businesses or projects in the private and third sector in which it may otherwise be challenging to obtain funding. We have seen strong early evidence of the positive role we can play.

As an impact investor our missions and the wider environmental and societal benefits our capital can enable are central to our decision-making, and we have continued to seek both an impact and commercial return from our investments. Our investment profile, investment strategy and approach to the sustainability of our investments are now clearly aligned to our intended role as an Impact Investor.

While delivering impact and commercial returns from our investments, as a development bank we also have higher risk appetite than other investors. Our approach to risk is based on the measured judgement of our investment team and is considered throughout the investment decision making process. Those who make our investment decisions are driven by the strong sense of purpose we have as a mission focused organisation, including our experienced and independent Board.

While it is inevitable that not all of our investments will deliver a positive return – indeed were all our investments successful it would likely indicate that we were not taking enough risk – and despite incurring our first investment loss after the end of this financial year, we continue to work towards a positive net return across our portfolio as a whole, demonstrating both responsible and productive stewardship of public capital.

We are a non-political organisation that is operationally independent of the Scottish Government. We take all our own investment decisions, and as Chair and as a Board we are responsible for the decisions we make.

I remain excited about the opportunities facing Scotland and the Bank in the coming year. We will continue to support our scaling innovative businesses - a recognised priority in the Scottish Government's National Strategy for Economic Transformation; we will build on the progress we have made on incorporating equality, diversity and inclusion considerations in all of our work; and we will look to realise the economic opportunities of the transition to net zero, and to support businesses in Scotland looking to transition their activities.

We have an experienced and skilled team in place at the Bank, and I am grateful to them for all their work in progressing the Bank's activities this year.

I am also particularly pleased to welcome Al Denholm as CEO. The Board and I believe that he has the right balance of skill, experience and values to successfully lead the Bank as it grows and develops in this coming year and into the future.

It is therefore appropriate that I conclude by extending particular thanks to Sarah Roughead for her work as interim CEO. She has played a key role in enabling the Bank to continue its progress in delivering investments.

Willie Watt
Chairman

Interim Chief Executive Officer's Review

Over the FY22/23 financial year, it is clear that we have evolved into an ambitious, active impact investor that has strong foundations and is demonstrating how effective deployment of capital can be a significant force for good across Scotland. I am extremely proud of the great team we have built at the Bank: a group of motivated, passionate professionals who are providing new insights that we are using to make investments that have clear, intentional, social, environmental, and economic benefits.

In this review I am seeking to highlight the significant progress the Bank has made in the past Financial Year, with Al Denholm, our CEO, providing his perspectives in the next section.

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

Since our launch, we have now invested in 27 businesses and projects that span the length and breadth of Scotland – from Nova Innovation growing its activities in the Orkney Islands, to IndiNature building new manufacturing operations in the Borders. These investments are already directly supporting some of our most disadvantaged communities, as nearly 30% of our portfolio businesses have operations in 20% of the most deprived communities*. Our investments support all three of our missions and have demonstrated our flexible approach to the investment we offer. You can read more about these on our website (www.thebank.scot/portfolio).

As a development bank, we will ultimately be judged on the impact we have made, and the change in society we have driven. The Bank has now been in operation for a little over two years and has committed over £415 million of investment, which has supported additional investment from other sources of over £680 million. Well over one billion pounds has therefore been committed to the Scottish economy as a result of our engagement with the market. This demonstrates that we are now firmly established.

Part of our role as a development bank is to create new markets and sectors for investment by proving the commercial viability of businesses and technologies that will enable the levels of private investment required to transform Scotland and deliver our missions. While we are still new to the Scottish funding ecosystem, we are already starting to make our mark in these markets.

A clear example of this is our investment activity to support Scotland's Just Transition to Net Zero. Not only have we invested in businesses that are providing innovative ways to generate and store renewable energy such as Orbital Marine and Verlume, but also into strategic infrastructure businesses that are required for the transition, such as the Port of Aberdeen and North Star Renewables. We welcome £25 million of additional capital that the Scottish Government allocated to us from their Just Transition Fund to invest on top of previously agreed capital for investment in the upcoming Financial Year.

We have also been supporting the scale up and innovation sectors. Scaling businesses are a focus within our Innovation mission, as their link to productivity is key to creating high-quality, well-paid jobs in sectors that can help to transform not just the economy, but society more broadly. In our review of the Scaleup landscape that we published in collaboration with the ScaleUp Institute, we highlighted the historic gap in growth capital for businesses seeking to grow at speed. In the past year alone, we have made seven equity investments for technology businesses that form part of this sector and that have ambitious plans for growth. We also provided funding to a further five technology businesses that we had previously invested in, providing more than £88 million of capital directly into Scotland's technology ecosystem.

The Bank's Missions

Net Zero Mission

Achieving a Just Transition to net zero carbon emissions by 2045.

Invest in rebalancing our economy towards leadership in sustainable technology, services and industries.

Place Mission

Extending equality of opportunity through improving places by 2040.

Invest in places and regeneration to reduce inequality and improve opportunities and outcomes for people and communities.

Innovation Mission

Harnessing innovation to enable Scotland's people to flourish by 2040.

Invest in innovation and industries of the future for a healthier, more resilient and productive population.

*As defined by the Scottish Index of Multiple Deprivation.

Financial highlights

£415.1 million[1]
Amount invested since launch

£682.4 million[1]
Amount invested alongside Bank commitments

£1.098 billion[1]
Total investment into investee businesses

1. Correct at 31 March 2023.

Interim Chief Executive Officer's Review continued

Total renewable energy generated by our investee businesses

Powering over **472 homes**

Jobs supported within our investee businesses

2,300[2]

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

Since launch our investments have supported

20 Scottish local authorities benefited

Proportion of investee businesses committed to Fair Work First principles

100%

Our £17.8 million investment in space launch services provider Orbex, has been highlighted as one of the most significant equity deals of the year across Scotland. This investment was part of a wider funding round which raised £40 million in total. This investment is not, however, about just one company or just one of our missions. Scotland has had a growing space technology sector for many years now, but the outputs from this have had to be exported for launch all around the world. By investing in Orbex, we are helping to create the spaceport in Sutherland and the launch services that will depart from there, therefore creating a fully integrated space supply chain within Scotland. This will provide highly valued technology jobs in rural parts of Scotland, supporting the creation of new opportunities for local communities.

Beyond the investments we have already made, we are also looking at how we can increase access to investment for those who have typically been underserved. We are approaching this from several perspectives. Ana Stewart's 'Pathways: A New Approach for Women in Entrepreneurship', highlights the vast gap in funding between male and female founded businesses, and also indicates that this gap exists in areas beyond gender. Similarly, there are geographic trends in where investment funds typically flow. While we have begun our work in this area in the year past, we acknowledge that there is much more to do.

Our impact work does not stop at the point of investment. We have worked closely with our investee businesses to provide them with support in a range of areas such as Greenhouse Gas reporting, corporate governance, approaches to Equality, Diversity and Inclusion and creating 'Fair Work' workplaces.

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

It has been a pleasure and privilege to lead the Bank over this Financial Year. We have achieved a great deal and now have strong foundations from which to grow. I would like to thank the Board and my colleagues across the Bank for their support and passion, with clear and exciting plans to further deliver for Scotland.

Sarah Roughead
Interim Chief Executive Officer

Chief Executive Officer's Statement

I joined the Bank shortly after the end of the Financial Year. In the short time I have been in position, I have been impressed by how the Bank has built its capabilities and infrastructure since launch.

Establishing any new Financial Services enterprise is a challenging undertaking, particularly given the COVID challenges we have faced in recent years. The Bank has clear and ambitious missions as defined by the Scottish National Investment Bank Act 2020, and the team have been working hard to build the foundations to deliver on these. Investment, Risk, Finance, Operations, People and Stakeholder Engagement teams have been created to the standards required of an FCA authorised investment management firm. As someone who has worked in institutional asset management for all my career, I am very pleased to observe the quality of the work that has been done so far.

Meanwhile, Policies and Procedures to ensure we deliver on our mandate have been defined and are now operational, and the Investment team are making many meaningful investments through both commercial and impact lenses as noted earlier.

As Sarah and Willie noted earlier, our insights and investments are already providing impacts not just at the level of individual businesses – important though that is – but are helping transform markets and communities in Scotland.

The Bank already has stated its vision for investing not only the public capital we are allocated by the Scottish Government, but also crowding-in third party capital and ultimately investing capital on behalf of others in order to bring further capital to bear on delivering our missions.

I have led institutional investment businesses in the past and so have experience of how challenging attracting this capital will be. That said, I see the Bank as having clear and compelling differentiation from which I am confident we will be able to successfully attract this capital. By having clear targets in place for the positive benefits to the environment and society we are seeking to make, we can prove to potential investors that not only do we have an established track record of providing commercial returns, but that these returns have come as a result of demonstrably changing Scotland for the better.

I am excited to join the Bank as I see an organisation whose high level of ambition is matched by its emerging track record of delivery. I find the clarity of purpose within the Bank extremely inspiring and believe that we can become one of the most respected impact investors in the industry, generating great social, environmental and economic returns for the people of Scotland. I very much look forward to working with the team and our many stakeholders, on delivering on our missions on behalf of the people of Scotland.

Al Denholm
Chief Executive Officer

Strategic Priorities

We published our Business Plan at the beginning of this Financial Year, in which we articulated our strategic themes for the year ahead. While all of these themes build towards our stated ambition of ***"Transforming Scotland through our Insight, Investment and Impact",*** we have articulated our ambitions and objectives for each of these themes – demonstrating what we are aspiring to achieve and recognising that we must now build on what we have created so far.

1. Demonstrating and enabling impact

Our ambition

> **"A portfolio of impactful and transformative mission-focused investments that will have enabled sustained change across Scotland."**

Our primary outcome is the impact we deliver, which is why our first strategic priority is to demonstrate and enable impact. The term 'Impact Investing' has a range of definitions and can take many forms. At the Bank we align to the definition used by the Global Impact Investing Network (GIIN) as "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."

Our priorities for the year ahead are:

- To develop clear and ambitious impact targets.
- To 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.
- To embed strong impact governance, and assessment and reporting frameworks, including making our first public Principles for Impact Management Disclosure Statement.
- To support investee businesses on their impact journey, helping them to integrate and report on impact as part of their business strategies and plans, which will be facilitated by our new Portfolio Information Management System.
- To demonstrate leadership in Climate Reporting, including publishing our first Task Force on Climate-related Financial Disclosures (TCFD) report and working to promote wider uptake of TCFD reporting in Scotland. As part of this we will report on the Scope 1 and 2 emissions of investee businesses, in addition to the Bank's operational carbon footprint.
- To support the creation of an Impact Investors network within Scotland.

2. Delivering Investment

Our ambition

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

The primary way we enable impact is through the investments we make. We will continue to grow our portfolio of investments which will have both a positive, risk-adjusted, financial return, as well as impacts in support of our missions. As a development bank, our investments will demonstrate the commercial potential of innovative business models and emerging sectors and market opportunities, enabling future investment from the private sector. We are targeting our investments into focused sectors with the greatest opportunity for impact and progress towards our missions.

Our priorities for the year ahead are:

- To drive forward and cement the Bank's role as a key enabler for the ScotWind strategic market opportunity.
- To follow our active origination strategy, focusing the deployment of our capital with precision into the sectors and opportunities offering the greatest impact.
- To continue to evolve our tools and processes for enabling investment decision making and the capturing of key insights.
- To monitor the near-term horizon for changes in the economic climate so that we can ensure our opportunities are calibrated for value against an accurate risk profile, as well as alignment with missions.
- To target our market engagement approach, building relationships and partnerships that can help to inform our understanding of opportunities, and with whom we can share our insights.
- To drive further efficiencies in our investment processes, complementing focused due diligence with insight from key experts, to better inform swift decision-making.

Strategic Priorities continued

3. Building insights, partnerships and our reputation

Our ambition

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

We have more to offer Scotland than just our investment capital. We are investing into emerging sectors and technologies, within evolving commercial and policy landscapes. The experience we gain from this, our collaborative approach and our curious, active research into our target markets will enable us to publish insight that is of direct value to others who share our interests. We will continue to actively share these insights, to help grow understanding across the market and to ensure we are seeking challenge on our perspectives. Our insights will also inform us of where there are areas, communities and founders who do not yet have equality of opportunity for investment. This insight will reflect the nuance and practical realities that define the real-world experience of those operating in our target sectors.

Our priorities for the year ahead are:

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

4. Enabling private sector investment

Our ambition

"To accelerate private capital alongside investments that support our missions."

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

Our priorities for the year ahead are:

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

Strategic Priorities continued

5. Realising the potential of our people

Our ambition

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

We will only achieve our missions by having a diverse, highly motivated and skilled team who can deliver on our ambitions. Our strategy will create unique and varied opportunities for people to learn, grow and succeed. A key driver of our success will be equipping and developing the team in support of our business goals; ensuring we have the skills and behaviours required to deliver.

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

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

Our priorities for the year ahead are:

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

6. Targeting financial self-sustainability

Our ambition

> "To be a perpetual development bank for Scotland that is self-funding from a mission-aligned portfolio of impact investments."

We intend to become a permanent, growing, investment fund for Scotland. To achieve this, we need to ensure that the returns we earn from our investment activities more than cover our costs and are re-invested to enable the funds we invest to grow beyond the £2 billion of capital committed by the Scottish Government. As a development bank, many of the investments we make will be higher risk than those typical within the private market. We will ensure that the returns we agree are fair for this increased risk, and fully acknowledge that as a result we will inevitably incur a higher loss rate with respect to company failures. This will mean that our portfolio is likely to have a greater level of volatility in investment gains and losses. In addition, we are investigating with our shareholder a structure for how we are funded that eliminates our current annual budgetary challenges and allows reinvestment of capital. We are also very aware that we are publicly funded and so it is crucial we maintain a value for money culture for the resources we need and the costs they incur.

Our priorities for the year ahead are:

- Target a balanced deployment profile for our investments across the year.
- Invest in an appropriate mix of Debt, Equity and Fund opportunities to ensure a balance of 'in year' income and longer-term, exit derived returns.
- Support the operational development of an appropriate, investible third party capital structure.
- Work with our shareholder to identify potential solutions to our annual budgeting that support our role as a patient capital investor.
- Continue to challenge ourselves around the cost, resource and quality requirements for our operational delivery, ensuring we have a value for money culture.

Balanced Scorecard

In addition to the financial performance presented elsewhere in these accounts, we also report our performance against a 'Balanced Scorecard', made up of the strategic priorities we articulated in our Business Plan, including the Key Performance Indicators (KPIs) for each strategic priority within the plan. This section provides our analysis of this performance, giving a concise commentary on how we performed against the ambitious targets and KPIs we set for ourselves. For each area of the Balanced Scorecard we defined thresholds against these ambitious targets, for what we considered 'Below expectation', 'Good', 'Strong' and 'Excellent'. We have used these ratings, to summarise our progress in each area of the Scorecard.

Balanced Scorecard of Strategic Priorities for FY22/23

Balanced Scorecard FY22/23

Mission and Impact

Performance: **GOOD**

Key Performance Indicators

- Evolve impact processes, capacity and reporting.
- Build out a suite of core Key Performance Indicators.
- Engage portfolio companies on impact and reporting needs.
- Engage impact ecosystem to develop and share good practice.
- Design of TCFD implementation and Net Zero Strategy.

Summary of performance:

- All of our investments have clearly defined impact expectations, and we are working closely with our portfolio businesses to support them in understanding, measuring and reporting on impact. In addition, we have encouraged portfolio companies to be progressive in their approaches to Equality and Diversity and in the adoption of Fair Work Principles.
- We measured and reported our progress in enabling impact via our 2023 Impact Report.
- We have adopted the Principles for Impact Management and have integrated world leading impact investment processes in line with these principles. These have been externally reviewed, with areas for improvement identified, to enable us to focus on best practice.
- We established a suite of Key Performance Indicators (KPIs) to ensure we capture the right impact data at an individual investment and portfolio level. These are enabling us to demonstrate mission delivery and track impact performance against expectations. Bank wide Impact targets are yet to be developed and will be an area of focus for FY23/24.
- We held a successful Impact Investing summit and published an important 'landscape review of impact investing in Scotland' leading to engagement on the opportunities and challenges of impact investment in Scotland. We look forward to further convening an impact investor group across Scotland and developing the summit as an annual fixture.
- We have also developed our carbon plan and are on target to make disclosures in line with the Taskforce for Climate-related Financial Disclosures (TCFD) in the next financial year.

Balanced Scorecard continued

Balanced Scorecard FY22/23

Investment and Financial Performance

Performance: **GOOD**

Key Performance Indicators

- Commit £218 million to mission aligned investment.
- Control costs within allocated budgets.
- Continue to crowd-in co-investment.
- Seek regulatory permissions to further support crowding-in of investment.

Summary of performance

- We committed £221 million of investment capital, ahead of our planned £218 million, although deployed capital was below budget.
- Developed and implemented an active origination strategy, focusing our investment activity to where we believe it can have the greatest impact.
- Supported the management teams of portfolio companies as they navigated a difficult economic landscape. We provided insight on the latest policy developments and acted as a conduit between management teams and policy-makers. In March we conducted a survey of our investee businesses with positive results. This survey highlighted key areas and processes that could be improved, and we continue to evolve our organisation given this and other inputs.
- Supported nine portfolio companies through follow on investments in support of our growth and patient capital approach.
- Survey of Investee companies completed, seeking feedback from companies in whom we had invested for at least six months. Feedback from this survey included 100% stating they were positive in their attitude towards the Bank.
- We recognised unrealised losses in this financial year. The losses are not outwith our risk appetite and we still forecast to deliver positive returns in future periods.
- Have driven a value for money culture and recognised the context of our governmental funding. Our income (£10.7 million increased from £1.9 million FY21/22) made strides towards operational financial self-sustainability with costs (£13.0 million) coming in 20% under budget.
- Over the Financial Year £238 million in additional, external, funds were invested alongside the Bank as part of total investment rounds. Since the launch of the Bank £680 million of these additional external funds have been invested.
- As a key step on our journey towards managing third party funds, our subsidiary Scottish Investments Limited applied for the first stage of FCA regulation.

Balanced Scorecard FY22/23

Ecosystem Engagement and Insights

Performance: **GOOD**

Key Performance Indicators

- Deepening public sector engagement – particular targeting of local authorities and key UK Government teams.
- Strengthened media engagement.
- Publication of first Bank insights pieces.
- First stakeholder survey.

Summary of performance

- We grew our profile in the ecosystem through increased engagement, networking and sharing our insights. We convened two conferences that brought key strategic topics to greater prominence. An 'Impact Investing Summit', which we delivered in November 2022, was followed up in March 2023 when we brought business leaders from across Scotland together for our 'Scaling Up Summit', both delivered in partnership with The Times and The Sunday Times.
- We held the Bank's first Portfolio network event, focusing on the opportunities and challenges of scaling up businesses.
- We continued to build positive relationships with the media with this work ongoing for the year ahead.
- Aligned insights and external communication with our origination strategy leading to stronger stakeholder and media engagement. We published a detailed insight paper on the opportunities and challenges of decarbonising home heat, a review of impact investing in Scotland and a series of pieces focused on different aspects of the ScotWind developments, publishing 11 insight reports and blogs in total over the year.
- Forged a broad range of partnerships across our ecosystem, supporting the investment ecosystem in Scotland (The Hunter Foundation), the development of our insights (for example with The Good Economy and the ScaleUp Institute), and the delivery of our Equality Strategy (including Black Professionals Scotland and Career Ready). We have also continued to build positive relationships with the enterprise agencies and other Development Finance Institutions such as the UK Infrastructure Bank and the British Business Bank.
- Targeted engagement has taken place with Local Authorities, with a particular emphasis on potential project collaboration. Engagement has included: Glasgow, Fife, North Lanarkshire and North Ayrshire on regeneration; Orkney Islands, Shetland Islands, and Comhairle nan Eilean Siar on Islands Growth Deal projects; North Ayrshire and Renfrewshire on specific opportunities; and Edinburgh, East Lothian and Glasgow on heat decarbonisation.
- We established the level of positive perception of our key stakeholders via a survey, which demonstrated that the majority (68%) of these stakeholders who were aware of the role of the Bank had a positive attitude towards us, although it also highlighted a range of areas in which we could improve, for example, the perception that our investment processes should be faster.

Balanced Scorecard continued

Balanced Scorecard FY22/23

People and Culture

Performance: **GOOD TO STRONG**

Key Performance Indicators

- Publication of the Bank's Equality Strategy and implementing the plan to deliver on the Bank's Equality outcomes.
- Embedding of the Bank's values and culture.
- Development of the Bank's team.
- Increasing awareness of wellbeing and mental health; equipping people managers to support individuals.

Summary of performance

- Launched the Bank's core values that will underpin our culture, and started to embed these with further work planned for the year ahead.
- Published our Equality Strategy (available on our website) and formed an Equality Strategy and Delivery Group who have implemented a plan to deliver our Equality Outcomes. Positive progress has been made working with external partners to provide mentoring and internships and upskilling the Bank team with diversity training.
- Delivered a programme of learning and development for the Bank team (although we recognise further work is required), which supported the internal promotion of team members. From our last people survey, when asked if the Bank provided opportunities to learn and grow, 80% of the Bank team agreed.
- Listening and acting on feedback from the Bank team through our 'Team Voice' group and bank-wide people surveys (demonstrating, on average, 87% positive sentiment towards the Bank as an employer).
- Establishing an internal well-being group to increase awareness of well-being and mental health and providing resources through our People Hub. From our last people survey, 90% of the Bank team agree or strongly agree that the Bank cares about their well-being.

Balanced Scorecard FY22/23

Governance and Risk

Performance: **GOOD**

Key performance indicators

- Risk management data developed, refined and captured.
- Risk analysis continues to be reflected in the Bank's investment decisions.
- Successful delivery of risk management programme.
- Regulatory FCA approval granted.

Summary of performance

- We continued to build a risk aware culture, reflecting the changing risks of a growing business. As part of this, we continued to develop and refine our risk management data.
- We monitored and valued all of our investments quarterly, and had constructive engagement from our portfolio businesses in which they evidenced the value added to them by their relationship with the Bank.
- Reflected changing macro-economic conditions in approach to supporting and originating investments. Investments made within risk appetite.
- We delivered a programme of risk management training to all of the Bank team.
- As a key step on our journey towards managing third party funds, our subsidiary Scottish Investments Limited applied for the first stage of FCA regulation, which is subject to approval.
- Robust internal audit process, combined with a culture of learning and development, leading to clear actions being taken forward.
- We continued to refine the Risk Management Framework and to develop supporting Management Information and Key Risk Indicators, with further work required in the forthcoming year.
- Given feedback from our stakeholders and our own internal analysis, we recognise the need to reflect on our processes to further drive efficiency of delivery.

Kenovara Beach,
Tiree

“By showcasing our social and environmental impact as an investor, and by continuing to work collaboratively with other investors, the government, and regulatory authorities, we will support the growth of impact investing in Scotland. ”

Impact Investing

Impact investing

Introduction

As a development bank, our performance is demonstrated by the impact we have made and the change in society we have driven.

Unlike our financial performance, our investment impacts are reported on a calendar year basis and last year's report was the first full year of impact reporting at the Bank. Delivering impact takes time but we are pleased to be able to share the results that we are already seeing across our portfolio in our 2023 Impact Report, highlights of which are provided overleaf.

Proving that impact investing enables commercial returns along with social and environmental dividends is important to the Bank. The landscape review we published in 2022 found that there are already significant amounts invested in businesses and projects using an 'impact investing' discipline, but that there are significant volumes of funds that may have sustainable goals or ambitions but are not yet operated as impact investments.

It is our intention that by showcasing our social and environmental impact as an investor, and by continuing to work collaboratively with other investors, the government, and regulatory authorities, we will support the growth of impact investing in Scotland. This in turn will help more finance – public and private – to flow into businesses and projects that will ultimately benefit Scotland's people, places, and environment.

Delivering Impact

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 focused 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.

Responsible Investing

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 our investments where we can. This starts with a commitment to the implementation of the Bank's Ethical Investment Policy, through to the promotion and support of a range of Fair Work and employment opportunities that we agree with investees, and the broader influence we have across Scotland's investment and private sector communities.

Promoting diversity, equality and inclusion is a core component of our activity both within the Bank and through our external engagement and investments. We collect Fair Work and diversity monitoring information from our portfolio and support investees to implement more ambitious and impactful approaches to diversity, equality, and inclusion wherever we can.

Our impact investing highlights

Since launch

Over £1 billion
of investment commitment to the Scottish economy

£415.1 million
Total investment committed

£682.4 million
Total third party capital

27
businesses in our portfolio

12 of 17
United Nations Sustainable Development Goals supported

20
Scottish local authority areas benefiting from investment related activity

During 2022

13
new businesses supported

~1,200
jobs directly supported by the Bank's investments

~1,100
further jobs supported by the indirect and induced impacts from the Bank's investments

£220.9 million
Investment capital committed

£191.9 million
to new businesses and projects

£201.1 million
third party capital supported

1.7GWh
of renewable energy generated. Equivalent to powering 450 homes

3,942.9 tCO_2e
of carbon avoided, reduced, or removed. Equivalent to 99 full capacity, return flights from Glasgow to London

Impact investing continued

Our Impact Investment Framework

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. This includes the development and use of a suite of key impact performance indicators that are applied at investment, mission and portfolio level, enabling us to measure impact over the investment period and against our strategic mission objectives. More information can be found in the 2023 Impact Report.

The Bank's Approach to Impact Assessment

First Step	Investment process	Investment agreement	Portfolio
Define and confirm mission fit	Impact thesis for every investment: ◆ What impacts? ◆ Who benefits? ◆ How much benefit/impact? ◆ What contribution does the Bank make? ◆ What risks to impact? Theory of Change model for every investment with associated KPIs determined for each vertical: ◆ Activity ◆ Outputs ◆ Outcomes ◆ Impact Climate Risk Assessment for every investment.	Incorporating impact requirements (risk and opportunity) in investment and reporting requirements.	Support investee companies in integrating environment and social practices (such as GHG reporting and enabling a more diverse and inclusive workforce) and impact reporting.

Operating Principles for Impact Management

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

UN Sustainable Development Goals

All the investments we make support the delivery of the UN's Sustainable Development Goals (SDGs). Our portfolio of 27 companies currently contributes to 12 of the 17 SDGs and our missions specifically contribute towards delivering the following six goals:

9
Bank investments

17
Bank investments

21
Bank investments

10
Bank investments

15
Bank investments

2
Bank investments

Correct as of 31 March 2023.

Impact investing continued

Scotland's National Performance Framework

Our investment strategy also actively supports the delivery of the Scottish Government's National Performance Framework (itself aligned to the UN SDGs) through mission led impact investment in sectors that support positive social, economic and environmental change within and beyond Scotland.

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]

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

5,006.3 tCO_2e Our investment portfolio has avoided, reduced or removed approximately 5,006.3 tCO_2e, the equivalent of 126 full capacity, return flights from Glasgow to London.[2]

Place-Based Opportunity

£281.1m 50% of our total investment portfolio contributed towards improving place-based opportunity.[1]

100% 100% of the homes financed through our investment achieved an energy efficiency rating of EPC B or higher.

481 Since our launch, 481 homes have been built and are available for mid-market rent.

58% Approximately 58% of the £16 million supply chain spend was reported by our portfolio companies as having been spent in Scotland.

Innovation

£97.9m 50% of our total investment portfolio contributed towards developing the Scottish innovation ecosystem.[1]

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.

1. 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.

2. 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 kgCO2e/passenger km: 556 x 0.24587 = 0.137 tCO2e x 144 = 19.728 tCO2e for capacity flight)

Impact Investing Case Study: Lothian Broadband Networks

Closing the digital divide across Scotland by building industry-leading gigabit capable broadband networks to towns and villages that would otherwise be left behind.

Amount committed:

£20 million cornerstone funding and £20 million follow-on investment

Location:

Lothians & Highlands

Case study:

Lothian Broadband Networks (LBN), Scotland's leading rural fibre company, was set up to deliver an enhanced and future-proofed broadband network supporting households and businesses across Scotland. The Company is focused on deploying Fibre-to-the-Premises (FTTP) in rural communities and small towns that otherwise would be unlikely to get access to a gigabit capable network.

LBN's large-scale investment in fibre infrastructure is the fastest network being built anywhere in the UK, capable of delivering symmetrical 10Gbps speeds and has already provided 10,000 premises throughout Scotland with access to a multi-gigabit capable broadband network.

Investment Rationale and Impact Assumptions

Our investment in LBN focuses on delivering our place-based ambition to improve digital connectivity and increase place-based opportunity across Scotland. Supporting a vibrant rural digital economy will in turn also have positive net zero benefits through facilitating reduced travel needs.

Access to high-quality connectivity is becoming increasingly important in how we live and operate. The installation of a new FTTP network will address the current inequality in access to digital infrastructure and will extend equality of opportunity, enabling increased access to services, training and employment opportunities across rural communities allowing people to live and work in the location they want. The Company's goals are closely aligned with Scotland's fourth National Planning Framework, setting out to *"encourage, promote and facilitate the roll-out of digital infrastructure across Scotland to unlock the potential of all our places and the economy"*.

In March 2023, the Bank followed on its initial £20 million investment with a further £20 million to rapidly increase and accelerate LBN's operational scale-up and fibre deployment. With this follow-on investment, the Bank has worked with the company to help realise an opportunity to benefit homes and businesses in the lower deciles of the Scottish Index of Multiple Deprivation (SIMD). These beneficiaries represent some of the most socially and/or economically deprived across Scotland and the Bank will continue to provide support with the aim to ensure deployment in these underserved communities.

The Bank's investment will support a total of 25,000 premises passed by the end of 2023. The Company aims to help connect a total 100,000 rural homes to ultrafast fibre broadband by 2025.

> "This new funding together with existing investor commitments will accelerate our fibre investment across rural Scotland to £50 million this year.
>
> This further support from the Bank highlights our effectiveness at working with government and local communities to transform connectivity in rural Scotland and reduce digital inequality."
>
> **Gavin Rodgers, CEO of Lothian Broadband**

Impact Investing Case Study: Lothian Broadband Networks

UN Sustainable Development Goals

4 Quality Education	8 Decent Work and Economic Growth	9 Industry, Innovation and Infrastructure	10 Reduced Inequalities
The Scottish Government's fourth National Policy Framework promotes the outcome of enabling well educated and skilled individuals that are able to contribute to society.	The Scottish Government has set out a vision to ensure that Scotland is recognised throughout the world as a truly digital nation with thriving and innovative businesses, quality jobs and fair work for everyone.	The UK Government has a target of at least 85% of the population having access to gigabit (1,000 Mbps) broadband by 2025 under its National Infrastructure Strategy.	The Scottish Government's digital strategy seeks to build a digital Scotland in which 'geography, background or ability is not a barrier to getting online and benefiting from digital technology'.
LBN has signed up to Scotland's Full Fibre Charter, committing to supporting career progression and ensuring the workforce can access opportunities that allow them to enhance their skills and experiences.	LBN is committed to the Fair Work First approach and promoting a diverse and inclusive workforce.	LBN is establishing a leading multi-gigabit capable fibre-to-the-premise deployment platform for rural communities and small towns across Scotland.	LBN supports increased digital inclusivity and equality of access to digital infrastructure within rural communities, ensuring 'no one is left behind'.

Impact investing continued

Sustainability Reporting – Our Impact

During the FY22/23, we continued to develop and increase our internal capacity and processes for managing and recording greenhouse gas ("GHG") emissions associated with both our own operations and via our investees.

We viewed the last financial year as a transitional phase in relation to climate reporting, seeking to widen the scope of our GHG reporting following a thorough review of our emission sources in order to demonstrate an accurate view of our carbon footprint.

This has resulted in improvements to our data collection methods for our corporate carbon emissions, whilst establishing practices to record emissions associated with our portfolio. We are currently developing a Carbon Management Plan ("CMP"), which will include how we manage and report on emissions from our investments.

At the end of FY22/23, our total operational emissions increased by 52.3% when compared to the previous FY21/22. This was primarily as a result of the Bank growing its operations, including the addition of a Glasgow office, increasing our headcount and a return to office based working practices following the Covid-19 pandemic. The table below provides details of our corporate emission sources.

Homeworking is now our second highest emission source and has reduced compared to the previous reporting period, with staff working from the office more frequently post pandemic. This is also reflective of the increases associated with both business travel, which is now our greatest source of emissions, and hotel stays, as a level of 'business as usual', face-to-face engagement is established.

The figures in the table will act as the baseline year for our operational emissions within our CMP; however, we will be expanding the scope of this in the near future by including staff commute emissions.

During FY22/23, we also committed to adopting the Task Force on Climate Related Financial Disclosures (TCFD) as our climate risk and opportunity reporting framework. To meet the recommendations of TCFD, we are undertaking climate risk assessments to understand the transitional and physical risks posed by climate change, and to identify any climate-related opportunities for potential investments. We are also working closely with our portfolio companies to capture their Scope 1 and 2 emissions through our impact monitoring requirements, which are reported in our 2023 Impact Report. We also reported our emissions in line with the requirements of the Scottish Sustainability Network, to support the progress towards Net Zero across the Scottish public sector.

Corporate Emissions

Source	Emissions Scope	Metric	2021-22	2022/23	Change compared to previous year
Total Emissions		**tCO_2e**	**17.2**	**26.2**	**52.3%**
Gas	Scope 1	tCO_2e	0	2.7	N/A
Electricity	Scope 2	tCO_2e	5.4	6.2	14.4%
Water	Scope 3	tCO_2e	0.08	0.1	37.5%
Waste	Scope 3	tCO_2e	0.62	0.05	-91%
Business Travel	Scope 3	tCO_2e	1.61	8.5	430%
Hotel	Scope 3	tCO_2e	0.11	1.1	910%
Homeworking	Scope 3	tCO_2e	9.36	7.5	-19.87%

Financial Performance

The Bank's audited financial statements are prepared in accordance with UK adopted international accounting standards and as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM) and in accordance with the requirements of the Companies Act 2006 and directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers and can be found in full on page 162. The detailed accounts are contained within the financial statements from page 128.

These financial statements cover the Bank's latest year of operations from 1 April 2022 to 31 March 2023.

Key drivers of the Bank's financial performance:

As an investment business focusing on generating commercial returns on our impact investments, our financial performance is dependent on a number of significant items, including:

Investment Profile

The amount and length of investment commitment, the period over which the cash is delivered to the investee and the type of investment. Equity is predominantly invested for capital return on exit and debt investment for a regular flow of interest income.

Investment Performance

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

Journey to Self-Sustainability

A portfolio and third-party management structure that provides commercial returns that supports the continued growth of the Bank and covers the associated operational costs.

Macro-Economic Environment

Events impacting on the macroeconomy such as the global inflationary environment, changes to interest rates and supply chain pressures. As has been experienced in FY22/23, our performance can be impacted by external economic factors.

Cost Management

The Bank's ability to tightly control costs and deliver value for money. Deploying the team's time, expertise and financial resources to the greatest extent possible in delivery of the Bank's missions.

Financial Review

In FY22/23 the Bank has made progress towards achieving its key financial aims, namely of achieving operational financial self-sustainability through increased income generation and increasing the committed and drawn capital it invests in mission-led investments. All these parameters showed significant progress compared to the previous year as demonstrated by the graphic below and is evidence of the increased awareness of what the Bank has to offer and the traction the Bank is achieving in the Scottish financial ecosystem. This was also achieved against a background of challenging conditions in both the domestic and global economy.

The Bank continued to recruit its team throughout the financial year in areas such as impact analysis as well as in investment origination. Our expanding investment portfolio helped generate an impressive growth in income and prudent cost control and a value for money ethos across the business kept costs below budget.

Gross Operating income	Committed Investment	Investment Drawdown
463% Increase year-on-year	55.5% Increase year-on-year	17.5% Increase year-on-year
£10.7 million	£220.7 million	£151.9 million
(2022: £1.9 million)	(2022: £141.9 million)	(2022: £129.3 million)

Financial highlights for the year include:

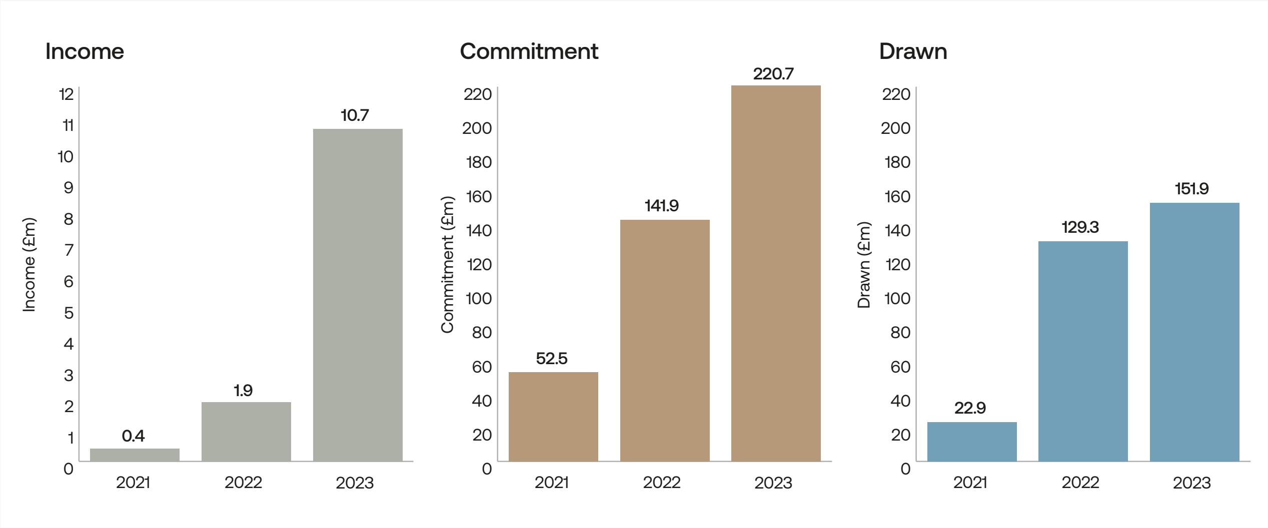
1. Growing Investment Commitments & Drawdowns

The Bank committed £220.7 million (2022: £141.9 million) of investment across 13 new and 9 follow on investments. In relation to deployment, £151.9 million (2022: £129.3 million) worth of investments were made in the year, an increase of 17.5%. This highlights the progress made in both committing and deploying capital in the year.

The Banks investments were across all three missions and are diverse both in terms of type of investment – i.e., debt, equity and funds – and, importantly, geographical location with the Bank investing in businesses and projects that span the length and breadth of Scotland. Moreover, the Bank's investment was part of total investment rounds of £238 million demonstrating the successful ability of the Bank to invest alongside private capital.

Financial Performance continued

Investment Profile



2. Strong Portfolio Income Generation

The investment portfolio generated income of £10.7 million in the year (2022: £1.9 million) a significant increase of 463% year on year, demonstrating the Bank's commercial return on investments and the significant progress made towards operational financial self-sustainability. As our investment portfolio grows, our income also increases which in turn reduces the requirement for our shareholder to support operational costs.

3. Movement in Fair Value of Investments

At the year-end the Bank had a portfolio of 27 investments. We carry out a valuation of our investment portfolio quarterly, and on the 31 March 2023 this was valued at £290.8 million. These investments generated a net unrealised loss of £17.8 million (2022: loss of £3.4 million) which represents 6% of the year end portfolio value. The majority of the fair value loss relates to adjustments reflecting underlying performance of investee companies. This includes an unrealised loss recognised on Circularity Scotland Limited for which more details can be found in Note 26. £3.4 million of fair value movements related to an increase in market rates over the year as a result of market volatility which has resulted in a material change to the pricing of existing fixed rate debt coupons that are valued under the International Private Equity and Venture Capital Valuation (IPEV) guidelines. We view these movements as largely a reflection of macro-economic conditions rather than a structural concern relating to our debt investments, though we continue to monitor this closely as part of our quarterly valuation process. While it is inevitable that not all of our investments will deliver a positive return, we continue to work towards a positive net return across our portfolio as a whole.

Investment Summary

Annual Investment Commitment

FY22/23	FY21/22	Since inception
£221 million	£142 million	£415 million

Private Sector Investment

FY22/23	FY21/22	Since inception
£238 million	£329 million	£682 million

Number of investments

FY22/23	FY21/22	Since inception
22*	12	27

4. Tight Cost Control around Operating Expenses

Great progress has been made towards achieving operational financial self-sustainability. A key driver to this is the continued challenge around the cost, resource and quality requirements for our operational delivery, ensuring we have a value for money culture. In FY22/23 total operating costs increased to £13.0 million (2022: £9.7 million) but were 20% lower than budgeted costs of £16.2 million. This significant under budget spend, delivered in an environment where inflation is significantly higher than when the budget was awarded, demonstrates a strong control environment, value for money focus and the strength of the procurement process that the Bank operates. The Bank also continued to successfully recruit and support its talented employees and build out its infrastructure with 64 employees at the year-end (2022: 61 employees).

*13 new and 9 follow on investments.

Financial Performance continued

Summary

The loss before tax for the year was £20.2 million (2022: £11.2 million) predominantly due to the unrealised loss on investments referred to above. Excluding this number, the Bank made a loss of £2.4 million compared to £7.8 million the year before, demonstrating the progress made towards operational financial self-sustainability - Investment income less Administrative expenditure - driven by an increasing impact-led investment portfolio generating strong income returns combined with tight cost control. While it is inevitable that not all of our investments will deliver a positive return, we continue to work towards a positive net return across our portfolio as a whole. Net assets were £299.9 million as at 31 March 2023 (31 March 2022: £165.4 million), similarly demonstrating a growing balance sheet at the year end.

The results for the year are summarised below:

For the year 1 April 2022 to 31 March 2023	£'000
Investment income	10,651
Gross operating income	**10,651**
Net unrealised losses on revaluation of investments	(17,810)
Net operating income	**(7,159)**
Administrative expenses	(13,002)
Operating loss	**(20,161)**
Tax credit	3,528
Loss for the year	**(16,633)**

Financial position as at 31 March 2023	£'000
Investments	290,814
Property, plant and equipment	88
Deferred tax asset	6,025
Other assets/(liabilities)	
Cash and cash equivalents	4,437
Trade and other receivables	838
Trade and other payables	(2,294)
Total net assets	**299,908**
Equity	
Share capital	279,157
General fund	20,751
Total equity	**299,908**

Income and Expenditure

The Bank made significant strides in both income generation and continued cost control in the year, both contributing to a loss significantly lower than budget and putting the Bank on a firm path towards financial self-sustainability. Total income of £10.7 million was generated through a mixture of interest (both cash and capitalised) and arrangement fees. As our investment portfolio grows, our annual income will also increase and is forecast to grow substantially by the end of the business plan period in FY26/27.

We continue to challenge ourselves around cost, resource and quality requirements for our operational delivery and embed processes to ensure a value for money culture throughout the business. The Bank has a robust procurement process with qualified staff ensuring adherence to public sector procurement rules. The Bank has strong financial governance with annual budgeting and regular reforecasting undertaken along with production of monthly management accounts. These processes helped deliver costs under budget for the year with total expenditure being £13.0 million, significantly under the budget set at the start of the year of £16.2 million. Efficient management of expenses also allowed the Bank to reduce its average creditor days to 5 days as at 31 March 2023, complying with Scottish Government's prompt payment commitment (issued December 2009) of making payment of authorised invoices within 10 days.

Overall, the Bank reported a net loss of £2.4 million for the financial year (2022: £7.8 million) excluding the unrealised loss movement in the portfolio. These numbers reflect progress made towards operational financial self sustainability. However the Bank has made an overall loss of £16.6 million (2022: £8.6 million) as unrealised (non-cash) losses have increased in the year. Initial losses are to be expected given the early stage nature of the investment portfolio as described further in the next section.

Investment Portfolio

The Bank is a patient capital investor, investing for the long term which results in a long-term delivery of financial returns from our investment activities. We invest through a range of equity, debt and fund instruments and the proportion or mix of these across its portfolio will determine the profile of our financial returns. The Bank committed to total investments of £220.7 million in the financial year to 31 March 2023 across 13 new and 9 follow on investments. These ranged from £1 million to £50 million in equity, debt and fund investments spanning the length and breadth of Scotland. These investments are already directly supporting some of our most disadvantaged communities, as nearly 30% of our portfolio businesses have operations in the 20% of most deprived communities.

For many investments, we make commitments to fund an investment and the timing of capital drawdown will vary depending on the requirements of the business or project and may run across financial years. This means that there is generally a delay between the commitment of funds to an investment and the related drawdown of funds entrusted to us to deploy. This delay is driven by the nature of the investment, for example, direct equity is most often drawn in full on day one of the commitment, whereas fund commitments are likely to be drawn over longer periods, for example, five years, and project finance debt is often drawn over a number of years.

The capital for investment budget for a given year will therefore include amounts drawn for both new investment commitments and to satisfy drawdowns from prior year commitments. Our investment mix ensures that our deployment is often income generative from day one, for example through interest and/or arrangement and monitoring fees on a recurring and upfront basis, with capital gains being achieved later in the investment lifecycle.

Financial Performance continued

The Bank recognises the challenges that annual budgeting and the drawdown profile of our bespoke investments bring to both the Bank and the Scottish Government. It is imperative we continue to work with our shareholder to find solutions to this annual budgeting challenge that enable our stated aim of being a perpetual investment fund for Scotland. As a patient capital investor this solution must provide the flexibility that enables the Bank to give current and potential investees the assurance that budget is available, potentially over multiple years.

The Bank's current investment pipeline is strong, and we now have a more mature pipeline of investment opportunities coupled with a pattern of deploying capital from investments committed in prior years. This is underlined by the increased gross budget for investment of £240 million awarded to the Bank for FY23/24.

We are also very aware that Scotland has entered a period of economic headwinds. Our role in the market will be increasingly important if the risk appetite of private investors and more traditional investment sources reduce. Therefore, our ability to support investments with higher risk profiles will be increasingly critical in working with other investors. This higher risk profile, range, and number of investments that we make will inevitably increase the volatility of our portfolio in comparison to the private sector.

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

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

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

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

These are in line with industry and development finance expectations. In the period the Bank recognised a net unrealised loss of £17.8 million across its investment portfolio, which is closely monitored but not outwith our risk appetite. A breakdown of the main components of the loss are discussed on page 38.

In addition, as noted on page 38, movements related to market volatility and an increase in gilt rates over the year has resulted in a material change to the inputs in some of our valuation models under IPEV guidelines.

A key role of the Bank's is to work alongside private, public and third sector partners in the wider ecosystem, and help accelerate investment from all sources into businesses and projects that will support our missions. The Bank not only expects to make a positive return on its investments in the medium-to-longer term, but also to maximise its mission impact by working collaboratively with others in the market to maximise their opportunity to invest and accelerate investment activity in the Scottish economy as a whole.

The Bank's Funding

The capital the Bank invests is provided by the Scottish Government in line with its commitment to capitalise the Bank with £2 billion over its first 10 years. Shares in the Bank are issued to Scottish Government, on behalf of the people of Scotland, in return for the value of capital funding received for investment. Over time this capital will be recycled and reinvested in the Scottish economy, creating a perpetual investment fund. In the financial year, £129.9 million of shares were issued.*

The Bank currently requires funding to run its operations and received operational funding of £13.0 million offset by £10.7 million of income, a net figure of £2.4 million in the year to cover operational costs. At 31 March 2023 funding received and not yet deployed (for investment or operational expenditure) of £4.4 million is recorded on the balance sheet within the general fund and held within the Government Banking Service to ensure that there is minimal cost to the Exchequer. Resource funding received and utilised, together with the profit or loss retained for the year, is recorded in the general fund. As our income grows, our requirement for operational funding will reduce as we move towards financial self-sustainability.

There is no commitment to repay government operational funding. Income derived from the Bank's investment activity will support the aim to generate sufficient income to cover our operational costs by FY25/26, and therefore become operationally, financially self-sufficient. Together with proceeds on exit of investments, these resources will be invested alongside its public capital in businesses and projects to support the delivery of the Bank's missions.

Outlook

The Bank's objective is to have a portfolio and third party Management structure that provides commercial returns along with economic, environmental, and societal impact. This, in turn, will support the continued growth of the Bank and its aim of becoming a perpetual investment fund for Scotland. It will also help diversify the income and returns of the Bank, contribute towards financial self-sustainability, and help the Bank grow. To this end, the Bank continues to build a mission aligned investment portfolio while progressing with the necessary regulatory permissions to allow the Bank to diversify. With a healthy and growing income trajectory and tight cost controls it is forecast the Bank will become operationally financially self-sustaining in the current business plan period, eliminating the requirement for the Scottish taxpayer to fund our operational expenditure. Reaching operational financial self-sustainability in the current budget plan period will be a key milestone in the development of the architecture of the Bank, as is the ability to act as an enabler for private capital investment. We are well along the path to demonstrating both.

*The difference between this and the investment amount drawn in the year relates to five investments for £25 million made after 23 March 2023 for which shares will be issued after year end.

Risk Management

As a development bank, we recognise our pipeline of potential and committed investments will carry a higher degree of risk than other investors. As such, our investments carry a level of inherent risk. We accept that not all of our investments will be profitable.

More generally, given our role as a patient investor, we achieve our overall purpose not by avoiding risks, but through identifying and managing an acceptable level of risk and making informed choices regarding the risks the Bank wants to take to deliver its corporate strategies. A wide range of risk types are inherent to the Bank's business model and operations, and in delivering its mission impact investments. The Bank aims to effectively identify, manage and mitigate these risks and recognises that excessive and poorly managed risk taking, can lead to financial losses, and non-financial impacts, negatively impacting the delivery of its missions over time and causing reputational damage.

Governance structures are key to a successful organisation; they define the decision-making process upfront and clear roles and responsibilities and as a result lead to a well-controlled and agile business. The year has seen an externally challenging environment for the Bank with the impact of supply chain issues, cost of living crisis, high inflation and other economic and political turbulence. The Bank's risk management framework and processes seek to enable and support the delivery of our strategy, by ensuring material risks are identified, monitored, and managed effectively and reported appropriately. The strong control environment put in place by the Bank, while evolving, has effectively supported the management of risks connected with our business activities throughout a period of economic volatility and geopolitical instability.

1. Risk Governance

The Board is ultimately accountable for effective risk management, an accountability delegated to the Executive team for the day-to-day running of the Bank. In particular, the Board retains responsibility for approval of the Bank's risk framework (including risk appetite), and for putting in place a governance structure that supports effective risk management alongside delivery of corporate objectives. Aspects of this responsibility have been delegated to the Risk Management and Conflicts Committee. In addition, the Board is assisted in its risk management role by the Audit Committee, which monitors and reviews the financial internal controls framework.

A 'three lines of defence' model has been established, which makes clear the delegated responsibilities of the Board, Committees, the Executive team and our team across all areas of the Bank:

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

The identification, assessment, management, and reporting of risks is carried out across the three lines of defence through management to our Board and relevant Committees.

2. Risk Culture

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

The Board is embedding a risk management culture by ensuring that the Executive team review and refresh the Bank's risk policies and risk profile through communication and employee engagement and training. There was particular focus in the year on risk training, with an operational risk management programme being rolled out for all of our team and investment risk training for relevant colleagues, helping to ensure that our risk culture remains strong and embedded across the Bank. It is the day-to-day responsibility of the Executive team to ensure that the risk management processes are cascaded and consistently embedded in the organisational culture of the Bank.

In particular:

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

Risk Management continued

3. Risk Management Framework

The Bank has established a framework of policies, procedures and structures to manage risk. These are described in the Risk Management Framework (RMF), which is itself subject to regular review and approval by the Risk Management and Conflicts Committee. The RMF applies across the Bank's group of companies including subsidiaries Scottish Investments Limited (SIL) and Scottish Investments Services Limited (SISL). A full copy of the RMF can be found on the Bank's website.

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

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

The Chief Risk Officer and General Counsel own the Investment Risk Policy which establishes a set of high-level principles to enable the effective identification, assessment, management, monitoring and reporting of investment risk in line with the agreed risk appetite level.

Investment Risk conducts thorough independent risk analysis and evaluation of all investment proposals presented by the investment team, and aims to minimise the Bank's losses by identifying and measuring the key risks and mitigants present. It does this through proactive interrogation and challenge of all proposals before presentation at Investment Committee, thus maintaining a robust contribution throughout the investment process and in accordance with the Investment Risk Policy. As part of this process, Investment Risk provide a written risk opinion to the Investment Committee. In addition, Investment Risk provides subject matter expertise to support the investment team to meet their own first line risk management roles and responsibilities. The Head of Investment Risk is a voting member on all Investment Committees.

The Investment Risk team reports on the investment risk position to the Risk Management and Conflicts Committee and to the Valuations Committee on a quarterly basis and opines on the investment portfolio, specifically in relation to credit quality (debt), investment quality (equity), concentration risk by sector, geographic diversity within Scotland, diversity with regard to missions and various operational performance metrics (timeliness of reviews and other portfolio management considerations). All investments are subject to ongoing performance review, the frequency of which depends upon an ongoing assessment of their individual quality; many investments will have financial and other information covenants which inform this process. Formal risk reviews are undertaken at least annually, and more frequently for those investments requiring greater levels of monitoring or active management.

The Investment Risk team supports this review process from a second line of defence perspective and will reassess each investment.

Operational risk focuses on the business itself and how it operates, embedding a culture of awareness and utilising the three-lines-of-defence model to identify, measure, mitigate and report the operational risks that could impact the strategic objectives of the business.

A standard risk management methodology is in place for all risks, including guidance on identification, measurement and reporting of risk. Operational Risk work with all areas of the business ensuring that the cyclical 'risk management process' is followed and that risk identification and review is undertaken on a continuous basis. This allows the business to be assured that the Bank is aware of the opportunities and uncertainties that can arise through the day to day operation of the Bank.

Periodic assurance over the RMF is obtained through the internal audit function.

4. Risk Classification

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

A suite of key risk indicators has been agreed which are designed to give management and the Board early sight of significant changes in risk profile.

During the period, the Board, through the Risk Management and Conflicts Committee, kept the RMF under review. Full details of this can be found in the report from the Chair of the Risk Management and Conflicts Committee on page 92. The Bank carries out a robust assessment of the emerging and principal risks facing the Bank, including those that would threaten its business model, future performance, solvency and liquidity. These are detailed at a high level below. The types of principal risks to which the Bank is exposed have not changed significantly since our 2022 Annual Report.

The Bank's Principal Risks

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

Key
- Level 1 Risk Type
- Level 2 Risk Type

Risk Management continued

The Bank has defined and agreed risk mitigations and its risk appetite for each of our Level 1 principal risks. A summary of those in relation to the different principal risks is outlined below.

Risk trend from 2022 reporting year
▼ Decreased risk ▶ No change to risk ▲ Increased risk

The Bank's Principal Risks

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

Risk Management continued

The Bank's Principal Risks continued

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

Risk Management continued

Emerging Risks

The Executive Committee regularly reviews the RMF taking into consideration the principal risks and emerging risks both internal to the Bank and at a macroeconomic level. Functional risk registers are maintained for each Level 2 risk and an emerging risk register is maintained for those emerging risks that do not currently appear in either the Level 2 risks or in the functional risk registers. Emerging risks are those that would have a material impact on our strategy and operations were they were to occur. These emerging risks are identified together with mitigants and are managed appropriately. The emerging risk register has been reviewed regularly by the Executive Committee, during the reporting year, and by the Risk Management and Conflicts Committee. Global events causing a unprecedented squeeze on living standards due to high inflation and supply chain issues will cause an evolving risk for the Bank and our investment portfolio in the form of provisioning for the value of our investments. We will continue to mitigate this risk by our approach to portfolio management and relationship with our investee companies. Our missions represent enormous challenges facing the people of Scotland and will require significant capital to do so. As noted, we are also very aware that Scotland is likely to remain in a period of economic headwinds and our role in the market will be increasingly important if the risk appetite of private investors reduces. The approach to our annual budgeting poses an evolving threat to the Bank. We will work with our Shareholder to identify an approach to the structure of our funding that support our role as a patient capital investor. The urgency of the climate emergency represents an emerging risk for the Bank and our investment portfolio. Climate risk is now embedded in our RMF and several climate-related workstreams underway.

S172 Statement by the Directors

Under Section 172(1) our Board has the responsibility to consider matters that include the likely consequences of any decisions in the long term; the interests of our People; the impact of the Bank's operations on the community and the environment; and the need to foster relationships with suppliers, customers, and others.

This section forms our Section 172(1) statement.

Our Board recognises the importance of strong relationships with our stakeholders and of understanding and having regard to their interests in its discussions and decision making. This is supported by the approval of our Stakeholder Engagement strategy by the Board in 2022. The Bank also carried out its first stakeholder engagement survey. This survey combined both qualitative and quantitative input from stakeholders across the Bank's ecosystem, including the public sector, the business community and from other Financial Services providers. A dedicated discussion on stakeholder engagement is included at every scheduled Board meeting. This report, in addition to others presented to the Board and our Committees, highlights interactions and engagement with our key stakeholders and insights into their views. In turn, helping to inform the Board's decision-making.

Ensuring materials and reports provide appropriate information to support the Board and its Committees to carry out their responsibilities and take informed decisions has continued to be a focus for the year.

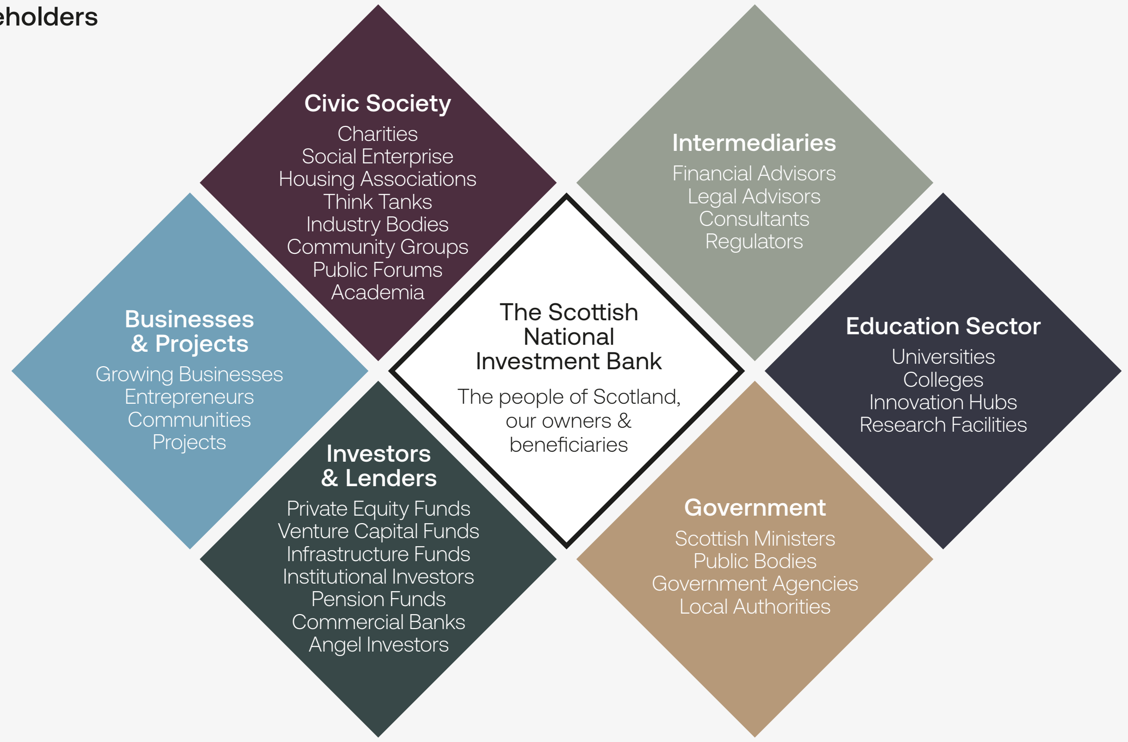
Stakeholders

We continue to operate in a complex stakeholder landscape across the public, private and third sectors.

A variety of activities have taken place in FY22/23, which support our Board's understanding of what matters most to our key stakeholders.

This statement provides examples of (direct and indirect) engagement by our Board in respect of key stakeholder groups.

Stakeholders



S172 Statement by the Directors continued

1. Investee Businesses

We are Scotland's development bank. We were created to provide capital investment into businesses and projects that support our missions, and by 'unlocking' additional investment. We look to have successful relationships, built on trust and transparency, with all our investee businesses.

Examples of how we have engaged:

- We engage with our growing portfolio of businesses frequently, for example to integrate and report on impact as part of their business strategies and plans.
- We carried out our first survey of our investee businesses. This has provided insight into how our portfolio businesses perceive the Bank and will inform how we can make meaningful improvements.
- We delivered our first Portfolio Event. This event was attended by a selection of our Non-Executive Directors, providing an opportunity to meet with our investee businesses and hear feedback directly, as well as sharing their insights and experience.
- Regular reporting on our investment activity and portfolio, providing an opportunity for our Board and relevant Committee's to ask questions about our portfolio, and understand the interests and challenges faced by those businesses.
- During FY22/23, some members of our Board also took part in site visits.

2. Business Community

As both a development bank and an impact investor we engage widely with the Business Community. This engagement supports us in identifying strategic opportunities, building relationships with potential co-investors and the professional advisory community and ultimately in introducing us to potential businesses and projects in which we can invest.

Examples of how we have engaged:

- We regularly engage with potential co-investors, the advisory community, and representative bodies. For example, we are a member of the Scottish Financial Enterprise, the representative body for Scotland's financial services industry and British Private Equity & Venture Capital Association (BVCA) the representative body for private capital in the UK, and UK Sustainable Investment and Finance Association (UK SIF).
- Our Board recognises the value of sharing leading insights to generate a positive impact. The financial year has seen our profile grow in the ecosystem through increased engagement, including several successful hosted or co-hosted events. This has included an Impact Investing Event in November 2022 and a Scale-Up Summit in March 2023, both of which brought together industry leaders, experts, and founders of businesses in Scotland. We have also published a range of leading insight papers, including in relation to Decarbonising Heat, Impact Investing and Scaling Up Scotland.
- Our Non-Executive Directors and senior leaders across the Bank regularly attend, and speak at, conferences and events.
- We carried out our first 'stakeholder survey' with input sought from representatives across both the public and private sector.

3. Shareholder

While being operationally independent, we have a sole shareholder, Scottish Ministers, on behalf of the people of Scotland. The relationship with Scottish Ministers is hugely important to us. The Board is committed to understanding their interests and expectations.

The Minister with responsibility for the Bank has changed during the year. Initially, Kate Forbes, MSP, had responsibility as Cabinet Secretary for Finance and Economy. From July 2022, in Ms Forbes absence on maternity leave, ministerial responsibility was held by John Swinney in addition to his role as Deputy First Minister and Cabinet Secretary responsible for Covid Recovery. Following the election of the new First Minister, Neil Gray, MSP, took over responsibility for the Bank as Cabinet Secretary for Wellbeing Economy, Fair Work and Energy. Mr Gray was appointed to the role on 29 March 2023.

Examples of how we have engaged:

- The Chair, Senior Independent Director, members of the Executive Committee and other senior leaders from across the Bank, interact and meet regularly with the Scottish Government's Shareholder team.
- The Chair and members of the Executive leadership team have quarterly meetings with Ministers.
- A Shareholder's representative attends Board meetings as an observer.
- The Board meets with the Shareholder at the Annual General Meeting (AGM). We hosted our second AGM on 22 September 2022, which was attended by members of the Executive Committee, the Company Secretary, the Chair of the Board, and the Chairs of each of our Committees. The AGM provides an opportunity for direct engagement and for the Shareholder to ask questions.

S172 Statement by the Directors continued

4. Regulators, Policymakers, Government, and other Bodies

We actively continue to build strong relationships with those representing the Scottish Government, policymakers, and other bodies, to support our awareness and understanding of relevant policy development and to act as a conduit between our investees and government, and to share expertise and insight.

Examples of how we have engaged:

- Meetings with key partners in the policy landscape, including non-governmental organisations, to inform the Bank's understanding of developing policy and the views and perspectives of the wider ecosystem. For instance, we have engaged at a policy level on key strategic workstreams for the Bank including decarbonising transport, heat and buildings, energy, ScotWind, the scale-up agenda and natural capital.
- Obtaining FCA authorisation for Scottish Investments Limited remained a focus for the financial year. As part of this, we have been in dialogue with the FCA.
- Senior representatives for the Bank have met with Parliamentary Committees, including in 2022/23 with the Economy and Fair Work Committee to discuss the Just Transition for Grangemouth.
- Through a programme of ministerial engagement and political engagement, aligned to the Bank's strategic priorities, including the decarbonisation of heat and ScotWind. These programmes provide a valuable opportunity for two-way communication on key issues, as well as allowing the Bank to share its strategy and insights. They also support the Bank's awareness of key political matters.
- Meetings with non-departmental government bodies and other organisations, including British Business Bank, UK Infrastructure Bank, Development Bank of Wales, and enterprise agencies.
- We have partnered and worked with several organisations in respect of Equality, Diversity, and Inclusion, helping us to shape our own ambitions in this area, and learn from other's experiences. We are a member of the Non-Departmental Public Bodies Equalities Forum, a Scotland wide group.

5. Communities and Environment

The Bank invests on behalf of the people of Scotland. The Scottish community is at the heart of our missions. We are extremely ambitious about our role to create insight, deliver investment and generate positive impacts for Scotland's communities, society, environment, and the economy. Naturally, mission alignment and the impact of our investments on Scotland are critical considerations for our investment team, our Executive Committee, and the Board.

Examples of how we have engaged:

- Our Board and Committees receive regular reports on the non-financial impact of the Bank's investments.
- In 2022, the Board agreed to appoint a Non-Executive Director with designated responsibility for climate risk and opportunities. Jacqueline Redmond has been appointed to this new role.
- The Board confirmed our ambition to support the recommendations from the Taskforce for Climate Related Financial Disclosures (TCFD). We have engaged with peer organisations in relation to TCFD and with the Scottish Government and other organisations (such as the Sustainable Scotland Network) to discuss future policy direction and reporting requirements on climate risk.
- We are also now a member of the Public Sector Environmental Managers Forum. This Forum shares best practice across Scotland in relation to the environment, including carbon reporting.
- The Board is also supported in relation to ESG matters by the Risk Management and Conflicts Committee. This Committee receives regular updates on climate and other environmental matters and reviews progress made against our ambitions in this area.
- A more detailed explanation of how we approach 'Sustainability' is included at page 35.

"Enabling Scotland's Just Transition and pivoting towards a more sustainable economy is at the heart of the Bank's missions. I am delighted to have been appointed to this role. The challenge of climate change is formidable and the impacts increasingly seen. We do not take lightly the role that the Bank must play in improving the confidence of the investor ecosystem in securing impact investments and supporting founders in developing clear measures that articulate how their organisations address the Bank's missions and contribute to a Just Transition. Recognising that further work lies ahead as the Bank continues to develop its reporting capabilities, I am pleased that we have made enhancements to embed climate risks and opportunities into our business and risk processes. We are committed to progressing our climate-related initiatives to develop and embed our climate ambitions and support our investees to do likewise."

Jacqueline Redmond
Designated Non-Executive Director for Climate Risk and Opportunities

S172 Statement by the Directors continued

6. People and Culture

Our team is our greatest asset. We want to continue to be a positive place to work. The wellbeing, skills, expertise, and motivation of our team are vital to the successful delivery of our strategic ambitions.

The Board is committed to understanding what matters to our People and has continued to develop the way in which it engages with our team throughout 2022.

In our Annual Report last year, we reported that the Board had taken an 'alternative arrangements' approach to workforce engagement. Early in the financial year, the Board agreed to appoint a Non-Executive Director with designated responsibility for workforce engagement. Carolyn Jameson has been appointed to this new role. We will continue to develop the way in which workforce engagement is delivered. However, Carolyn's appointment has helped inform the Board and Committee decision making by creating an additional way for the voice of our team to be heard.

We also recognise that creating the right culture is essential to the Group's success, supported by our Values. The Board has introduced a "reflection point" at the beginning of each meeting to discuss culture and values. These discussions are led by Carolyn.

Examples of how we have engaged:

- Through Team Voice, our employee representative forum. This Forum provides a platform for our team to share their interests and influence change. Team Voice met with our workforce engagement Non-Executive Director directly in FY22/23.
- Team Voice also met with the Remuneration and Nominations Committee, helping to bring employee interests into a strategic discussion on People-related initiatives and the Group's people proposition.
- "Town Hall" sessions, where the Bank team come together in person, hosted by both the Chair of the Board and the Interim Chief Executive Officer.
- The Executive Director, People and Culture, reports regularly to the Board, and the Remuneration and Nominations Committee, on workforce matters, covering topics raised by our People, employee-related trends, and employee sentiment.
- Our Board and the Remuneration and Nominations Committee review biannual People engagement surveys, providing insights into the views of our team.
- A wide range of our team attends Board and Committee meetings, on a formal basis, to present and discuss reports.
- Less formal interactions also take place regularly with our Non-Executive Directors, including at employee events held in the financial year.
- Whistleblowing procedures are in place to allow our team to raise matters of concern in confidence. The Chair of the Audit Committee is the Group's whistleblowing champion and responsible for overseeing the integrity, independence, and effectiveness of our whistleblowing procedures.

"I was really pleased to be appointed to this new position. In this period, I have joined meetings with the Bank's employee representative forum, including to understand their perspective on the outputs of our People Surveys, and have participated in a number of other meetings with colleagues. It has been extremely interesting and valuable to hear directly from representatives from across the Bank about their thoughts and experiences, and to have an opportunity to discuss these with them openly. This type of direct interaction brings great benefits in helping the Board consider the likely consequences of strategic decisions in the long-term, from the perspective of our team. I very much look forward to using the role to drive and influence discussions on matters that relate to our People."

Carolyn Jameson
Workforce engagement
Non-Executive Director

7. Business Partners and Suppliers

We have continued to establish a broad range of business partners and suppliers to support the delivery of our business effectively. These relationships are important to us achieving our ambitions.

Examples of how we have engaged:

- Supplier activity is managed in line with the Procurement and Outsourcing Policy, ensuring that supplier risk is managed appropriately. We frequently engage with government Frameworks in Scotland and at a wider UK level.
- Engage with our supply chain on matters related to fair work practices and equality, diversity and inclusion.
- Management information on material procurement activity is reported to the Audit Committee quarterly.

Isle of Lewis

Corporate Governance Report

This corporate governance report sets out our Directors' Report, details of our Board of Directors, and the work of our Board and Board Committees. It outlines our corporate governance approach and includes the Annual Report of Remuneration explaining our policies on remuneration and how we've applied them.

Chair's Governance Introduction

Chairman's Governance Introduction

On behalf of the Board, I am pleased to introduce our Corporate Governance Report for the year ended 31 March 2023. The Corporate Governance Report sets out our approach to effective corporate governance. It also outlines key areas of focus for the Board in the financial year as we continue to drive long-term value and delivery of our strategy.

We are proud to be Scotland's development bank and, as a Board, are delighted to have overseen another year in which we have built momentum as a purpose led organisation within the Scottish investment landscape. Amongst the challenges of the economic environment, I am pleased that the Group has delivered a strong second consecutive year of investment, taking our commitment since launch to over £415 million across 20 Scottish local authority areas in support of our missions.

Board Developments

During the year there have been several changes to the composition of the Board.

As outlined in our 2022 Annual Report, the Board welcomed Sarah Roughead as Interim Chief Executive Officer on 1 March 2022. In addition, Michael Robertson was appointed to the Board in June 2022 as Interim Chief Financial Officer.

As noted in my opening statement to this Annual Report, after a comprehensive and wide-reaching search during the financial year, the Board are delighted to have appointed Al Denholm on 1 May 2023 as the Group's Chief Executive Officer and as a member of the Board. As a deeply experienced leader in the investment industry, throughout his career Al has shown a genuine long-term commitment to sustainability and the environmental, social and governance agenda.

Al's appointment saw Sarah Roughead step down as Interim Chief Executive Officer but remain as a member of the Executive Committee.

The Remuneration and Nominations Committee and the Board also spent time, in the year, reviewing the long-term succession planning for the Board and key roles within the Bank. Post year-end, I am delighted to have my reappointment, as Chair of the Board, approved by the Scottish Ministers with effect from November 2023 for a further four years.

Our Governance Framework

We believe good corporate governance provides confidence in the delivery of our strategic ambitions and performance and is essential for the long-term sustainable success of the Bank. One of my roles as Chair is to ensure high standards of corporate governance are maintained and that the Board is equipped to carry out its duties, spending sufficient time on key areas that support the delivery of our strategy. While we continue to make enhancements to our governance, I am satisfied that the Board and the Bank's management strive to ensure, uphold, and maintain sound corporate governance practices.

Our Corporate Governance Report provides further details on how the Board has operated during the reporting period and our governance arrangements. The reports from each of the committees are included on pages 83 to 99 and the Bank's statement of compliance with the UK Corporate Governance Code 2018 on page 72.

Board Strategy

More than anything our missions shape what we do. The Board wholeheartedly supports the focus on strategic priorities that will enable the Bank to drive action around the grand and inter-related societal challenges in Scotland, including the climate emergency, place-based inequality, and innovation challenges. We are also determined to learn and improve on what we already have in place. Unsurprisingly, therefore, the financial year has seen the Board devote considerable time to the strategic drivers in the business and the challenges and opportunities of the Group. As evidence of our strategic focus, I am pleased the Board came together with members of the Executive Committee for a dedicated off-site day in September 2022 to consider and ensure the Group has the right long-term strategy. The key drivers of that strategy are more fully set out on pages 12 to 17.

The Board calendar has also seen consideration and oversight of important strategic initiatives, including the Bank's role as a key enabler for the ScotWind strategic market opportunity and challenge. I am pleased that, as a step on our journey towards managing third party funds, our subsidiary Scottish Investments Limited applied for the first stage of FCA regulation, in the year, under the Board's oversight. In addition, it is great that three key strategies were launched by the Bank in the year: in respect of active investment origination, stakeholder engagement, and equality, diversity, and inclusion. We have supported and reviewed the delivery of these strategies, of which there has been positive progress. For instance, in respect of equality, diversity and inclusion, we have introduced a key strategy and delivery group within the Bank solely dedicated to driving positive change. The Bank's first Interim Equalities Report was also approved in the period by the Board. The year has also seen the Board engage in several deep dives into areas of the business to gain a greater depth of knowledge to inform our strategic and operational priorities, including in respect of investment origination, impact, and our approach to portfolio management.

Impact

2022-23 was a year in which a spotlight was put on demonstrating and enabling impact. The social, environmental, and economic returns delivered by the Bank's mission impact and our sustainability ambitions have continued to be a Board and Committee focus. Our most recent Annual Impact and Mission Report, published on 1 April 2023, comes at the end of the first full year of impact reporting at the Bank. Approved by the Board, this report demonstrates our commitment to deliver impact for Scotland.

In my governance introduction last year, I spoke of early enhancements underway to oversee and support the integration of sustainability and the Bank's climate risk and reporting objectives into our business and strategy. The Bank's climate-related initiatives have developed throughout the year. In terms of our governance framework, the Risk Management and Conflicts Committee has a defined responsibility for climate-related matters and climate-related risk is a key component of the risk management framework. We have also seen improvements in our emission data collection methods. Several active workstreams are underway, including the development of the Group's carbon management plan. The Board continues to support disclosure against the recommendations of the TCFD framework and I am delighted that the Bank's first TCFD Report will be brought to the Board later in 2023.

As a Board, we recognise that delivering impact, and climate-risk, are material issues for our business – it is important to acknowledge that our approach, and our associated methodologies, will undoubtedly continue to evolve and enhance in the years to come. Oversight and consideration of our impact and sustainability ambitions will, therefore, unsurprisingly remain firmly on the Boards agenda.

More information on the Bank's approach to Impact and Climate Risk can be found on pages 26 to 35, and more generally on the activities carried out by the Board during the year on pages 78 to 79.

Chair's Governance Introduction continued

Engagement

Positive relationships with our key stakeholders continue to be essential to the long-term success of the Bank and, this year, has seen a continual improvement and strengthening in our stakeholder engagement processes. You can read more about our stakeholder engagement activities on pages 53 to 59. Our people make the Bank what it is, and we recognise that engagement with our team is vital, particularly during the challenging times we have seen in the external environment in the year. The Board has enhanced its two-way communication with the Bank's team with the appointment of a designated Non-Executive Director for workforce engagement. Demonstrable benefits have already been seen in supporting the Board's oversight of matters related to our People and that the interests of our team are considered in decision-making.

Final Thoughts

Lastly, I have been inspired and enthused in equal measure by the commitment and professionalism of the Bank team. None of the progress made this year would have been possible without the team's hard work and expertise. This has been an important year for the Bank, and I would like to thank the Board, our team, business partners and wider stakeholders for their dedication, and support, in delivering a successful year for the Group.

As a Board, we look forward to supporting the Bank, under Al's leadership, as it continues to capitalise on the opportunities presented by the Group's strategy to transform Scotland through our insight, investment, and impact.

Willie Watt
Chairman

Directors' Report

The Directors present their annual report on the affairs of the Bank, together with the audited financial statements and independent auditor's report for the year ended 31 March 2023.

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

- A description of the principal activities of the Group during this year is included in the Strategic Report on pages 6 to 59.
- The Group's risk management disclosures are set out in the Strategic Report on pages 44 to 52.
- Information on our employment disability policies, gender pay gap, and our actions on colleague engagement is in the Annual Report of Remuneration on pages 100 to 111.
- Details of significant post balance sheet events are contained in note 26 to the financial statements.
- Information about the use of financial instruments by the Bank and its subsidiaries is given in note 2 to the financial statements.

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

Dividends

The Directors do not recommend payment of a dividend (2022: nil).

Gifts and Hospitality

No gifts were made by the Bank. The cumulative value of gifts and hospitality received by staff was de minimis (2022: nil).

Ownership and Shareholder Governance

The Bank is wholly owned by Scottish Ministers on behalf of the people of Scotland. During the year, 129,903,810 ordinary shares of £1 each were issued to Scottish Ministers (2022: 126,329,988). As at 31 March 2023, 279,157,131 (2022: 149,253,321) shares were held in issue. The Bank did not purchase its own shares in the relevant period (2022: nil).

Directors' Indemnities

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

Accounts Direction

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

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

Directors' Report continued

Going Concern

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

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

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

Long-term Viability Statement

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

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

The Bank's liquidity and capital positions are described in the financial performance section. The Bank produces a business plan which incorporates a four-year financial forecast. The key considerations made for the long-term viability of the Bank relate to the likelihood of continued provision of funding from the Scottish Government. The Board considers, amongst others, key person risk and operational risk, particularly given the infancy of the Bank and reliance on key individuals. The Bank is operationally resilient with critical functions operating effectively to date as intended. The businesses and projects that the Bank invests in are appraised individually with risks including the impact of economic and geopolitical headwinds in each instance. The Board is cognisant that the current economic uncertainty and heightened volatility is expected to persist, including inflationary rises and a period of higher interest rates, and will continue to impact the Scottish economy. The Bank regularly monitors its exposure and the effect of these events on the investment landscape. We are mindful that these events may mean that the need for the Bank will be even greater.

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

Statement of Disclosure of Information to Auditor

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

Auditor

KPMG LLP were appointed as External Auditor by the Auditor General for Scotland in accordance with the Public Finance and Accountability (Scotland) Act 2000 in March 2022 for a period of five years (ended FY26/27). The Bank's policy on the provision of non-audit services applies (see page 87).

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

Al Denholm
Chief Executive Officer
4 July 2023

Board of Directors

Willie Watt

Chair

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

Willie retired in December 2019 from Martin Currie, an equities investment management firm, after 19 years as its Chief Executive and Chairman. Previously, Willie spent 16 years with the 3i Group, latterly as Managing Director responsible for the company's Scottish and Irish businesses and ran investment teams focusing on venture capital, energy, and mid-market buy-outs. Since 2016 he has been a member of the Advisory Board of Scottish Equity Partners, and a member of the board of directors and Audit committee of the National Galleries of Scotland retiring in November 2022. He is a Trustee of the National Galleries of Scotland Foundation. He was educated at the University of Aberdeen.

Al Denholm

Chief Executive Officer

Appointed Chief Executive Officer May 2023.

Al has over 35 years of experience managing global investment teams and businesses, spanning Aviva Investors, Prudential Portfolio Management Group, BlackRock's Multi-Asset Client Solutions business, and Scottish Widows. This included significant experience of Corporate Governance, chairing or serving on Board, ExCo, and key Committees. Al was educated at the University of Edinburgh.

Sarah Roughead

Interim Chief Executive Officer

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

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

Michael Robertson

Interim Chief Financial Officer

Appointed as Interim Chief Financial Officer in June 2022.

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

Tracey Ashworth-Davies

Chair of Remuneration and Nominations Committee

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

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

Carolyn Jameson

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

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

Key to appointments

- Audit Committee
- Remuneration and Nominations Committee
- Risk Management and Conflicts Committee
- Valuations Committee
- Senior Independent Director
- Independent Non-Executive Director

Board of Directors continued

Peter Knott

Chair of Audit Committee

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

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

Jason McGibbon

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

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

Nicholas Moon

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

Nick is an experienced senior executive specialising in impact investment management, formerly as a Partner at LeapFrog Investments, a leading international private equity impact investor and as Executive Director of Strategy for the Development Bank of Wales. Nick was a founding advisory board member for the World Bank IFC operating principles for global impact and is a board member of Northern Arc Investments, an Indian gender lens credit investment manager, as well as a senior advisor to private equity and venture capital funds. Nick holds an MBA from Imperial College London, specialising in advanced strategy and private equity.

Candida Morley

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

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

Jacqueline Redmond

Chair of Risk Management and Conflicts Committee

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

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

Jonathan Taylor

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

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

Key to appointments

- Audit Committee
- Remuneration and Nominations Committee
- Risk Management and Conflicts Committee
- Valuations Committee
- Senior Independent Director
- Independent Non-Executive Director

Our Governance Approach

The UK Corporate Governance Code

Other than those aspects set out in this Annual Report, the Board can confirm that the Bank has complied with the Code during the financial year insofar as it relates to the Bank. Details of how we have complied with the Code are set out more fully in this report, the Committee Chair reports, and the Annual Report on Remuneration. Details of areas of partial or full non-compliance are set out in the Audit Committee report. We also describe how we have engaged our workforce and stakeholder engagement under s.172 of the Companies Act in our Strategic Report. FCA listing rules are not applicable to us.

You can find the Code at www.frc.org.uk.

We are both a public limited company (PLC) and a Non-Departmental Public Body (NDPB) and follow best practice corporate governance as appropriate to us.

We comply with the Financial Reporting Council (FRC) 2018 UK Corporate Governance Code (Code) except in respect of specific areas related to our position as an NDPB, having the Scottish Ministers as our sole Shareholder.

Funded by the taxpayer, we also comply with the principles of the Public Finance and Accountability (Scotland) Act 2000.

Board Members

The Board must be made up of between nine and 13 Directors, with at least two Executive Directors. There must not be more than four Executive Directors and at least two-thirds of the Directors must be Non-Executive Directors.

As at the date of the publication of this report, the Board is made up of a Non-Executive Chair, three Executive Directors (the Chief Executive Officer, Interim Chief Executive Officer and Interim Chief Financial Officer) and eight other independent Non-Executive Directors. Director biographies are set out on pages 68 to 71.

The period of a Non-Executive Director's term must not be more than five years. Non-Executive Directors can, however, be reappointed for more than a single term (provided office is not held for a culminative period of more than eight years).

Our Directors are not subject to annual re-election as referenced by the Code.

Board Appointments and Reappointments

Non-Executive Directors, including the Chair, are appointed by the Scottish Ministers. Executive Directors are appointed by the Bank with consent of the Scottish Ministers for a period specified by the Scottish Ministers on appointment. This may be an undetermined period. Our Non-Executive Directors are appointed under a regulated public appointment process and made by the Public Appointments team of the Scottish Government in accordance with the Code of Practice for Ministerial Appointments to Public Bodies in Scotland.

Section 10(2) of the Act sets out the grounds for termination of a Director appointment. An appointment may also come to a natural expiry or due to a removal from office by the Standards Commission for Scotland under the Ethical Standards in Public Life etc. (Scotland) Act 2000.

Board Diversity and Inclusion

A formal, rigorous, and transparent search process for each appointment was undertaken, considering the balance of skills, experience, and diversity. Led by the Chair of the Board, in partnership with the Scottish Government, additional steps were taken to ensure that the application process was accessible. A Diversity Delivers strategy published by the Commissioner for Ethical Standards in Public Life in Scotland applies to all public appointments. Diversity search specialists were used to actively encourage a diverse field of applicants. In addition, stakeholders, including Changing the Chemistry, Women on Boards and Women's Enterprise Scotland took part in early work to develop an approach to Board recruitment to encourage diversity in applicants.

The skills criteria for the Board was shaped by our missions, and to ensure that the Board is appropriately placed to oversee the highest standards in the financial and public sectors. The Bank benefits greatly from the depth and breadth of expertise of the Board, including in respect of impact and private capital investment, ethical investment, private, public and third sectors, SME scale-up, and financial and public sector governance. The expertise and range of perspectives and insight around the Board table continue to bring independent judgement on key matters vital to the Bank's success. The Scottish Government consulted Scottish businesses and Trade Unions on the skills criteria for the Board, prior to the launch of the Bank.

The Board is committed to having a diverse and inclusive membership. We are pleased women represent 45% of the Board, and 60% of our Executive Committee, at 31 March 2023. However, we also recognise there's room for improvement, for example we are mindful that there is no ethnic diversity on our Board. For any Board vacancies that may arise in the future, we are committed to working proactively with the Scottish Government on the search and selection process to attract as diverse pools of applicants as possible.

Further detail on diversity and inclusion can be found in the Remuneration and Nomination Committee report on pages 96 to 99.

Board Independence

Consistent with the Code, there has been a division of responsibilities between the Chair and the Interim Chief Executive Officer during the financial year – and at least half of the Board, excluding the Chair, are considered to be independent Non-Executive Directors. The public appointment process in 2020 determined that all Non-Executive Directors were free from any relationship or circumstance that could affect or appear to affect, their independent judgement.

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

The Chair is tasked with effective leadership of the Board, setting its agenda, enabling the Board's effectiveness, fostering a constructive and appropriate challenge of the performance and strategic initiatives of the Executive by the Board. It is also the Chair's responsibility to maintain external relationships with key stakeholders, including the Scottish Ministers. During the year the Chair met with the Non-Executive Directors without management.

The role of the SID is to provide a sounding board for the Chair and to serve as an intermediary for the other directors where necessary. The SID also acts as an intermediary between the Bank and the Shareholder where there are concerns that cannot be resolved through normal channels, or when such channels would be inappropriate. The SID also leads and oversees the annual review of the Chair's performance.

The Chief Executive Officer is tasked with ensuring the Bank delivers its missions. More generally, the Chief Executive Officer has responsibility for embedding the Bank's culture and values, leading the Executive team

Our Governance Approach continued

in the day to day running of the Bank, and working collaboratively with the Chair, the Board, Scottish Ministers and partners and stakeholders across the private, public and third sectors. During the reporting period, the Interim Chief Executive Officer has been the senior executive of the Bank, carrying out these responsibilities, and having overall accountability for the implementation of the Bank's business strategy in line with policies and plans agreed by the Board. In the year, the Interim Chief Executive Officer has also been the Accountable Officer and, therefore, personally accountable to the Scottish Parliament in relation to governance, internal controls, and the stewardship of the Bank's resources. The Accountable Officer's report is set out in pages 112 to 115.

Directors' Conflicts of Interest

The Board has established policy and procedures to identify and disclose potential and actual conflicts of interest. A Code of Conduct is in place. On appointment, and on an ongoing basis, Directors are required to notify the Board of any actual or potential conflicts of interest and any changes to the facts and circumstances surrounding such conflicts. The Company Secretary monitors and notes any potential conflicts of interest that each director may have. Each Board meeting begins with a reminder of Directors continuing obligations in relation to potential or actual conflicts of interest.

A register of interests is available at www.thebank.scot.

While Non-Executive Directors have declared potential conflicts of interest, the Board considers that all Non-Executive Directors remain independent in character and judgement for the purposes of the Code. In particular, during the year, the Board carefully considered any potential conflicts of interest in relation to the appointment of Peter Knott as Chief Risk Officer of UK Infrastructure Bank. It determined that no actual conflicts exist at the time of appointment, and that any conflicts that may later arise would be managed in accordance with the Bank's conflict of interest and Code of Conduct policies.

Executive Leadership

The Interim Chief Executive Officer led the management and operation of the Bank and is accountable to the Board, supported by an experienced Executive Committee (EC). During the reporting period, the EC was made up of the Interim Chief Financial Officer, Executive Directors for People and Culture and Partnerships and Engagement, and the Chief Risk Officer and General Counsel.

To support good governance between the EC and the Board, the EC meets in advance of each Committee and Board meeting to discuss relevant matters.

Board and Committee Structure

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

- promoting the Bank's long-term, sustainable success, as Scotland's development bank, providing investment to support the creation of a fairer, more sustainable economy in Scotland,
- monitoring the alignment of the Bank's purpose, strategy, business plans, and values with the Bank's desired culture, and
- approving and monitoring operating plans for achieving business and strategic objectives and reviewing the performance of the management in meeting agreed goals.

The SRFD and Financial Memorandum establishes a delegation of authorities. While some matters are specifically reserved for Shareholder approval in general meeting or under our governance framework, generally authority has been delegated to the Board, which in turn has delegated responsibility to the Chief Executive Officer. The Board has also put in place clearly defined responsibilities to four Committee's which support the Board oversee effective and robust decision-making. The four Committees are: the Audit, Remuneration and Nominations, Risk Management and Conflict, and Valuation Committees. Each independent Non-Executive Committee Chair reports to the Board after a Committee meeting (at least quarterly).

Our Committees are made up of independent Non-Executive Directors only. See below for a Committee overview. The Terms of Reference for each Committee can be found on our website www.thebank.scot.

Committee overview

Audit Committee	Remuneration and Nominations Committee	Risk Management and Conflicts Committee	Valuations Committee
Assists the Board in its oversight of the integrity of the financial statements and any other formal announcements relating to its financial performance; monitoring the adequacy of internal financial controls; and monitoring the independence and performance of the internal audit function and the external auditors.	Assists the Board in its oversight of remuneration by overseeing the management of pay and reward practices; and makes recommendations to the Board in relation to the development and implementation of reward policies and practices to support the Bank's long-term strategy and values. Also supports the Board, with the agreement of the Scottish Ministers, Board composition and Board and Executive succession.	Assists the Board in its oversight of the effectiveness and robustness of the risk management systems and processes, including its risk management framework, risk appetite and tolerance, and assessing the adequacy of the non-financial internal controls. Plays a leading responsibility in the oversight of the climate-related strategies, statements, policies and procedures.	Assists the Board in its oversight of the investment portfolio and valuations methodology, policies and valuations processes, considering specific valuations of individual investments and the investment portfolio as a whole. Plays a critical role in oversight of the investment process, and in monitoring the financial and non-financial impact of the performance.
See pages 83 – 88 for full details of the Committee's role.	See pages 96 – 99 for full details on the Committees' role.	See pages 92 – 95 for full details on the Committee's role.	See pages 89 – 91 for full details on the Committee's role.

Regular reporting post each Committee meeting

THE BOARD

Our Governance Approach continued

A Shareholder representative attends Board meetings regularly, in an observer capacity but is not entitled to vote.

In line with the Code, all directors have access to the advice and services of the Bank's Company Secretary in relation to the discharge of their duties on the Board and any Committees they serve on including on all matters related to the Bank's governance. Any Director may also, at any time, take independent professional advice at the Bank's expense. Beyond the use of internal audit, no external advice was sought in the year by the Board or its Committees.

The Company Secretary is a standing attendee at each Board meeting. Members of the EC, including our Executive Directors for Partnerships and Engagement, People and Culture, and our Chief Risk Officer and General Counsel also attend regularly, as well as other Bank employees.

The Board uses an electronic portal to distribute Board reports and other information securely, increasing efficiency, confidentiality, and sustainability.

Board and Committee Effectiveness

The effectiveness of our Board is critical to our success. During the year, the Board committed to an independent evaluation of its effectiveness at least once every three years. The Board intends the first independent evaluation in 2023.

For FY22/23, the Board agreed that the evaluation of the Board and its Committees would be carried out internally, using a rigorous process. This included the completion of questionnaires, issued by the Company Secretary. To get qualitative feedback, the Company Secretary also interviewed each Director. The Chair led a discussion with the Board in October 2022 on the outputs of the review. Similar discussions were also held at a Committee level.

Pleasingly, overall, the work of the Board and its Committees were rated highly and as operating effectively. An action plan for areas of improvement was agreed. Delivery against that plan is monitored by the Chair and Company Secretary.

The box opposite provides a summary of some key outputs.

During the year, the SID led a review of the Chair's performance in consultation with the other Directors and key stakeholders. Non-Executive Directors also had an individual review with the Chair. These annual reviews confirmed that the performance of the Chair and each Non-Executive Director was effective.

The review of Executive Directors' performance can be found in the Annual Report of Remuneration Report on pages 100 to 111.

Summary of 2022 Board Performance

- The Board's strategic oversight was rated positively overall - a desire to be even more forward looking was expressed. There has been a greater use of Board time through its agendas and a dedicated Strategy Day was held to consider key areas of strategic focus. More details on the Strategy Day can be found on page 78. This has included creating a strategic Ambition Statement. The number of Board meetings, in year, also increased to support the balance of oversight and strategy.
- There have been further enhancements around meeting materials and reports, in response to an ask from the Board for the continued development of metrics and reports related to the Bank's performance, for example.
- Steps have been put in place for the Board to engage with key stakeholders. For more details see our S172 Statement on page 53. In the year, this has included direct engagement with employees, Team Voice, and with key stakeholders through engagement events. Time is now devoted at each Board meeting for the Non-Executive Director for Workforce Engagement.
- Maintain a focus on Board development and training. See 'Board Development' for more details.

Board Development

On appointment, the Board received an induction process covering aspects of the Bank's governance. During FY22/23, the Directors participated in internal training sessions on subjects including climate change and risk, impact, public sector finance and reporting and the FCA regulated environment. We will continue to build further training sessions into the Board schedule for 2023.

Our Governance Approach continued

Board Activity 2022/23

During the year, the Board met for seven Board meetings. Board member attendance at full Board meetings is provided at page 81. In addition, under Board delegated authority, a sub-group of the Board met for three meetings for administrative matters, such as to issue shares to the Shareholder. A full Strategy Day was held in September.

Spotlight: Strategy Day

The Board, and Executive leadership, met in person in September 2022 for the Board's first Strategic session. Led by the Chair of the Board, the focus of the day was to define the Bank's ambition for 2030, and what will be needed to achieve it. Run as a series of mini-workshop sessions, the day consisted of:

- Reflections on the Grand Challenges faced by Scotland
- Our ambitions for 2030
- Enablers and Disruptors
- Key components of a plan to successfully deliver the Bank's ambitions.

Ultimately, shaping the Bank's strategic ambition statement to transform Scotland through our insight, investment, and impact.

The spotlight opposite provides a summary of some of the activities carried out by the Board during the year. It doesn't represent all items considered. For example, the following activities have been carried out by the Board on a frequent basis during the financial year:

- Considered matters of strategy and monitored progress against the Bank's strategic objectives.
- Discussed engagement and communications with the Bank's key stakeholders.
- Received reports, including the Balanced Scorecard, from the Interim Chief Executive Officer on the Bank's performance.
- Considered management information in respect of the Bank's financial performance, it's People and culture, and investment activity.
- The recruitment of senior leadership positions, including the recruitment of a Chief Executive Officer, and Chief Investment Officer.
- Considered the output of People Surveys biannually.
- Received formal updates from the Chairs of the Audit, Remuneration and Nominations, Risk Management and Conflicts, and Valuation Committees on their activities.

Spotlight: Board activities in the year

June 2022

- Appointment of Michael Robertson as Interim CFO
- Approved Stakeholder Engagement Strategy
- Considered a strategic refinement to the Investment Strategy
- Approved the Risk Management Framework

August 2022

- Approved publication of Annual Report and Accounts and Financial Statements

September 2022

- Dedicated Strategy Day
- Deep-dive into investment delivery, including on investment impact, origination, and portfolio management
- Considered the macro-economic environment and potential risks and opportunities
- Approved the Board's Succession Plan

October 2022

- FY23/24 Budget
- Annual Board Performance Review

December 2022

- FY23/24 Business Planning
- Investment Origination
- Considered a Group strategic initiative to support the ScotWind programme

January 2023

- FY23/24 Business Plan, Financials and Corporate Performance Objectives

March 2023

- Approved the Bank's Annual Impact and Mission Report
- Approved the Bank's financial and operating plans for 2023/2024
- Approved the Bank's Investment Strategy
- Approved the Bank's Ethical Investment Policy
- Discussed the Bank's Culture

Our Governance Approach continued

Internal Controls

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

The chair of the Audit Committee and chair of the Risk Management and Conflicts Committee report to the Board following each of their meetings.

A more detailed report on the Bank's internal control systems and risk management framework and processes is provided on pages 44 to 52.

Public Services Reform (Scotland) Act 2010

We are required under the Public Services Reform (Scotland) Act 2010 to publish information on expenditure and certain other matters as soon as reasonably practicable after the end of each financial year. This information will be made available at www.thebank.scot.

Political Donations

We have not made any political donations or incurred any political expenditure in FY22/23 (2022: nil).

2023 Annual General Meeting (AGM)

The 2023 AGM will be held on 5 September 2023, with the AGM and related papers being sent to the Shareholder in advance.

Other Disclosures

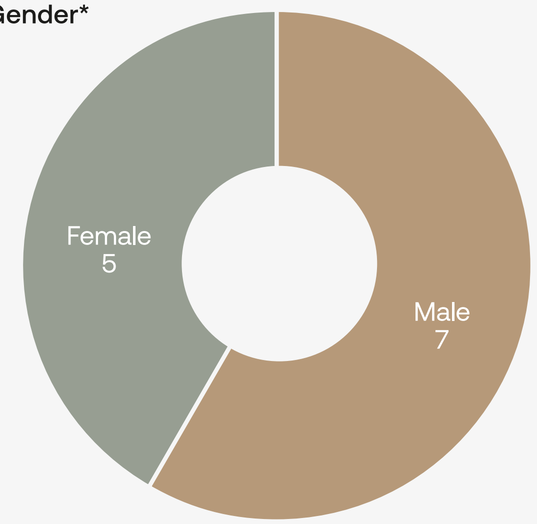
Other disclosures relevant to our Corporate Governance Statement are included in the reports of our Committees, the Annual Report of Remuneration and the Directors' Report.

Corporate Governance Snapshot

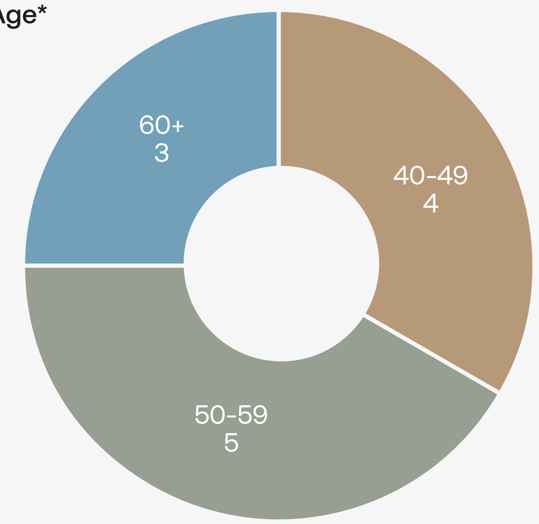
Our Board Diversity

In addition to details set out in Our Governance Approach, this section provides some highlights about our governance.

Gender*



Age*



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

Board Attendance

	Held	Attended
Willie Watt	7	7
Tracey Ashworth-Davies	7	7
Carolyn Jameson**	7	6
Peter Knott	7	7
Jason McGibbon	7	7
Nicholas Moon	7	7
Candida Morley	7	7
Dr Jacqueline Redmond	7	7
Sir Jonathan Taylor	7	7
Sarah Roughead	7	7
Michael Robertson***	6	6

*Figures include Al Denholm who joined as Chief Executive Officer in May 2023.
**Carolyn Jameson was unable to attend one Board meeting due to a prior commitment.
***Michael Robertson was appointed with effect from 20 June 2022.

Corporate Governance Snapshot continued

Key Priorities for the Board FY23/24

Enabling Impact	◆ Delivery, and demonstration of mission impact ◆ Our first Principles for Impact Management Disclosure Statement ◆ Impact targets ◆ Climate Reporting, with our first TCFD Report ◆ Equality strategy outcomes
Delivering Investment	◆ Bank's role as a key enabler for the ScotWind strategic market opportunity ◆ Execution of investment origination
Insights, Partnerships and Reputation	◆ Engagement action plan ◆ Development of thought leadership ◆ Relationships and partnerships across the public and private sectors
Enabling Private Sector Investment	◆ Define and deliver a Third Party Capital strategy ◆ Crowding-in private capital
People and Culture	◆ Embedding our Values and People strategies ◆ Engagement surveys ◆ NED nominations and appointments
Operational Financial Self-sustainability	◆ Bank's operational financial self-sustainability

Our Key Governance Documents

Document	Document Purpose
Scottish National Investment Bank Act 2020 (the Act)	Establishes the Bank, setting out our objects; powers; ownership; governance; operational matters (such as our strategic missions and reporting requirements) and applicability of certain public body legislation to the Bank.
Articles of Association	Outlines the rules for the running, governing and ownership of the Bank, including the responsibilities and powers of the directors.
Shareholder Relationship Framework Document (SRFD) (and Financial Memorandum)	Agreed between the Bank and the Scottish Ministers, the SRFD outlines the relationship between the Bank and the Shareholder, including measures to ensure the appropriate financial controls and to administrative and operational independence. You can find the SRFD and Financial Memorandum at www.thebank.scot.

Audit Committee Report

Committee Attendance

The Committee meets at least four times a year, with meetings coordinated with external reporting timetable requirements. In 2022-2023, the Committee met six times, meeting quarterly and having additional meetings in January to support the Budget process, and July to review the draft Annual Report and Accounts and Financial Statements.

	Held	Attended
Peter Knott (Chair)	6	6
Jason McGibbon*	6	5
Jonathan Taylor	6	6

*Unable to attend one Committee meeting due to a prior commitment.

I am pleased to introduce the Audit Committee report for the period ended 31 March 2023.

The Audit Committee has three members:

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

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

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

In the year, the Committee continued to provide oversight of the Group's internal controls in financial reporting, challenging management on its financial forecasts and budgets in an uncertain external financial environment. As well as usual financial reporting activities, we focused on several areas such as:

- Budget submissions and forecasting and strengthened our understanding of matters related to the fiscal framework and potential consequences for the capital available for future investment.
- Working with the Risk Management and Conflicts Committee, monitoring the effectiveness of the internal control environment, considering Internal audit reports and actions relating to a broad range of key aspects of our control environment, supporting the integrity of the Bank's financial and non-financial disclosures.
- Assessed the effectiveness of the work of the external auditors and internal audit functions.
- Group financial plans and external reporting including year-end Audit timetable and fees.
- The Bank's performance, including the development of its balanced scorecard.
- An annual review of the Committee's effectiveness.

More details on the significant matters considered during the year by the Committee follow. You can also find a copy of the Committee's Terms of Reference at www.thebank.scot.

Audit Committee Report continued

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

Financial Reporting

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

Areas of key accounting judgement and significant estimates

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

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

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

Fair, balanced and understandable

Following a review of the disclosures, the Committee recommended to the Board that the annual report and financial statements, taken as a whole, were fair, balanced and understandable. In addition to their own review, the Committee requested an independent review from the Internal Auditors to verify that, in their view, the Annual Report and Accounts were fair, balanced and understandable.

Going concern

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

It is intended that the Bank will achieve operational financial self-sustainability in the medium term through generating income from the investments it makes and closely monitoring and controlling its costs.

In the financial year ended 31 March 2023, income of £10.7 million was generated from the investment portfolio with operational expenditure of £13.0 million. The Bank remains reliant on Scottish Government funding for both investment and operational expenditure. The Scottish Government remains committed to providing £2 billion of capital to the Bank for investment over 10 years and specific assurances have been given to continue to fund the Bank's operational expenditure for 12 months from the signing of the financial statements.

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

Audit Committee Report continued

Internal Controls

The Committee provides oversight of the systems of internal controls over financial management and reporting, financial risks, treasury, and tax. There is an ongoing process to review and approve any material changes to relevant policies. During the year, the Committee carried out reviews and approved updates to several of those key policies, such as the tax policy, procurement and outsourcing policy, and staff expenses. The Committee also met with the Group's tax advisors, EY. Were any instances to arise, the Committee would be notified as part of its reporting of any matters of concern raised regarding financial reporting, the integrity of financial management, or any allegations related to fraud.

At each meeting the Committee received, challenged and considered scheduled finance updates on business performance and significant reporting and accounting matters from the Interim Chief Financial Officer and the Bank's Financial Controller. We also had regular dialogue with both internal and external auditors. This internal control framework has supported the Accountable Officer in ensuring compliance with their duties. The Committee has, for this year, concluded that the internal control framework in the Bank is effective.

Internal Audit

During the year, the Committee extended the appointment of Grant Thornton UK LLP as the outsourced provider of the Bank's internal audit function for a period of twelve months. Our internal audit services will be put out to tender during 2023.

As part of our annual cycle, we also agreed the Internal Audit Charter which describes the purpose and role of internal audit, authority and responsibility of the Head of Internal Audit and the scope, nature and oversight of the internal audit function.

At each quarterly meeting the Committee reviewed reports from the internal auditor evaluating the effectiveness of the controls and any system failings or weaknesses – and monitored progress against the Internal Audit Plan. For example, in the year, the Committee considered specific internal audit reviews on the Bank's corporate governance framework, the design effectiveness of the compliance function, design, implementation and operation of controls with respect to the Bank's investment governance framework, the Bank's procurement and contracting procedures to support the Bank in meeting its value for money objectives, and the ethical investment framework and the application of that framework to the investment portfolio. In addition, several other specific reviews in relation to engagement and marketing, balance sheet management, and cyber security were commenced in 2022/23. In performing its review of the internal audit reviews, the Committee considered the judgements and conclusions of management. No control weaknesses were reported that could have a material impact on the Group's financial or non-financial performance. Actions and recommendations for improvement are agreed with management and effectively tracked and monitored by the Committee quarterly.

During the year, the Committee continued to challenge and support enhancements to the effectiveness of the internal audit framework. As part of that, the Committee, and the internal auditor agreed key metrics, including the timely delivery of management responses.

The Committee reviewed and approved the internal audit plan and budget for FY23 and received the internal auditor's Annual Report and Opinion providing an assessment of the control environment. In turn, this report supported the Committee's annual report to the Board on the effectiveness of the internal control framework.

The Head of Internal Audit has direct access to the Chair of the Committee. In addition to private meetings with the Committee members without management present, the Committee Chair also meets the Head of Internal Audit outside formal Committee meetings.

The Committee remains satisfied with the performance and effectiveness of the internal auditor for the financial year and that the function has appropriate resource and scope to discharge its duties effectively. It is also satisfied that the function is operationally independent from management.

External Audit

The Committee has primary responsibility for overseeing the relationship with the Group's external auditor.

As we are a public body subject to the Public Finance and Accountability (Scotland) Act 2000, it is for the Auditor General of Scotland (and not the Board per the Code) to appoint our external auditor. KPMG LLP (KPMG) was appointed by the Auditor General for Scotland as the Bank's external auditor for a period of five years in March 2022. KPMG is also appointed auditor to the subsidiaries of the Bank.

The Committee has reviewed the level of auditor remuneration to assess whether it is competitive and represents value for money and approved engagement terms.

In addition, the Committee reviewed KPMG's external audit approach, including materiality, assessment of significant audit risks, being valuation of unlisted investments and the risk of management override of controls, and scope of the audit. KPMG highlighted changes for the 2023 audit relating to identifying and assessing the risks of material misstatements resulting from the application of ISA 315 Revised. The Committee agreed with the audit approach and focus of work.

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

The Committee is responsible for setting, reviewing, and monitoring the appropriateness of non-audit services by the external auditor. KPMG cannot carry out any non-audit work for the Bank without the prior approval of the Committee and must comply with the Bank's policy on provision of non-audit services. The Committee approved a policy on provision of non-audit services and monitored implementation of that policy. No non-audit services were carried out by the external auditor during the year. The Committee did not request any specific areas of review from the external auditor beyond the normal audit activity.

The external audit partner has direct access to the Chair of the Committee and has met privately, during the year, with the Committee without management present. In addition, the Committee Chair met the external audit partner outside formal meetings.

The Committee is satisfied that KPMG has remained independent of the Bank and is satisfied with the external auditor's performance and effectiveness for the financial year.

Audit Committee Report continued

Code Compliance Explained

- Principle 18, relating to the annual re-election of Directors for the reasons set out on page 72 of our Corporate Governance Report
- Provisions 25 and 26, as related to the approach to the appointment or reappointment of the external auditor, which is (in our case) appointed by the Auditor General of Scotland
- Provision 34, in so far as the remuneration of Non-Executive Directors is set in accordance with the daily fee framework of the Scottish Government's Pay Policy for Senior Appointments
- Provisions 36 and 37, as relating to share awards and remuneration schemes and policies, as the Bank is required to operate within a pay and reward framework agreed with the Scottish Ministers. Share awards do not apply to the Bank.

UK Corporate Governance Code

During the year, the Committee considered our governance practices as compared to the Code, on behalf of the Board. See the box above for areas of full or partial non-compliance, which all relate to aspects of the Code that are not applicable to the Bank as an NDPB having the Scottish Ministers as our sole Shareholder.

Whistle Blowing

An important part of our culture is speaking up when something doesn't seem or feel right. We have put channels in place for our people to raise concerns, including our whistleblowing channel. During the period, the Committee reviewed and approved an updated whistleblowing policy and confirmed the effectiveness of this policy in supporting appropriate disclosures. The Chair of the Committee acts as the Group's whistleblowing champion and can be contacted directly and independently.

Summary

The Committee has continued to build upon the strong foundations and governance that were put in place following the launch of the Bank. Supported by a robust internal and external audit function, the Committee will continue to oversee and monitor reform to the UK audit and associated regulatory frameworks to ensure the Board remains effectively supported in the integrity of the Group's financial systems, processes, statements, and other reporting.

Looking to 2023, a key focus will be the procurement of our internal auditor, as well as financial disclosures related to environmental, social and governance (ESG) and climate reporting as an area for assurance.

Peter Knott
Chair of the Audit Committee

Valuations Committee Report

Committee Attendance

The Committee meets at least four times a year, with meetings coordinated to support quarterly valuations cycles. In the year, the Committee met four times, and held a dedicated strategy day in January 2023.

	Held	Attended
Willie Watt (Chair)	4	4
Jason McGibbon	4	4
Jonathan Taylor	4	4
Nicholas Moon*	2	2

*Appointed to the Committee by the Board with effect from 27 September 2022.

I am pleased to present this Committee report which provides information on how the Committee has performed its duties in the reporting year. The Committee has primary responsibility to assist the Board in its oversight of the Bank's investment and valuation processes to ensure they remain robust. Through independent challenge, the Committee considers the specific performance and valuations of individual investments and of the portfolio.

The Committee's role in the oversight of the development and implementation of a strong investment framework and discipline across the Group is critical. It, therefore, observes the Group's investment processes. Members of the Committee participate in the stages of investment decision-making through membership of the final Investment Committee.

Core to its purpose, the Committee also supports the Board in the development, and oversight of the implementation, of the Bank's strategic initiatives and business plan in respect of the Bank's investment activity.

As a mission led organisation, the Group is clear in its ambition to build a portfolio of impactful and transformative mission-focused investments.

As such, during the year, the Committee continued to enhance its role in the oversight of the impact of our investments. By this, we mean the generation of positive, measurable social and environmental impact alongside a financial return. Impact will continue to be a key focus area for us in the year ahead.

During the year, the investment landscape has been a challenging one and one that is likely to remain challenging due to heightened geopolitical risks and macroeconomic headwinds. The Committee plays a critical role in monitoring and providing direction regarding the Bank's approach to portfolio management – and has closely monitored any potential impact of the external environment on the Bank's investments.

In addition to the above, the Committee's key responsibilities include:

1. Reviewing the valuation policies of the Bank.
2. Ensuring the valuation methodology and practices in relation to investment assets remain appropriate.
3. Validating and recommending to the Board or the Audit Committee the valuations to be placed on investment assets for the purpose of financial reporting.

Valuations Committee Report continued

4. Reviewing the investment process and the operational arrangements for the decision making of the Executive Investment Committee and the process by which it assesses investment propositions.
5. Reviewing and, where appropriate, challenging management's judgements about any unrealised gains or losses relating to the investments.
6. Working with the Risk Management and Conflicts Committee, to ensure risks inherent in the investment process and portfolio are properly considered.
7. Approving policies relating to ethical investment, investment risk and wider investment strategy.
8. Monitoring the specific financial and non-financial impact of the Bank's investments and portfolio.
9. An annual review of the Committee's effectiveness.

You can find a copy of the Committee's Terms of Reference at www.thebank.scot.

Membership

The Committee reviewed its membership during the year, welcoming Nicholas Moon as a new member in late September. Nicholas brings significant experience as a senior executive specialising in impact investment management.

As Chair of the Committee, I am also supported by two other Non-Executive Directors, who have extensive experience of investment decision-making:

- **Jason McGibbon**
- **Jonathan Taylor**

Nicholas is a member of the Risk Management and Conflicts Committee, and Jason and Jonathan members of the Audit Committee. This cross membership supports coordination between the three committees, strengthening connectivity and the flow of information. The Committee also welcomes the Chair of the Audit Committee, and external auditor, to observe scrutiny of the year end valuations.

Senior Members of the Executive Committee, particularly the Interim Chief Executive Officer, Interim Chief Financial Officer, and Chief Risk Officer and General Counsel, are invited to join meetings, as well as senior members of the investment team. The Bank's Company Secretary is Secretary to the Committee.

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

Portfolio Performance

This year has brought significant economic challenges with ongoing geopolitical tensions and high levels of inflation driving up businesses' operating costs and impacting upon their supply chains. A significant part of the £17.8 million unrealised loss for the year relates to adjustments reflecting underlying performance of the investee companies.

The latter part of 2022 saw further challenges in the UK economic environment, which impacted both Bank of England base rates and UK gilt pricing, causing both to rise. This has had an impact on fair value of the debt portfolio under IPEV guidelines. £3.4 million of the unrealised loss reflects macro-economic conditions rather than a structural concern relating to our debt investments, though we continue to monitor this closely as part of our quarterly valuation process.

While it is inevitable that not all of our investments will record a positive return, particularly at the early stage of investment, we continue to work towards a positive net return across our portfolio as a whole.

Impact

Impact investing is a broad term that encompasses a range of themes, asset classes and investment return expectations, defined by the Global Impact Investing Network as "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return". All our investments have clearly defined impact expectations, and the Bank works closely with our portfolio businesses to support them in understanding, measuring, and reporting on impact. The impact of our investments and across the Bank's portfolio has, therefore, been a key focus for the year for the Committee. It has reviewed the Bank's Annual Mission and Impact Report and considered the mission alignment impact of the Bank's investments. The Committee's oversight of the impact performance of the Bank's investments has been supported by management's continued development and refinement, during the year, of reporting dashboards and metrics.

In addition, the Committee has welcomed the steps being taken by the Bank to integrate leading impact investment processes in line with the Principles for Impact Management (PIM). The Committee monitored and discussed progress, with PIM being formally adopted by the Bank during the year. The Committee will continue to oversee activity in 2023 as the Bank makes further progress towards internationally recognised best practice in line with PIM.

Work has also started to refine an impact performance reporting framework. The Committee is pleased by the developments made in this area.

Looking to the year ahead, the Committee will continue to support and monitor the development of an agreed series of mission aligned impact targets to ensure that the Bank's capital is making the greatest possible impact.

Portfolio Management

We seek actively to support the Bank's investment team as it considers investee company growth and development. Senior management from the impact assessment and reporting and portfolio management teams attend Committee meetings to ensure an understanding of the financial and non-financial performance of the Bank's investments and portfolio.

To support the effectiveness and efficiency of our portfolio management processes, this year, the Committee discussed and approved the creation of an executive level portfolio management committee. This forum will bring together key individuals across the Bank to consider matters related to our portfolio as quickly as possible, whilst maintaining appropriate governance.

Target Rate of Return

The Bank aims to deliver a positive financial return on its investments over the longer term to support the Bank becoming financially self-sustaining and to ensure our investments enable the crowding in of private capital. A detailed project has continued during the year to consider an appropriate target rate of return for the Bank. The Committee has been actively involved in reviewing progress and provided scrutiny of the methodology and analysis, on behalf of the Board.

Investment Activity

At each of its meetings, the Committee received reports from members of the Executive Committee and of the investment team on the Bank's investment activity to assess progress at a portfolio level and the Bank's investment pipeline. This supports discernible trends and/or risks associated with the Bank's investment activity to be identified.

Investment Origination

During the year, the Committee considered, and recommended to the Board, an active origination strategy, focusing investment activity to where the Bank believes it can have the greatest impact, while continuing to encourage and consider opportunities outside those target areas.

Key Policies

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

Willie Watt
Chair of the Valuations Committee

Risk Management and Conflicts Committee Report

Committee Attendance

The Committee meets at least four times a year. In the year, the Committee met five times, holding a dedicated meeting in December 2022 related to the Group's plans for an operating subsidiary, Scottish Investments Limited, to become regulated by the FCA.

	Held	Attended
Jacqueline Redmond (Chair)	5	5
Carolyn Jameson*	5	4
Nicholas Moon**	5	4

*Unable to attend one Committee meeting due to a prior commitment.
**Unable to attend one Committee meeting due to illness.

I am pleased to present the Risk Management and Conflicts Committee report for the year ending 31 March 2023.

The Committee has an overall responsibility to support the Board in relation to the oversight of risk-related matters, such as the effectiveness and robustness of the Group's risk management systems and processes, and the risks impacting the Group. Its key responsibilities include:

1. Overseeing and advising the Board on all risk-related matters.
2. Advising the Board on the attitude to and appetite for risk, risk policies and risk limits.
3. Reviewing and monitoring the effectiveness of the Group's risk management framework and systems, including internal controls (other than internal financial controls overseen by the Audit Committee).
4. Monitoring how risks are reported, assessed and quantified.
5. Reviewing and monitoring the management of conflicts of interest.
6. Overseeing the Group's processes for compliance with laws, regulations, and codes of practice (including compliance with freedom of information) and approach to conduct, and prevention of fraud and other financial crime.
7. Reviewing the position in relation to subsidy control.
8. Receiving the annual report from the Bank's money laundering reporting officer.
9. An annual review of the Committee's effectiveness.

You can find a copy of the Committee's Terms of Reference at www.thebank.scot.

Membership

As Chair of the Committee, I am supported by two Non-Executive Directors who provide a wide range of risk, governance, investment, and commercial expertise to support the Committee in carrying out its role effectively:

- **Carolyn Jameson**
- **Nicholas Moon**

As reported elsewhere, Nicholas was appointed to the Valuations Committee during the year. This cross membership strengthens connectivity between Committees particularly in the oversight of investment risk.

Collaborative oversight between the Committee and particularly the Valuation and Audit committees will remain a focus for the year ahead.

Alison Talbot was appointed by the Bank in September 2022 as General Counsel to lead the Group's Governance, Legal, Risk and Compliance team ("GLRC"). The title of the General Counsel was also, subsequently, amended to Chief Risk Officer and General Counsel in 2023. In the year, the Chief Risk Officer and General Counsel was invited to attend Committee meetings, alongside other senior members of the Bank's team, including the Interim Chief Executive Officer, and Executive Director for Partnerships and Engagement. The Bank's Company Secretary is Secretary to the Committee. Senior team members for Investment Risk, Operational Risk and Compliance are also standing attendees at Committee meetings.

During the year, the Committee also met with the internal auditor and held private meetings with the Interim Chief Executive Officer and Chief Risk Officer and General Counsel, on occasion, following a scheduled Committee meeting.

This participation of senior leaders within the business ensures that risks which could harm the Group and its objectives are identified and appropriately managed.

In addition to the responsibilities undertaken by the Committee set out above, I turn to some specific work carried out by the Committee during the year:

Oversight of risk management

I wrote last year about the challenging macroeconomic environment. Uncertainties, including the war in Ukraine, inflation, interest rate movements, and severe disruption to supply chains, continue to bite. Current and future risk exposure, including the potential impact of heightened geopolitical and macroeconomic headwinds, has been monitored throughout the year.

Details of the risk management framework and processes in place to monitor risks, such as those headwinds, are available at pages 44 to 52.

However, in summary, key components of our risk management framework are:

- our risk appetite and taxonomy; and
- risk governance (including our risk policies) and processes to identify, measure, manage, monitor, and report on risks.

During the year, the Committee continued to consider matters related to the risk management framework, with an external consultant, Devlin Mambo, being engaged by the Bank to carry out a broader review of the framework and consider refinements and enhancements. For instance, during the year, a review of the Bank's Risk and Control Self-Assessment was commenced, and, in addition, activity is underway to refine the Bank's key risk indicators. This activity continues. In the year ahead, the Committee will continue to monitor progress and oversee the implementation and embedding of any, consequential, enhancements to the risk management framework and continued strengthening of the control environment. With a growing portfolio and the introduction of various operational risk workstreams, continued enhancements to the reporting to the Committee shall also be a focus for the next reporting period.

Risk Management and Conflicts Committee Report continued

The Investment Risk team supports the Committee monitor risks inherent in the investment portfolio and pipeline. In addition, the Committee, is supported by the GLRC team, in its consideration of operational risks, throughout the year. This includes the effectiveness of the internal control environment in respect of non-financial reporting. For example, during the year, the Committee received and considered regular updates on the impact of new legislative and/or regulatory requirements on the Bank, and horizon scanning on forthcoming legal, regulatory and best practice developments that may present risks or opportunities for the Bank. In addition, the Committee discussed exposure to financial crime, and reputational and stakeholder risks. Ensuring the Bank is able to attract and retain the right skills and that the Bank's culture is, and remains, appropriate is critical to the Bank's success. People risk, therefore, remains a key risk. The management of that people risk and the wellbeing of the Bank team has been a material concern for the Committee, during the reporting period, as a result of the difficult external environment, coupled with internal pressures on management and senior executives during a period of organisational change for the Bank. In this regard, the appointments of the Chief Risk Officer and General Counsel (in 2022) and the Chief Executive Officer and Chief Investment Officer (in 2023) bring additional leadership and capability to the Bank's Executive Committee. Given its importance, people risk will remain an area of ongoing focus for the Committee.

To support the Committee's discussions, it receives compliance management information and trend analysis, as well as risk reports and management information relating to the Bank's investments and broader operational risk on a quarterly basis. Further, it has been agreed between the Committee and the Chair of the Valuations Committee that a joint discussion will be held during the next reporting period to consider topics of common interest, most notably investment risk. In addition, it is intended, in FY23/24, that members of the Committee shall be invited to observe a meeting of the Investment Committee, providing practical insight into relevant matters considered in respect of the Bank's investment activity.

Overall, while the Committee is supportive of the broader review underway of the risk management framework and will review proposals in 2023, it remains my opinion that the Bank's People, risk management framework and supporting systems have continued to be resilient, during the reporting period, in an ongoing challenging environment.

FCA Application

As a key step in the Group's journey, the Committee continued to have oversight of the application by the Group's investment subsidiary, Scottish Investments Limited, for FCA regulation.

Climate Risk

Climate-related risk is a key part of our ESG Level 1 risk. During the year, the Committees role in overseeing climate-related risk was enhanced. It performed a deep dive on how the Group is managing and reporting on climate change risks and opportunities. This included updates on workstreams relating to the Bank's climate reporting duties under public sector legislation and to support our portfolio businesses understand, measure, and report on greenhouse gas emissions.

The Committee also had oversight of the Group's ambitions to implement the approach proposed by the Taskforce for Climate-related Financial Disclosures (TCFD) as the Bank's climate risk and reporting framework. The Committee will continue over the 2023 financial year to monitor the development of the Group's climate-related frameworks and processes, such as carbon management plans.

As Chair of the Committee, I was appointed by the Board, during the year, as the designated Non-Executive Director for climate-related matters.

Key Policies

In the year, the Committee carried out an annual review of the Ethical Investment Policy and considered updates to the Whistleblowing Policy. It also considered key policies to support the FCA Application and compliance with the Senior Managers and Certification Regime.

Summary

As I write this report, I am particularly enthused by the Bank's ambition to be a key enabler for the ScotWind market opportunity. Supporting the oversight of this strategic priority will be a key focus for the year ahead – from the Committee's perspective particularly in terms of any associated risks and opportunities.

Finally, but by no means least, I want to take this opportunity to express my sincere gratitude to the Bank's Head of Operational Risk, who died suddenly during the reporting year, for the valuable contribution and support given to the Committee.

Jacqueline Redmond
Chair of the Risk Management and Conflicts Committee

Remuneration and Nominations Committee Report

Committee Attendance

The Committee meets at least four times a year, with meetings coordinated to support key times in the pay and reward cycle. In the year, the Committee met nine times, which included four ad hoc meetings to address specific matters arising. In addition, the Committee held a dedicated strategy session in January 2023.

	Held	Attended
Tracey Ashworth-Davies (Chair)	9	9
Carolyn Jameson*	9	6
Candida Morley**	9	8

*Unable to attend three meetings due to prior commitments. This included one ad hoc meeting. **Unable to attend one ad hoc meeting due to leave.

I am pleased to present the Directors' Report on Remuneration for the period ended 31 March 2023, which is made up of two key sections: this Committee report, and secondly, the Annual Report on Remuneration on pages 100 to 111.

The Committee assists the Board in respect of two primary areas, to oversee (a) the management of pay and reward practices across the Bank and making recommendations to the Board, in relation to the development and implementation of pay and reward policies and practices that support the Bank's long-term strategy and values, and (b) (where applicable, with the agreement of the Scottish Ministers) Board composition, Board and Executive succession, and talent management. Its key responsibilities, therefore, include:

1. Nomination processes for appointment to the Board and the Committees.
2. Overseeing succession planning and development for the Executive Committee and other key roles within the Bank, and (with agreement of the Scottish Ministers) the Board.
3. Overseeing the Group's hiring and resource planning.
4. Overseeing the development and implementation of remuneration policy and practices, including approving the remuneration for members of the Executive Committee.
5. Setting of performance conditions and evaluating associated reward.
6. Overseeing the Bank's Long Term Incentive Plan (LTIP) and Mission Contribution Reward Scheme (MCRS).
7. Overseeing employee benefits.
8. Equality, Diversity, and Inclusion initiatives related to our People.
9. Consideration of matters related to the Bank's People, Culture and the wellbeing of our people
10. An annual review of the Committee's effectiveness.

You can find a copy of the Committee's Terms of Reference at www.thebank.scot.

Membership

There have been no changes to the Committee's membership since the last Annual Report. I am joined by two highly experienced Non-Executive Directors from diverse backgrounds:

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

As reported elsewhere, Carolyn was appointed by the Board in 2022 to the position of Non-Executive Director for workforce engagement. This appointment supports the Committee's insight into the culture of the Bank.

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

Key activities in the period

Supporting our team

This has been a year of further consolidation and learning for the Bank, during which it has added significantly to its investment portfolio and continued to build the infrastructure and processes needed to support delivery of its missions, in alignment with the Bank's Business Plan, including in respect of the Bank's pay and reward processes and People plans.

This has also been a period of significant economic and social challenge with particular focus on the cost-of-living increases impacting the public, the Bank's team, and our investee companies.

In the year, the Committee has been keen to understand the impact of these challenges both in terms of delivery of the Bank's Business Plan objectives and the morale, well-being, and retention of our People. The ability to attract and retain a talented and skilled workforce is clearly critical to achieving our missions. The Committee has been particularly keen to listen to 'Team Voice', a group drawn from across the organisation to be the 'voice' of the workforce. It has sought to understand the factors that our team perceive as important in attracting and retaining values driven, skilled colleagues. Whilst remuneration is clearly a key consideration, career development with opportunities for learning and personal growth is particularly high on their agenda.

The Committee has monitored People Survey results in 2022–23, with the response rate of our team increasing to 93% (from 82%), with over 82% of those responding being likely to recommend the Bank as a place to work. The survey reflected the strong, positive, organisational culture built since launch and reinforced the need that it be continuously developed given the highly competitive market for skills needed by the Bank.

The Committee will continue to pay close attention to recruitment and retention data as well as to monitoring delivery of the Bank's People Strategy and related action plans. That People Strategy continues to develop and will remain a priority focus for the Committee. Priorities include further embedding the Bank's values, inclusive leadership, equality and diversity, and personal development.

Remuneration

Oversight of remuneration across the Bank has remained at the forefront of the Committee's agenda for this period. In the period, the Committee took the following decisions or recommended them for approval to the Board:

- The pay out level of the FY22/23 LTIP for eligible employees based on assessing performance against the performance conditions agreed by the Bank with the Shareholder (performance period: 1 April 2022 to 31 March 2023)
- Setting the Performance Conditions for the FY23/24 LTIP and agreeing those with the Shareholder
- Approving the FY22/23 MCRS award for eligible employees

Remuneration and Nominations Committee Report continued

- Implementing the Public Sector Pay Review effective 1 April 2022
- Remuneration proposals for members of the Executive Committee, including the remuneration of the Chief Executive Officer and Chief Investment Officer.

Following detailed consideration of evidence, the Committee is of the view that the Bank has performed well against FY22/23 performance targets and delivered strong results in a challenging economic environment. Full details of the LTIP and MCRS awards can be found in the Annual Report for Remuneration. The Committee has benefited from the valuable contribution of the Audit, Risk and Valuations Committees in relation to the setting of Performance Conditions and the assessment of evidence for the above performance period, working closely to bring insight on matters relevant to their respective remits. I would like to record my formal thanks to those Committees.

Considering the impact of the rising cost of living in the period, we moved to agree an enhanced pay award for 2022/23 for all eligible employees in post prior to 1 April 2022, providing an overall 4.3% increase for the population in scope. The pay ranges were also increased accordingly. In doing so, the Committee carefully considered the Scottish Government pay settlement for FY22/23 and affordability, with the Committee being joined by the Chair of the Audit Committee for the Committee's deliberations.

In addition, in the year, the Committee engaged Korn Ferry to carry out market analysis of the Bank's pay ranges. Within the context of public sector ownership, our remuneration policies aim to incentivise and reward individual and corporate performance, as well as attract and retain highly skilled people across the Bank. The Committee will continue in FY23/24 to focus on the Bank's remuneration policies and practices to ensure the stated aims continue to be met. The Committee looks forward to engaging with the Shareholder in this regard.

People Policies

The Committee considered amendments to some of the key people policies, during the year, including amendments to Group policies to support the application to the Financial Conducts Authority by Scottish Investments Limited for regulatory authorisation.

Succession planning

Succession planning was a key focus for the Committee during FY22/23 at a Board level and across some key senior executive positions. The Committee supports the Board, and the Scottish Ministers, consider the composition and nomination processes of the Board and the Committees. The Chair of the Board, and four other Board members, will have served as Non-Executive Directors for the period of their initial tenure in November 2023. With the support of the Company Secretary, the Committee led a process to consider and agree the Boards succession plan. I am delighted to report that the recommendation to reappoint Willie Watt, as Chair of the Board, for a further four years was approved by the Scottish Ministers in May 2023.

As part of our succession planning processes, the Chair of the Board led a review of the Board's skill set matrix, tracking strengths needed to support the Board's decision-making and to identify any gaps. We intend to initiate a search process, in accordance with the Public Appointments process, to identify a further independent Non-Executive Director in 2023-2024, who would also serve as a Non-Executive Director to the investment arm of our Group, Scottish Investments Limited, considering the Bank's strategic objectives related to third-party capital. This recruitment process will be a focus for the year ahead.

Separately, the Committee was delighted to recommend the appointment of Al Denholm as Chief Executive Officer towards the end of the financial year. Al will bring considerable professional and leadership skills and is highly committed to the successful growth of the Bank for the benefit of the people of Scotland. The Committee would like to record its thanks to Sarah Roughead who has played an outstanding role as Interim Chief Executive Officer. In 2022, a search process led by the Chair and the Interim Chief Executive Officer was also initiated to appoint a Chief Investment Officer to the Executive leadership team. The Chair discussed both appointments with the Committee and the wider Board, regularly, with members of the Committee and/or the Board being involved in the rigorous appointment processes. An external executive search agency, Spencer Stuart, was engaged by the Bank to support the Chief Executive Officer and Chief Investment Officer searches. Spencer Stuart has no connection with the Bank or the Directors other than conducting external search services and related activity.

In the year, the Committee also reviewed the succession plans for the members of the executive committee and other key roles within the Bank and the Bank's internal talent development framework to develop a pipeline of potential future leaders given this will continue to be a focus for the Committee in the 23-24 financial year.

Diversity, Equality, and Inclusion

During the last 12 months, in addition to the publication of the Bank's Equality Strategy, the Bank has detailed equality initiatives, designed to progress the Equality Outcomes set out in that Strategy. This includes focus on equality, diversity, and inclusion across all activities of the Bank. The Committee reviewed and was pleased to see publication of the Bank's interim Equality Report on its Public Sector Equality Duty. Whilst the Bank has achieved good staff gender balance overall, it remains uncomfortable with the current gender pay gap which it seeks to further address. This is also a focus for the Committee and will be closely monitored.

FY23/24

Looking to the year ahead, the Committee looks forward to seeing the considerable work done on impact performance condition measurement being operationalised. This provides a firm foundation on which to evolve Business Plan objectives and LTIP performance measures. For the coming year, performance conditions reflect the following strategic themes:

- Demonstrating and enabling impact.
- Delivering investment.
- Building insights, partnerships, and our brand.
- Enabling private sector investment.
- Realising the potential of staff.

The Committee will also clearly continue to pay close attention to the Bank's progress in achieving operational financial self-sustainability.

Tracey Ashworth-Davies
Chair of the Remuneration and Nominations Committee

Annual Report of Remuneration

Non-Executive Director Remuneration

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

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

Non-Executive Directors do not receive any pension, benefits or long-term incentives. During the year, two Non-Executive Directors were appointed as directors of the Bank's subsidiary company, Scottish Investments Limited. No Non-Executive Directors were appointed as directors to the Bank's other subsidiary company, Scottish Investments Services Limited.

Non-Executive Director Fees

Name	Role	No. Days Paid	Total Payment FY22/23	Total Payment FY21/22
Willie Watt	Chair of the Board, Chair of Valuations Committee	48	£60,000	£60,000
Candida Morley	Senior Independent Director, Non-Executive Director	30	£25,500	£25,500
Tracey Ashworth-Davies	Chair of the Remuneration and Nominations Committee, Non-Executive Director	30	£25,500	£25,500
Peter Knott	Chair of the Audit Committee, Non-Executive Director	30	£25,500	£25,500
Jacqueline Redmond	Chair of the Risk Management and Conflicts Committee, Non-Executive Director	30	£25,500	£25,500
Carolyn Jameson	Non-Executive Director	25	£21,250	£21,250
Jason McGibbon	Non-Executive Director	25	£21,250	£21,250
Nicholas Moon	Non-Executive Director	25	£21,250	£21,250
Jonathan Taylor	Non-Executive Director	25	£21,250	£21,250

Annual Report of Remuneration continued

Executive Director Remuneration

Executive Directors receive remuneration in the form of an annual salary and receive 12% Employers Pension contribution. The pay and reward framework for the Bank was developed with the input of reward specialists, Korn Ferry, and is underpinned by Hay job evaluation methodology.

No Executive Director received an increase in role during 2022/23 based on being new appointments.

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

The LTIP scheme incentivises long-term sustainable performance by deferring a proportion of allocations and making them subject to sustained future performance in accordance with LTIP scheme rules. In FY22/23 Michael Robertson was not a participant in the LTIP scheme due to the interim nature of the role, however Michael was considered to be eligible for Mission Contribution Reward.

The Committee reviews and approves individual salaries for Executive Directors based on the pay and reward framework previously agreed with Scottish Ministers.

Remuneration for the Period from 1 April 2022 to 31 March 2023 (Audited)

During the financial year, Sarah Roughead, Chief Financial Officer, has acted in an interim capacity as Chief Executive Officer. Al Denholm was appointed Chief Executive Officer on 1 May 2023.

Name	Period	Base Salary	Salary Paid	Employer's Pension Paid	Total Fixed Pay	LTIP/MCRS	Total
Sarah Roughead Interim Chief Executive Officer	01/04/2022 to 31/03/2023	£205,000[1]	£205,000	£19,296	£224,296	£77,388[2]	£301,684
Michael Robertson Interim Chief Financial Officer	20/06/2022 to 31/03/2023	£145,000	£113,769	£13,652	£127,421	£7,925[3]	£135,346

1. Sarah Roughead received a non-pensionable acting up allowance of £44,200 per annum
2. LTIP amount includes payment due in August 2023 (£38,694), deferred payment due in 2024 (£19,347) and 2025 (£19,347) subject to sustained performance conditions.
3. Michael Robertson is not a participant of the Bank's LTIP but was eligible for the Bank's Mission Contribution Reward Scheme. Payment of the full MCRS amount will be made in 2023.

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

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

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

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

Payments to Past Directors (Audited)

There are no payments to former directors (2022: nil).

Payments for Loss of Office (Audited)

No payments were made for loss of office during the period (2022: nil).

Annual Report of Remuneration continued

Principles of Remuneration Policy

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

Base Salary	The Bank's pay ranges have been developed on the basis of the following principles: ◆ A 10-grade structure covering all Bank roles. ◆ Grades based on job size using Hay job evaluation methodology. ◆ A minimum and maximum salary set 15% either side of the target salary for each pay range at grade 8 and above, and 10% either side of target salary at grade 9 and 10. ◆ Pay ranges were benchmarked in 2022 against the Korn Ferry 'All Organisations Scotland' medians and increased in accordance with the public sector pay award. ◆ Individual and job family pay ranges adopted for Executive Team and specialist Audit and Risk and Investment job families. Premia applied to these ranges are based on UK market differentials.
Performance Management	Individual objectives are directly linked to Bank Corporate Goals to allow every individual to contribute directly to delivering the Bank's missions.
Mission Contribution Reward Scheme (MCRS)	MCRS allows employees the opportunity to be recognised for their contribution to the achievement of the Bank's missions. MCRS is a discretionary, non-contractual scheme, open to all employees who are not eligible to participate in the Long-Term Incentive Plan (LTIP) scheme. As a prerequisite for any award to be made, the Bank must have delivered on its corporate mission aligned objectives. The Bank's Remuneration and Nominations Committee approves the payout of a total allocation for awards subject to affordability and achievement of the Bank's mission aligned objectives. Payments are differentiated based on individual performance and values ratings. The maximum award that any individual can receive under the scheme is capped at one month's salary.

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

Annual Report of Remuneration continued

LTIP Performance Conditions FY22/23

Performance Conditions for the performance period from 1 April 2022 through to end March 2023 were approved by the Board and Ministers prior to the start of the performance year. Performance conditions set were challenging targets reflecting the high ambitions of the Bank's Board and stakeholders.

In assessing whether the Performance Conditions had been met for this initial period, the Remuneration and Nominations Committee considered the performance indicators below.

Eligible employees in role by 1 January 2023 in the Executive and Investment team family participated in the FY22/23 LTIP scheme.

No.	Performance Condition	Performance Indicator Target Measure
1	Impact Investment Portfolio (40%)	
1.1	New investment commitment, with new investments, having a target return which reflects the risk profile of each investment.	£218 million
1.2	Total 'in year' investment income growing in line with budget.	£6.5 million
1.3	Impact assessment in Final Investment Committee papers (as evidence that impact fully integrated into due diligence and investment decision making) is considered to be in alignment with OPIM standards.	90%
1.4	Portfolio risk, financial and non-financial (mission impact) performance is monitored, adjusted (as needed) and valued at least quarterly. Portfolio investment performance is measured at least quarterly and is projected to be above the Bank's proposed long term target rate of return (once set by Ministers).	All investments monitored and valued at least quarterly. Value added analysis and approach evident. Inception to end of performance period aggregate investment performance exceeds TRR by 10-50% of TRR (within the Bank's investment risk appetite).
1.5	Costs will be managed appropriately and in line with budget.	Costs 5% below agreed overall budget and within employee/non-employee cost splits unless re-allocation (up to 10%) is agreed at the Executive Committee level.

No.	Performance Condition	Performance Indicator Target Measure
2	Ecosystem Engagement & Insights (20%)	
2.1	Continue to build relationships with the Bank's ecosystem and develop reputation as a thought leader on impact investments. Conduct an engagement survey in Q4 of FY22/23 across the private, public sectors and civic society to understand: ◆ the level of understanding of the Bank's purpose; ◆ the ecosystem's views of the Bank's investment and engagement activity since launch; ◆ awareness of the Bank's impact agenda and ambitions; ◆ overall view of the Bank as a new entrant to the financial ecosystem in Scotland, and ◆ ways of strengthening relationships for the benefit of the ecosystem as a whole.	Survey feedback > 70% positive
3	Crowding in: Obtain FCA permissions (10%)	
3.1	Achieve Scottish Investments Limited FCA authorisation.	Phase 1 FCA Application ready for submission to FCA by 30 September 2022 and Phase 2 Application (enabling the management of third-party capital) substantially progressed by March 2023 subject to approval from shareholder and board to do so.
4	Embedding our Culture & Values (30%)	
4.1	Delivery of the Bank's Equality Strategy through both its employment practices and through using its investment to encourage the advancement of equality.	All of 2022/23 equality objectives met and 85% of investment agreements incorporate covenants to improve equality, diversity and inclusion.
4.2	Continue to embed and promote a risk aware culture, the Risk Management Framework and supporting Policies within the Bank.	Successful delivery of a risk management programme to all Bank employees by end October 2022.
4.3	Continue to embed the Bank's values and create a positive high performing and engaged culture within the whole Bank team.	People Survey feedback >70% positive.

Based on careful consideration of performance against the 2022-2023 LTIP performance conditions, and in accordance with the scheme rules, the Remuneration and Nominations Committee concluded that a pay-out of 75.5% (2022: 70%) of maximum would be awarded to eligible participants. This was based on having achieved, in aggregate, just above target level of performance against the performance conditions. The Remuneration & Nominations Committee also approved the release of sustained performance payments relating to FY20/21 & FY21/22 LTIP to eligible participants having satisfied itself that the relevant conditions had been met in accordance with the LTIP scheme. The Bank's performance against FY22/23 corporate objectives is included in the balanced scorecard section on pages 18 to 23.

Annual Report of Remuneration continued

Mission Contribution Reward Scheme (MCRS)

Employees in role by 1 January 2023 with qualifying performance and values assessment were paid under MCRS for the period 1 April 2022 to 31 March 2023. The table below summarises payments under the scheme for the FY22/23. Please note, MCRS is not open to those eligible for LTIP.

Number of Eligible Employees	Average % Award	Average Payment
38	6%	£3,651

Employee Remuneration

The Bank's pay ranges, split by gender of employees in position effective 31 March 2023:

	No. Employees Base Salary		No. Employees Total Compensation	
Compensation	Female	Male	Female	Male
£250,001 +	0	0	1	0
£200,001 – £250,000	1	0	1	3
£150,001 – £200,000	1	1	2	5
£100,001 – £150,000	5	12	5	8
£50,001 – £100,000	12	16	14	15
£0 – £50,000	13	3	9	1

As at 31 March 2023:

Employee Contract Basis	Number of Employees
Permanent	61
Fixed Term Contract	3

The median remuneration of the Bank's employees based on annualised, full-time equivalent remuneration of all staff including LTIP and MCRS as at 31 March 2023 was £87,903. The range of full-time equivalent employee remuneration including LTIP and MCRS was £35,000 to £282,388 at 31 March 2023 and the ratio between the median employee remuneration and the mid-point of the banded remuneration of the highest paid Director including LTIP and MCRS was 1 : 3.4.

123.5 days were lost to sickness absence in the period. Staff turnover excluding consultants and secondees but including fixed term contractors in the period was 16%. Voluntary turnover for the period was 11.2%.

In the year the Bank engaged 9 temporary contractors / Scottish Government secondees for specific short term projects; costs totalled £479,107 (2022: £549,308). A key focus of the Bank since launch has been to minimise the use of consultants. At 31 March 2023, three consultants were engaged by the Bank; one of whom worked two days per week to support delivery of a specific project. At 31 March 2023, three contractors were in seat, two of whom had been in place for less than one year and one of whom had been in place for less than two years. In addition, the Bank works with an inward secondee from our legal partners to provide additional support on a temporary basis whilst permanent recruitment was under way.

Gender Pay

The mean gender pay gap as at 31 March 2023 is 18.8% in favour of male (2022: 21.9% in favour of male), the median gender pay gap as at the same date is 28.8% in favour of male (2022: 28.0% in favour of male).

The difference in mean and median figures reflects:

- A higher number of females in more junior positions at Grades 7-9
- A higher number of males in senior Investment Family roles at Grade 3 and 4

Overall, the Bank has a good gender balance with females representing 50% of the team and, at the date of this report, 60% of the Bank's Executive Leadership Team. However, despite our approach to achieving gender balance in hiring the Bank team, we still have a mean gender pay gap of 18.8% and a median gender pay gap of 28.8%. The Bank's gender pay gap is reflective of the Bank having a higher number of males in senior investment positions and a higher number of females in more junior positions. This continues to be a consistent challenge across the financial services and investment sectors more broadly. The median gender pay gap within the Financial Services Sector in the UK is 36.6%. In Scotland the median national gender pay gap for all jobs in 2022 was 12.2%. Whilst the Bank's gender pay gap is better than that for the Financial Services sector, we recognise that we are still some way off the 'All Scotland' benchmark. We are committed to improving this through continued and targeted focus. We're focused on improving under-representation of women in senior investment roles and leading the way for industry change. We'll do this by working with industry experts to understand the barriers and taking a progressive approach to our people plans with specific focus on developing female employees towards senior investment roles. As part of our focus on addressing the gender pay gap, we report pay gap data on a quarterly basis to the Remuneration and Nominations Committee and publish this data annually.

Our representation as at 31 March:

	Female	Male
Board	45%	55%
Executive Committee	60%	40%
All Employees	50%	50%

Annual Report of Remuneration continued

Percentage Changes in CEO and Colleague Pay

Pay awards were made to eligible employees, in line with Public Sector Pay Policy, effective 1 April 2022.

Key features:

- Basic pay increase of 5.4% for those who earn £28,000 or less
- Basic pay increase of 5% for those who earn between £28,000 and £75,000
- Guaranteed cash underpin of £1,800 applied to base salaries where the uplift was less than this value

In FY22/23 the Bank's Interim CEO, Sarah Roughead, did not receive a pay award or pay progression. In line with Public Sector Pay Policy for FY22/23 an increase of 4% was applied to Sarah Roughhead's notional salary as CFO; pay progression of 4% was also applied to this notional salary.

Eligible employees also received pay progression – progression through pay ranges specific to the Bank. Those in post prior to 1 October 2021 received an increase effective 1 April 2022 (excluding those who saw a mid-year increase). Pay progression was made on the basis of a matrix system taking into account both individual performance and relative position within the associated pay range.

Progression for those who meet expectations is capped at band range target, while progression for those who exceed or consistently exceed expectations is capped at the band maximum.

Public Sector Pay Policy and Pay Progression for FY23/24 will be implemented effective 1 April 2023 for eligible employees.

Pay ratio of the CEO's total remuneration compared to other colleagues at 31 March 2023

The table below sets out the ratio between the CEO's total single figure of remuneration and total remuneration for all colleagues at the lower quartile, median and upper quartile. We elected to use the preferred method of Option A, which is based on all UK employees on a full-time equivalent basis. This is considered to produce the most statistically accurate results. Option A has been used to calculate the lower quartile, median and upper quartile total remuneration for all colleagues excluding the CEO. This involves listing the total remuneration for all employees other than the CEO in order from lowest to highest; the values at the three percentile points (25th, 50th and 75th) are then identified and compared to the CEO's total FTE remuneration to provide the lower quartile, median and upper quartile ratios listed below. The elements of remuneration used for this calculation were as follows:

- Full-time-equivalent (FTE) salary as at 31 March 2023
- Total Mission Contribution Reward Scheme awarded or total LTIP awards payable in respect of the year ended 31 March 2023
- Total employer pension contribution (calculated as the % in payment as at 31 March 2023 and applied to FTE salary)

CEO total remuneration in 2022 was calculated by reference to the combined single total figure of remuneration for the year ended 31 March 2022 for the outgoing CEO (Eilidh Mactaggart) and the incoming Interim CEO (Sarah Roughead). Both figures were pro-rated for the portion of the year for which each was in office (11 and one months, respectively). The LTIP amount however was the full-year figure for Sarah Roughead and zero for Eilidh Mactaggart. This resulted in a reduction in the total CEO remuneration reported for the FY21/22, and a consequent decrease in the ratio of CEO total remuneration to other colleagues. In the normal course of events, we expected the CEO pay ratio to increase again for FY22/23, as reflected here.

Year	Method	Lower Quartile Pay Ratio	Median Pay Ratio	Upper Quartile Pay Ratio
2023	Option A	1 : 5	1 : 3	1 : 2
2022	Option A	1 : 4	1 : 3	1 : 2

Accountable Officer's Report

For the year to 31 March 2023
Governance Statement

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

The statement, for which I am personally responsible, covers the accounting period for the financial year to 31 March 2023 and additionally up to the date of signature of these accounts. It sets out the Bank's governance procedures and how they are implemented to support the achievement of the Bank's policies, aims and objectives set by Scottish Ministers. The statement is informed by work undertaken throughout the period relating to performance, risk management, internal control and effectiveness of operations.

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

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

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

The Governance Framework of the Bank

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

The Bank's constitution and role of the Board as described on pages 72 to 80 is prescriptive in the Bank's objectives, powers, ownership governance and reporting. The Bank is led and overseen by the Board of Directors. The Board's role is to ensure the Bank fulfils the aims and objectives set by the Scottish Ministers and to promote the efficient and effective use of staff and resources.

Specifically, the Board is responsible for:

- Taking forward the strategic aims and objectives for the Bank agreed by the Scottish Ministers.
- Determining the steps needed to deal with changes which are likely to impact on the strategic aims and objectives of the Bank or on the attainability of its operational targets.
- Promoting the efficient, economic and effective use of employees and other resources by the Bank consistent with the principles of Best Value, including, where possible, participation in shared services arrangements.
- Ensuring that effective arrangements are in place to provide assurance on risk management (including in respect of personnel, physical and cyber risks/threats/hazards), financial management, governance and internal control. The Board must set up an Audit Committee chaired by a Non-Executive Member to provide independent advice and assurance on the effectiveness of the internal control environment.
- In reaching decisions taking into account relevant guidance issued by the Scottish Ministers.
- Approving the annual accounts and ensuring Scottish Ministers are provided with the annual report and accounts to be laid before the Scottish Parliament.
- Ensuring that the Board receives and reviews regular financial information concerning the management and performance of the Bank and is informed in a timely manner about any concerns regarding the activities of the Bank.
- Appointing (with the approval of the Scottish Ministers) the Bank's Chief Executive Officer, and following appropriate approval of the Chief Executive Officer's remuneration package in line with Scottish Government Pay Policy for Senior Appointments. In consultation with the Scottish Government, appropriate performance objectives should be set which give due weight to the proper management and use of resources within the stewardship of the Bank and the delivery of outcomes.
- Demonstrating high standards of corporate governance at all times, including openness and transparency in its decision-making.

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

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

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

Accountable Officer's Report continued

Assessment of Corporate Governance, Risk Management and Internal Control

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

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

Assessment of Corporate Governance

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

Conclusion

Having considered the above, it is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Bank's governance arrangements, internal control and management of resources during the period ended 31 March 2023.

I confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable.

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

S. Roughead

Sarah Roughead
Accountable Officer
4 July 2023

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

The Directors and Accountable Officer are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations. Company law requires the Directors and Accountable Officer to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare the Group and parent Company financial statements in accordance with UK adopted international accounting standards and as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM) and in accordance with the requirements of the Companies Act 2006 and directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK adopted international accounting standards and as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM);
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

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

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

Al Denholm
Chief Executive Officer
4 July 2023


Isle of Skye

Independent Auditor's Report

Independent Auditor's Report

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

Reporting on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements in the annual report and accounts of Scottish National Investment Bank plc (the "Company") for the year ended 31 March 2023 under The Companies Act 2006 (Scottish public sector companies to be audited by the Auditor General for Scotland) Order 2020. The financial statements comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Taxpayers' Equity, the Consolidated Cash Flow Statement, the Company Statement of Financial Position, the Company Statement of Changes in Taxpayers' Equity, the Company Cash Flow Statement, and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM).

In our opinion:

- the accompanying financial statements give a true and fair view of the state of affairs of the Company and its Group as at 31 March 2023 and of the Group loss for the year then ended;
- the accompanying Group financial statements have been properly prepared in accordance with UK adopted international accounting standards as interpreted and adapted by the 2022/23 FReM;
- the accompanying parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006 as interpreted and adapted by the 2022/23 FReM; and
- the accompanying financial statements have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers and the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Auditor General on 14 April 2023. Our period of appointment is five years covering 2022/23 to 2026/27. Including a previous appointment, the period of total uninterrupted appointment is three years. We are independent of the Company and its Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the Group. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusion relating to going concern basis of accounting

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

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

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

In relation to the reporting by the Company on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the statement by the Accountable Officer and directors in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting.

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

Independent Auditor's Report continued

Our approach to the audit

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2022), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and our findings from those procedures in order that the Company's members, as a body, may understand better the process by which we arrived at our audit opinion. These matters were addressed, and our findings are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key audit matter	How our scope addressed this matter
Valuation of unlisted investments As at 31 March 2023, 96% (2022: 92%) of the Group's total assets (by value) are investments where no quoted market price is available. Unlisted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines, by using measurements of value such as prices of recent orderly transactions, milestone analysis, discounted cash flows, earnings multiples and valuing fund interests by reference to their reported net asset value. There is a significant risk over the judgements and estimates inherent in the valuation and therefore this is one of the key areas that our audit has focused on. The effect of these matters is that, as part of our risk assessment, we determined that certain unlisted investments have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The factors considered in assessing which unlisted investments were subject to significant risk included the quantum of the individual investment, performance of the investment, nature of the asset held as well as the estimation uncertainty of the methodology and inputs used. The financial statements note 20 discloses the range/sensitivity estimated by the Group.	We performed the detailed tests below rather than seeking to rely on any of the Group's controls, because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed substantive procedures prescribed: ◆ Methodology choice: In the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines, we challenged the appropriateness of the valuation basis selected; ◆ Our valuations experience: We challenged the directors on key judgements affecting investee company valuations, such as the choice of benchmark for earnings multiples, progress against milestones, credit risk assessments and use of appropriate discount rates. We compared key underlying financial data inputs to external sources, investee company audited accounts and management information as applicable. We challenged the assumptions around sustainability of revenue or earnings based on the forecasts of the investee companies and whether these are achievable and we obtained understanding of milestones completed during the year. Our work included consideration of events which occur subsequent to the period end up until the date our audit report; ◆ Comparing valuations: Where a recent transaction has been used to value a holding, we obtained an understanding of the circumstances surrounding the transaction and vouched the price to supporting documentation. We also assessed whether subsequent changes or events such as market or entity specific factors would imply a change in value. ◆ Assessing transparency: We considered the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unlisted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions. **Our results:** We found the Group's valuation of unquoted investments to be acceptable (2022: acceptable).

Key audit matter	How our scope addressed this matter
Recoverability of parent's debt due from group entities The carrying amount of the intragroup debtor balance represents 99% (2022: 99%) of the Company's total assets. The recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the financial statement, this is considered to be an area that will have the greatest effect on our overall parent company audit. Note: This risk is applicable to the parent only.	We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. ◆ We have assessed 100% of debtors to identify with reference to the subsidiary company's balance sheet, whether it has a positive net asset value and therefore coverage of the debt owed, as well as assessing whether the debtor company has historically been profit-making. ◆ Assessing the subsidiary company audit: We have assessed the work performed on the subsidiary company audit, and considering the results of that work, on those net assets, including assessing the liquidity of the assets and therefore the ability of the subsidiary to fund the repayment of the receivable. **Our results:** We found the conclusion that there is no impairment of the intra-group debtor balance to be acceptable (2022: acceptable).

Our application of materiality

Materiality for the Group financial statements as a whole was set at £7,560k (2022: £4,117k), determined with reference to a benchmark of total assets, of which it represents 2.5% (2022: 2.5%). Materiality for the parent company financial statements as a whole was set at £3,400k (2022: £1,877k), which is the component materiality for the parent company determined by the Group audit engagement team. This is lower than the materiality we would otherwise have determined with reference to parent company total assets, of which it represents 1.1% (2022: 1.2%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 85% (2022: 65%) of materiality for the financial statements as a whole, which equates to £6,430k (2022: £2,675k) for the Group and £2,890k (2022: £1,220k) for the parent company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £378k (2022: £205k) for the Group and £170k (2022: £94k) for the parent company, in addition to other identified misstatements that warranted reporting on qualitative grounds.

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

The Group team set the component materialities, which ranged from £356k to £7,330 (2022: £417k to £3,128k), having regard to the mix of size and risk profile of the Group across the components.

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

Independent Auditor's Report continued

Responsibilities of the Accountable Officer and directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Using our understanding of the central government sector to identify that the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, and the Companies Act 2006 are significant in the context of the Company and its Group;
- inquiring of the Accountable Officer, directors and senior management as to other laws or regulations that may be expected to have a fundamental effect on the operations of the Company and its Group;
- inquiring of the Accountable Officer, directors and senior management concerning the Company's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among our audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

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

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

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

Reporting on regularity of expenditure and income

Opinion on regularity

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

Responsibilities for regularity

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

Reporting on other requirements

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

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

Other information

The Accountable Officer and directors are responsible for the other information in the annual report and accounts. The other information comprises the Strategic Report, Directors' Report, the Corporate Governance Report and other reports included in the annual report and accounts other than the financial statements the audited part of the Annual Report of Remuneration and our auditor's report thereon.

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

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

Opinion prescribed by the Auditor General for Scotland on Strategic Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers and the Companies Act 2006.

Independent Auditor’s Report continued

Corporate governance statement

We have reviewed the statement by the directors and Accountable Officer in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company’s voluntary compliance with the provisions of the UK Corporate Governance Code.

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of our report

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

Phil Merchant

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

4 July 2023

Glencoe

Audited Financial Statements

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2023

	Notes	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Income			
Investment income	4	10,651	1,905
Gross operating income		**10,651**	**1,905**
Net unrealised (losses) on revaluation of investments	9	(17,810)	(3,432)
Net operating income		**(7,159)**	**(1,527)**
Administrative expenses	5	(13,001)	(9,677)
Operating loss		**(20,160)**	**(11,204)**
Interest payable and similar expenses		(1)	-
Loss before taxation		**(20,161)**	**(11,204)**
Tax credit	8a	3,528	2,645
Loss for the year		**(16,633)**	**(8,559)**

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

Consolidated Statement of Financial Position

As at 31 March 2023

	Notes	31 March 2023 £'000	31 March 2022 £'000
Assets			
Non-current assets			
Investments	9	290,814	153,356
Property, plant and equipment	10	88	136
Deferred tax asset	8b	6,025	2,497
Total non-current assets		**296,927**	**155,989**
Current assets			
Trade and other receivables	11a	838	470
Cash and cash equivalents	12	4,437	10,236
Total current assets		**5,275**	**10,706**
Total assets		**302,202**	**166,695**
Liabilities			
Current liabilities			
Trade and other payables: amounts falling due within one year	13	1,983	1,186
Total current liabilities		**1,983**	**1,186**
Non-current liabilities			
Trade and other payables: amounts falling due after one year	14	311	137
Total non-current liabilities		**311**	**137**
Total liabilities		**2,294**	**1,323**
Equity			
Share capital	16	279,157	149,253
General fund	18	20,751	16,119
Total equity		**299,908**	**165,372**
Total equity and liabilities		**302,202**	**166,695**

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

The accounts of the Group, parent company registration number SC677431, were approved by the members of the Board and authorised for issue on 4 July 2023 and were signed on their behalf by:

A. Denholm.

Al Denholm
Chief Executive

Consolidated Statement of Changes in Taxpayers' Equity

Year ended 31 March 2023

	Notes	Share capital £'000	General fund £'000	Total equity £'000
Total equity at the start of the year		149,253	16,119	165,372
Loss for the year		–	(16,633)	(16,633)
Transactions with owners, recorded directly in equity				
Issue of shares	16	129,904	–	129,904
Grant in aid	17	–	21,265	21,265
Total equity at the end of the year		**279,157**	**20,751**	**299,908**

Year ended 31 March 2022

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

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

Consolidated Cash Flow Statement

For the year ended 31 March 2023

	Notes	Year Ended 31 March 2023 £'000	Year Ended 31 March 2022 £'000
Cash flows from operating activities			
Loss for the year before tax		(20,161)	(11,204)
Adjustments for:			
Depreciation, amortisation and impairment	10	55	32
Net unrealised fair value on investments	9	17,810	3,432
Fee income	4	(3,212)	(583)
Interest income	4	(2,896)	(227)
Capitalised interest income	4	(4,474)	(1,095)
Increase in trade and other receivables	11a	(368)	(416)
Increase / (decrease) in trade and other payables	13, 14	995	(29)
Tax paid		–	(4)
Net cash flow from operating activities		**(12,251)**	**(10,094)**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(7)	(92)
Purchase of investments	9	(151,873)	(129,320)
Repayment of debt	9	1,079	156
Investment fee income	4	3,212	583
Interest income	4	2,896	227
Net cash from investing activities		**(144,693)**	**(128,446)**
Cash flows from financing activities			
Issue of new shares	16	129,904	126,330
Net grant in aid received in period	17	21,265	16,209
Payments of lease liability		(24)	(19)
Net cash from financing activities		**151,145**	**142,520**
Net movement in cash and cash equivalents		(5,799)	3,980
Cash and cash equivalents at start of the year		10,236	6,256
Cash and cash equivalents at end of the year	12	**4,437**	**10,236**

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

Company Statement of Financial Position

As at 31 March 2023

	Notes	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Assets			
Non-current assets			
Investment in subsidiaries	9	–	–
Trade and other receivables	11b	296,848	159,678
Total non-current assets		**296,848**	**159,678**
Current assets			
Cash and cash equivalents	12	2,368	869
Total current assets		**2,368**	**869**
Total assets		**299,216**	**160,547**
Liabilities			
Total liabilities		**–**	**–**
Equity			
Share capital	16	279,157	149,253
General fund	18	20,059	11,294
Total equity		**299,216**	**160,547**
Total equity and liabilities		**299,216**	**160,547**

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

The accounts of The Scottish National Investment Bank plc, Company registration number SC677431 were approved by the members of the Board and authorised for issue on 4 July 2023 and were signed on their behalf by:

A. Denholm.

Al Denholm
Chief Executive

Company Statement of Changes in Taxpayers' Equity

Year ended 31 March 2023

	Notes	Share capital £'000	General fund £'000	Total equity £'000
Total equity at the start of the year		149,253	11,294	160,547
Loss for the period		–	–	–
Transactions with owners, recorded directly in equity				
Issue of shares	16	129,904	–	129,904
Grant in aid	17	–	8,765	8,765
Total equity at the end of the year		**279,157**	**20,059**	**299,216**

Year ended 31 March 2022

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

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

Company Cash Flow Statement

For the year ended 31 March 2023

	Notes	Year Ended 31 March 2023 £'000	Year Ended 31 March 2022 £'000
Cash flows from operating activities			
Loss for the period		-	-
Increase in trade and other receivables	11b	(137,170)	(136,805)
(Decrease) in trade and other payables	13	-	(1,000)
Net cash from operating activities		**(137,170)**	**(137,805)**
Net cash from investing activities		**-**	**-**
Cash flows from financing activities			
Issue of new shares	16	129,904	126,330
Grant in aid received	17	21,265	16,209
Resource funding passed to subsidiaries	17	(12,500)	(9,500)
Net cash from financing activities		**138,669**	**133,039**
Net increase / (decrease) in cash and cash equivalents		1,499	(4,766)
Cash and cash equivalents at start of year		869	5,635
Cash and cash equivalents at end of the year	12	**2,368**	**869**

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

Notes to the Financial Statements

1. Corporate Information

Scottish National Investment Bank plc (the Company) is a public limited company incorporated and domiciled in Scotland under the Companies Act 2006 whose shares are not publicly traded.

The Company registration number is SC677431. The registered address is Waverley Gate, 2-4 Waterloo Place, Edinburgh, EH1 3EG. The nature of the Bank's operations and its principal activities are set out in the Strategic and Directors' Reports.

The consolidated financial statements of the Bank for the year ended 31 March 2023 comprise the financial statements of the Company and its consolidated subsidiaries (collectively, the Group) as referred to as the Bank in the Strategic and Governance Reports.

2. Significant Accounting Policies

Basis of Preparation

The financial statements of the Group and Company have been prepared in accordance with UK-adopted international accounting standards and as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM) and in accordance with the requirements of the Companies Act 2006 and directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers.

The Company has taken advantage of section 408 of the Act and consequently the Statement of Comprehensive Income (including the profit and loss account) of the parent Company is not presented as part of these accounts. The loss of the parent Company for the financial period was £335 (2022: £335).

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

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

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

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

Going Concern

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

As part of this assessment the Directors considered:

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

Notes to the Financial Statements

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

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

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

Adoption of New and Revised Standards

There were no new or amended standards applied for the first time and therefore no restatements of the previous financial statements were required.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 March 2023.

Control for accounting purposes exists when the Company:

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

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

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

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

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

Income

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

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

Interest Income

Interest income is accrued on a time apportioned basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The calculation does not consider expected credit losses and includes transaction costs and premiums or discounts that are integral to the effective interest rate, such as origination fees. When the Group revises the estimates of future cashflows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the Consolidated Statement of Comprehensive Income. The interest income is recognised over the relevant period.

Fee Income

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

Administration fee income

Under IFRS 15 'Revenue from contracts with customers', income is recognised when a recipient obtains control of goods or service and thus has the ability to direct the use and obtain benefits from the goods or service. Administration fee income relates to administration fees for oversight of a third party mandate. Income is recognised when it is contractually due and payable quarterly in arrears.

Expenses

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

VAT

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

Tax

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Any legal restrictions on the utilisation of

Notes to the Financial Statements

available taxable profits are also considered, based on the tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Property, Plant and Equipment

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

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

Fixtures and fittings	over 5 years
Computer equipment	over 3 years

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

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

De-recognition and Disposal

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

Leases

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

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

- The contract involved the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, the asset is not identified
- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - The Group has the right to operate the asset.
  - The Group designed the asset in a way that predetermines how and for what purpose it will be used.
- The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located less any lease incentives received.

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

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

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

Short-term Leases

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

Financial Instruments

(i) Recognition and Initial Measurement

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

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

(ii) Classification of Financial Instruments

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

(iii) Investments

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

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

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

The Group's fair value methodology has been derived using the International Private Equity and Venture Capital Valuation Guidelines (December 2022). Valuations of the investment portfolio are performed quarterly.

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

Notes to the Financial Statements

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

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

These techniques seek to calculate the enterprise value (the value of the business as a whole at the measurement date) of the investee company using a methodology that is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio using reasonable assumptions and estimates. Enterprise value is commonly derived using a comparable multiple basis. Companies with maintainable revenues, profits or cash flows are valued on a multiple basis using an appropriate multiple from companies in similar sectors and markets.

The key judgements include selecting an appropriate multiple, which is derived from comparable listed companies or relevant market transaction multiples. Companies in the same geography and sector are selected and then adjusted for factors including liquidity risk, growth potential and relative performance.

The enterprise value is then adjusted for surplus assets or liabilities or any other relevant factor. Higher-ranking financial instruments are deducted taking into account any financial structuring that may dilute the investment holding. The attributable enterprise value is apportioned between the financial instruments held according to their ranking. The amounts derived are allocated according to the holding in each financial instrument, representing their fair value.

- Realisations in process are valued at the expected realisation proceeds, although discounts are applied to reflect the level of certainty of the transaction completion.
- If there has been a recent investment in the company, the price of the recent investment, less any impairment charge, is used to determine fair value.
- Early-stage companies and projects without positive cash flow or profit are valued using an appropriate industry benchmark if that gives a reliable estimate of fair value.
- Companies and projects in industries with specific valuation metrics are valued using those specific valuation metrics where they provide the most reliable estimate of fair value.
- Companies and projects whose cash flows can be forecast with confidence are valued using future cash flows discounted at the appropriate risk-adjusted discount rate. This method requires management to make certain assumptions about the model inputs, including forecast cash flows, future currency exchange rates and the discount rate.
- In exceptional cases, where fair value cannot be reliably measured, the investment is valued at the previous carrying value unless there is evidence of value impairment, in which case value is reduced to reflect the extent of estimated impairment.

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

Cash and Cash Equivalents

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

Trade and Other Receivables

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

Trade and Other Payables

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

Derecognition of Financial Instruments or Liabilities

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

Impairment of Assets

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

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

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

Notes to the Financial Statements

Ordinary Share Capital

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

Grant in Aid

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

General Fund

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

Provisions, Contingent Liabilities and Contingent Assets

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

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

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

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

Employee Benefits

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

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

Related Party Transactions

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

3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

(i) Fair Value Measurement

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

(ii) Deferred Tax

The Group has tax losses of £24.1 million (2022: £9.9 million) available for offset against future taxable profits. Management judgement is required to determine the amount of deferred tax assets that can be recognised. This is based upon assumptions as to the future profitability of the companies in the Group and the timing of when such profits arise. A deferred tax asset has been recognised on the basis that there is sufficient certainty based on future projections of income and profits and therefore scope for recovery of these tax losses in future.

(iii) Macro-economic Environment

The ongoing economic uncertainty and, to a lesser extent than prior year the Covid-19 pandemic, have given rise to significant additional uncertainty as to investment valuations. The impact on investments will vary depending on individual business model and the success of any mitigating market interventions. Valuation methodologies include market multiples, industry benchmarks and discounted cashflows, all of which are inherently more uncertain as marketplaces change and so forecasts and historical reference points become less reliable.

Notes to the Financial Statements

4. Investment Income

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

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Arrangement fees income	3,212	583
Interest income – capitalised	4,474	1,095
Interest income – received	2,840	221
Monitoring fees	56	6
Administration fee income	69	-
Total investment income	**10,651**	**1,905**

5. Administrative Expenses and Auditor's Remuneration

	Note	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Employee costs	6	7,851	6,125
Auditor's remuneration – audit of financial statements	7	260	167
Other administrative costs		4,890	3,385
Total administrative expenses and auditor remuneration		**13,001**	**9,677**

6. Employee Numbers and Costs

Aggregate remuneration of employees and Directors was as follows:

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Wages and salaries	5,611	4,642
Social security costs	886	642
Pension	645	507
Amounts payable under long term incentive schemes	709	334
Total employee costs	**7,851**	**6,125**

More detail on this information is included in the Directors' Remuneration Report on pages 100 to 111.

The average number of Directors' and employees during the period was 64 (2022: 52) and the average number of Non-Executive Directors during the period was 9 (2022: 9).

7. Auditor's Remuneration

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

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Audit of group accounts	81	70
Audit of subsidiaries	135	77
KPMG LLP - auditor fee	**216**	**147**
Audit Scotland – audit support costs	44	20
Total auditor remuneration	**260**	**167**

Auditor's remuneration is stated net of VAT and represents the total fee payable by the Group for all statutory audit services. The auditor did not undertake any non-audit services in the period (2022: nil).

8. Tax

a. Tax on profit on continuing activities

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Current tax		
Current tax on income for the period	-	-
Total current tax	**-**	**-**
Deferred tax	(3,528)	(2,645)
Total deferred tax	**(3,528)**	**(2,645)**
Total tax	**(3,528)**	**(2,645)**
Reconciliation of effective tax rate:		
(Loss) before taxation	(20,161)	(11,204)
Tax using the UK corporation tax rate of 19%	(3,831)	(2,129)
Effect of:		
Expenses not deductible	9	(10)
Unrealised losses not relievable / taxable	1,146	93
Tax rate changes	(852)	(599)
Total tax (credit)	**(3,528)**	**(2,645)**

Notes to the Financial Statements

8. Tax continued

b. Reconciliation of deferred tax asset

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Deferred tax (asset) / liability at 1 April	(2,497)	149	–	–
Movement in the year	(3,528)	(2,645)	–	–
Other	–	(1)	–	–
Total deferred tax (asset)	**(6,025)**	**(2,497)**	**–**	**–**

Deferred tax primarily relates to the Group's accumulated losses. It is calculated at 25% (2022: 25%) of the available losses incurred to date. Management judgement is required to determine the amount of deferred tax assets that can be recognised. This is based upon assumptions as to the future profitability of the companies in the Group and the timing of when such profits arise. It is recognised that these companies are currently loss making, however this is in line with management expectations in the initial years of developing the investment portfolio. It is expected that the tax losses will offset against the profits forecast to be made as a result of further investments made by the Bank, which in turn, will increase the income generated by the portfolio, as demonstrated by the Bank's current business plan and projections beyond the business plan period. While it is expected that the group will continue to be loss making in the short term, it is estimated the deferred tax asset will be recovered over the next 5 years.

At 31 March 2023 there were £5.9 million of unrealised losses for which a deferred tax asset is not recognised in the statement of financial position as it is not envisaged these capital losses would be utilised in the medium term. Of this loss, £1.4 million relates to losses covered by the substantial shareholder exemption and hence are permanent differences with £4.5 million assessed as temporary losses.

The Government announced in the Budget on 3 March 2021 that the main rate of Corporation Tax would increase to 25% for the financial year beginning 1 April 2023. Prior to this date, the rate of Corporation Tax will remain at 19%. The increase to 25% was substantially enacted at 24 May 2021 and therefore the deferred tax balances were re-measured at 31 March 2022.

9. Investments

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Opening fair value	153,356	26,530	–	–
Additions	156,347	130,414	–	–
Repayments	(1,079)	(156)	–	–
Net unrealised fair value (losses)	(17,810)	(3,432)	–	–
Closing fair value	**290,814**	**153,356**	**–**	**–**

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

The holding period of the Group's investment portfolio is on average greater than one year. For this reason, the portfolio is classified as non-current. Additions in the year included cash investment of £151,872,900 (2022: £129,320,000) and £4,473,858 (2022: £1,094,500) in capitalised interest.

The net unrealised loss of £17.8 million (2022: loss of £3.4 million) includes fair value movement adjustments reflecting underlying performance of investee companies. £3.4 million of fair value movements related to an increase in market rates over the year as a result of market volatility which has resulted in a material change to the pricing of existing fixed rate debt coupons that are valued under the International Private Equity and Venture Capital Valuation (IPEV) guidelines. We view these movements as largely a reflection of macro-economic conditions rather than a structural concern relating to our debt investments, though we continue to monitor this closely as part of our quarterly valuation process. Further detail of these can be found in the Financial Performance section of the Strategic Report on pages 36 to 43.

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

Notes to the Financial Statements

10. Property, Plant and Equipment

	Computer and equipment		Computer and equipment	
	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Cost				
At start of year	168	–	–	–
Additions	7	168	–	–
Disposals	–	–	–	–
At end of year	**175**	**168**	**–**	**–**
Depreciation and impairment:				
At start of year	32	–	–	–
Depreciation charge for the year	55	32	–	–
Disposals	–	–	–	–
At end of year	**87**	**32**	**–**	**–**
Net book value:				
At start of year	136	136	–	–
At end of year	**88**	**136**	**–**	**–**

Property, plant and equipment is made up of £7,299 (2022: £91,626) of capital expenditure and no additions to a Right of use asset (2022: £75,940). Right-of-use Computer and equipment is the value of the leased computers recognised. The corresponding lease liability is disclosed in note 15.

11. Trade and Other Receivables

a. Current assets

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Other debtors	159	1	–	–
Prepayments	679	469	–	–
Total trade and other receivables	**838**	**470**	**–**	**–**

b. Non-current assets

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Amounts due from subsidiaries	–	–	296,848	159,678
Total non-current trade and other receivables	**–**	**–**	**296,848**	**159,678**

Amounts due from subsidiaries are not interest bearing and repayable on demand. They are classified as non-current as the Company does not expect repayment within 12 months. The credit risk of the inter-company balance has not materially changed since initial recognition and there continues to be a low probability of default. Given this, an expected credit loss has not been recognised in the accounts as it would be immaterial.

12. Cash and Cash Equivalents

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

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Cash and cash equivalents	4,437	10,236	2,368	869
Total cash and cash equivalents	**4,437**	**10,236**	**2,368**	**869**

Notes to the Financial Statements

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

	Note	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Trade payables		383	350	–	–
Other taxes and social security		195	64	–	–
LTIP accrual		559	345	–	–
Accruals		823	403	–	–
Lease liability	15	23	24	–	–
Total current liabilities		**1,983**	**1,186**	**–**	**–**

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

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

	Note	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Non-current					
Other taxes and social security		36	13	–	–
LTIP accrual due within one to two years		185	50	–	–
LTIP accrual due within two to three years		73	34	–	–
Lease liability	15	17	40	–	–
Total non-current liabilities		**311**	**137**	**–**	**–**

15. Leases

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Right-of-use assets				
Net Carrying amount at start of year	58	–	–	–
Additions to right-of-use (ROU) assets	–	76	–	–
Depreciation charge for the year	25	18	–	–
Balance at end of year	**33**	**58**	**–**	**–**
Amounts recognised in Comprehensive income				
Depreciation expense on ROU assets	25	18	–	–
Lease Liabilities				
Amounts due for settlement within 12 months (Current liabilities)	23	24	–	–
Amounts due for settlement after 12 months (Non-current liabilities)	17	40	–	–
Total lease liabilities	**40**	**64**	**–**	**–**
Maturity analysis				
Not later than one year	23	24	–	–
Later than one year and not later than five years	17	40	–	–
Total lease liabilities	**40**	**64**	**–**	**–**

Total finance cost on leases was £643 for the year ended 31 March 2023 (2022: £400). The average lease term is three years.

The Group does not recognise right-of-use assets and lease liabilities for short-term leases where the underlying asset is of low value. The expenses for these leases for the year ended 31 March 2023 were £373,589 (2022: £209,131).

16. Share Capital

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Called up and allotted				
Brought forward	149,253	22,923	149,253	22,923
Ordinary shares of £1 each – issued in the year	129,904	126,330	129,904	126,330
Share capital at 31 March	**279,157**	**149,253**	**279,157**	**149,253**

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

Notes to the Financial Statements

17. Grant in Aid

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Grant in aid received in period	151,169	142,539	151,169	142,539
Investment drawn and converted to shares	(129,904)	(126,330)	(129,904)	(126,330)
Resource funding passed to subsidiaries	–	–	(12,500)	(9,500)
Total grant in aid	**21,265**	**16,209**	**8,765**	**6,709**

18. General Fund

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Balance at 1 April 2022	16,119	8,469	11,294	4,585
Grant in aid received in period	21,265	16,209	21,265	16,209
Resource funding passed to subsidiaries	–	–	(12,500)	(9,500)
Retained earnings	(16,633)	(8,559)	–	–
Balance at 31 March	**20,751**	**16,119**	**20,059**	**11,294**

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

19. Financial instruments

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

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

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

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

At 31 March 2023 Carrying value	Financial assets and liabilities at fair value through profit and loss £'000	Financial assets and liabilities at amortised cost £'000	Total £'000
Assets			
Investments	290,814	–	290,814
Other debtors	–	133	133
Cash and cash equivalents	–	4,437	4,437
Total assets	**290,814**	**4,570**	**295,384**
Liabilities			
Trade and other payables excl LTIP	–	(1,477)	(1,477)
Total liabilities	**-**	**(1,477)**	**(1,477)**
Net assets	**290,814**	**3,093**	**293,907**

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

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

Notes to the Financial Statements

19. Financial instruments continued

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

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

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

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

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy at 31 March 2023 and 31 March 2022:

31 March 2023	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Investments	–	–	290,814	290,814
Total	**-**	**-**	**290,814**	**290,814**

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

The Group's investment portfolio consists of assets carried at fair value. The groups financial assets are all classified as Level 3 assets. Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently. As observable prices are not available for these securities, the Group has used valuation techniques in accordance with the IPEV Guidelines with reference to the most appropriate information available at the time of measurement to derive the fair value. Level 3 valuations are reviewed on a quarterly basis by the Valuations Committee which reports to the Board of Directors. The Committee considers the appropriateness of the valuation model inputs, as well as the valuation results, using various valuation methods and techniques generally recognised as standard within the industry. During the period ended 31 March 2023 the fair value of investments held at FVTPL decreased by £17.8 million (2022: decreased by £3.4 million). Details of these can be found in the Financial Performance section of the Strategic Report on pages 36 to 43 – this movement was reflected in the Consolidated Statement of Comprehensive Income.

20. Financial Risk Management

Details of the Group's risk management structure, Group's objectives and policies and processes for managing and monitoring risk are set out in the Risk Management section of the Strategic Report on pages 44 to 52.

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

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

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

- Credit risk
- Market risk
- Liquidity Risk

Credit Risk

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

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

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

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

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

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

Notes to the Financial Statements

20. Financial Risk Management continued

The carrying amount of financial assets in the Consolidated Statement of Financial Position represents the maximum credit exposure. The maximum exposure to credit risk as at 31 March 2023 is:

	Maximum exposure	Maximum exposure
	31 March 2023 £'000	31 March 2022 £'000
Debt investments	138,184	50,613
Other debtors	133	1
Cash and cash equivalents	4,437	10,236
Total	**142,754**	**60,850**

Liquidity Risk

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

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

Liquidity risk exposure of the Group as at 31 March 2023:

31 March 2023	Within 1 year £'000	Between 1 and 5 years £'000
Trade and other payables	(383)	–
Other liabilities excl LTIP	(1,041)	(53)
Total	**(1,424)**	**(53)**

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

Market Risk

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

Interest Rate Risk

As the Group has no borrowings subject to interest, holds cash balances to meet payments as they fall due and does not hold significant amounts of cash on deposit for significant periods of time, it has no significant exposure to interest rate risk. Interest rate sensitivity, however, can affect valuation of the Bank's debt instruments through the fair value calculation. Interest rate risk is monitored to ensure that the sensitivity of the Group's returns to market interest rate movements are understood and managed within Risk Appetite. The Group does not use derivatives to hedge interest rate risk. As at 31 March 2023, £145.6 million (2022: £52.3 million) of the Group's financial assets are subject to fixed rate interest arrangements, there are no floating rate arrangements in place and therefore the Group is not exposed to significant or material interest rate risk.

Currency Risk

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

Valuation Risk

The Group values its portfolio according to the Group's valuation policy. The Group's valuation policy has been developed in accordance with the International Private Equity and Venture Capital Valuation Guidelines (December 2022). Investments are valued at fair value, which is the price that would be received to sell an asset in an orderly transaction between market participants given current market conditions at the measurement date. Valuation risks are partly mitigated by portfolio and individual investment reviews of the Group's investments quarterly.

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

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

Key Unobservable Inputs of Unquoted Equity Investments

Estimated sustainable revenue or earnings

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

Discounted cash flow

Long-term cash flows are discounted at a rate which is benchmarked against market data, where possible, or adjusted from the rate at the initial investment based on changes in the risk profile of the investment.

Net asset Value

Net asset value reported by the fund manager. The valuation of the underlying portfolio is consistent with IFRS.

Notes to the Financial Statements

20. Financial Risk Management continued

Selection of comparable companies

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

The multiple is calculated by dividing the enterprise value of the comparable company by either its earnings before interest, taxes, depreciation and amortisation (EBITDA), revenue or book value. The trading multiple is then discounted for considerations such as illiquidity and differences between the comparable companies based on company-specific facts and circumstances.

The following table summarises the various valuation methodologies used by the Group to fair value Level 3 instruments, the inputs and the sensitivities applied and the impact of those sensitivities to the unobservable inputs. The majority of our portfolio has so far mitigated the impacts of supply chain disruption due to geopolitical events and inflation via pricing mechanisms and diversifying supplier base, an important consideration in our portfolio valuation at 31 March 2023. As part of our case-by-case review of our portfolio companies the risks and opportunities from climate change are an important consideration in the overall discussion on fair value. These risks are adequately captured in the multiple sensitivity. All numbers in the table below are on an Investment basis.

As at 31 March 2023	Fair value of		Impact	
Valuation basis	unquoted investments £'000	Variable input sensitivity	£'000	% of net assets
Direct equity (multiple basis)	14,500	+/- 10%	+/- 710	5%
Direct equity (milestone basis)	43,250	+/- 10%	+/- 4,325	10%
Combined investment	68,600	+/- 10%	+/- 6,860	10%
Debt Investments – Discounted cash flow	81,129	+/- 1%	(2,641) / 3,059	4%
Funds – Net Asset Value	83,335	+/- 10%	+/- 8,335	10%
Total unquoted investments	**290,814**			

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

Capital Management

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

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

The Group's objectives when managing capital are:

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

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

21. Capital Commitments

Amounts contracted for but not provided for in the accounts amounted to £111.0 million (2022: £42.2 million) for investment commitments.

22. Related Party Transactions

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

The Group's key management personnel comprise the members of the Board including the Chief Executive Officer and Chief Financial Officer. Key management personnel are remunerated on the basis outlined in the Annual Report of Remuneration on pages 100 to 111.

Notes to the Financial Statements

23. Related Undertakings

The principal subsidiary undertakings of the Group are shown below.

Subsidiaries Consolidated

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

The Group had no acquisitions in the year (2022: nil).

24. Defined Contribution Plan

The Company contributes to an externally administered defined contribution (DC) pension plan for all eligible employees. The Bank pays fixed contributions and will have no legal or constructive obligation to pay further amounts. The total expense in the current period was £644,616 (2022: £506,617).

25. Ultimate Parent Company

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

26. Subsequent Events

In May 2022, the Bank invested £9 million in the form of a debt investment in Circularity Scotland Limited (“CSL”) who are the administrators for the proposed Deposit Return Scheme (“the scheme”) in Scotland. The role of CSL was to administer the scheme on behalf of the drink producers and the main source of income for CSL would be a fee received from the producers each time an item is recycled. As at 31 March 2023, the fair value of this investment had reduced by 50% to £4.5 million reflecting estimated impact of the known risk at the time that the scheme, which was due to launch in August 2023, would be delayed hence impacting the revenue stream of CSL. This initial delay was confirmed in April 2023 when it was announced the scheme would be delayed until March 2024.

Subsequent to this, in June 2023 it was announced that the scheme would be further delayed until October 2025 due to a variation in the scheme conditions and launch date aligned with a wider UK roll out. This further delay will materially impact the revenue streams of CSL, with administrators now having been appointed. It is estimated that the Bank’s investment into CSL is now valued at a range of between £0-£1 million. This subsequent change in the fair value of the Bank’s investment in CSL is considered to be a non-adjusting post balance sheet event and is therefore not reflected in the financial statements as at 31 March 2023.

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

Scottish Government
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Scottish National Investment Bank

DIRECTION BY THE SCOTTISH MINISTERS

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

2. The statement of accounts for the financial period ended 31 March 2021, and for subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared, and with the Companies Act 2006.

3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial period, and of the state of affairs as at the end of the financial period.

4. This direction shall be reproduced as an appendix to the statement of accounts.

On behalf of the Scottish Ministers 31 March 2021

The
Scottish
National
Investment
Bank
plc

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