



Operating Principles for Impact Management

2025 Disclosure Statement

The
Scottish
National
Investment
Bank



The Scottish National Investment Bank plc hereby affirms its status as a Signatory to the Operating Principles of Impact Management (the “Impact Principles”).

The Scottish National Investment Bank was established in 2020 by Scottish Ministers. All of our investments must meet the aims of at least one of our three key missions – to support Scotland on its journey to net zero, to improve places and communities, or to harness innovation.

The Bank’s total AUM[†] as of 31 December 2024 was £696.5 million/\$852.8 million. This Disclosure Statement affirms that all investments held within Scottish Investments Limited during 2024 were aligned with the nine Impact Principles, and it sets out how the Bank operationalises the principles within its investment practices.

Disclaimer: The information contained in this Disclosure Statement has not been verified or endorsed by the Global Impact Investing Network (“the GIIN”) or the Secretariat or Advisory Board. All statements and/or opinions expressed in these materials are solely the responsibility of the person or entity providing such materials and do not reflect the opinion of the GIIN. The GIIN shall not be responsible for any loss, claim or liability that the person or entity publishing this Disclosure Statement or its investors, Affiliates (as defined below), advisers, employees or agents, or any other third party, may suffer or incur in relation to this Disclosure Statement or the impact investing principles to which it relates. For purposes hereof, “Affiliate” shall mean any individual, entity or other enterprise or organisation controlling, controlled by, or under common control with the Signatory.

[†]The Bank uses ‘total committed capital’ as its expression of AUM, as it encompasses the full amount of finance committed to investees.



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

Principle 1: *The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.*



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Our strategic objectives

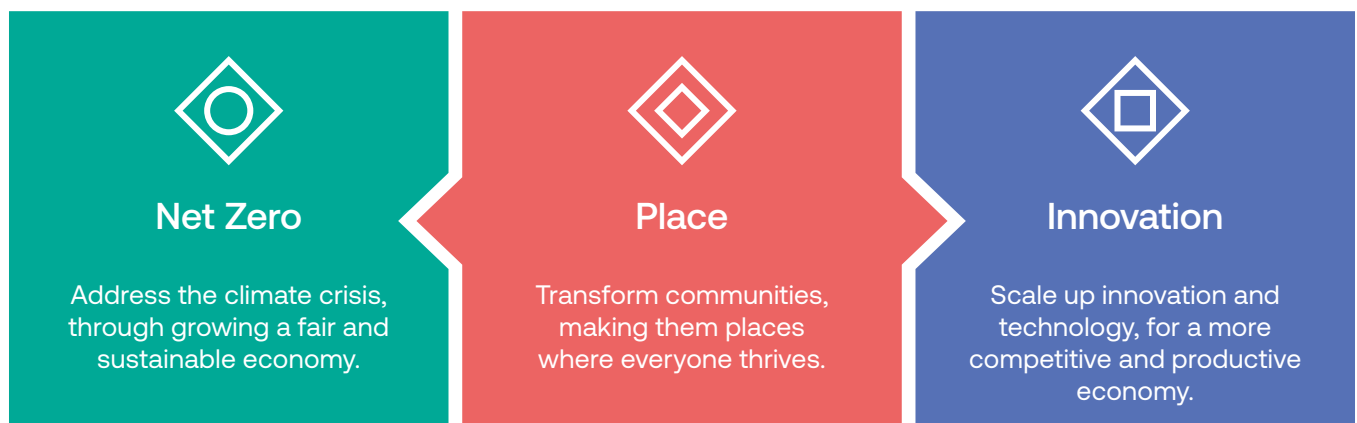
The Scottish National Investment Bank is Scotland's first development investment bank, established and funded by Scottish Ministers on behalf of the people of Scotland. The Bank is an impact investor, focused on delivering both commercial returns and mission impacts with its investments. The Bank is a PLC and operationally independent from government.

Our missions were set in 2020 by our Shareholder, Scottish Ministers, to address three grand challenges facing Scotland:

- ◆ The climate emergency
- ◆ Place-based opportunity
- ◆ Demographic change and productivity deficit

The three missions, which directly reflect the challenges above, are:

The Bank's Missions

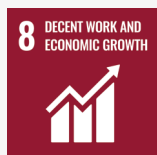




Principle 1: Define strategic impact objective(s), consistent with the investment strategy continued

To support the development of our Impact Framework, against which our investment performance can be determined, for each mission we have created a Theory of Change and a set of ‘mission impact objectives’ with associated Key Performance Indicators (KPIs). These impact objectives and KPIs have been designed to provide greater understanding of the Bank’s strategic impact investment priorities. They are aligned to the National Outcomes and Indicators within the Scottish Government’s National Performance Framework, and the UN Sustainable Development Goals. The Bank’s mission focus specifically contributes to delivering the following six goals:

UN Sustainable Development Goals



How we deliver impact

We are a patient investor, providing long-term investment to businesses and projects based in Scotland. The Bank deploys public sector capital to invest in private businesses and projects via debt, equity and fund investments; we do not invest in public sector entities.

Our investments are designed to deliver impact throughout and beyond our investments’ lifespan. Delivery of our missions and wider environmental and societal benefits are central to our decision-making. Over time, our investment portfolio will enable impact in four distinct ways:

1. Delivery of missions:

- ◆ **Net Zero** – Address the climate crisis, through growing a fair and sustainable economy.
- ◆ **Place** – Transform communities, making them places where everyone thrives.
- ◆ **Innovation** – Scale up innovation and technology, for a more competitive and productive economy.

In delivering our three defined investment missions, we integrate key principles to amplify our portfolio-level, positive impact in the Scottish ecosystem:

2. The promotion of a diverse and inclusive workforce through high-quality employment aligned to the Scottish Government’s ‘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.



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

Responsible investing

Above and beyond the impacts we aim to deliver via our missions, we are a responsible investor that aims to support better outcomes in all our investments through:

- ◆ Adhering to the standards and investment principles set out in our refreshed Responsible and Ethical Investment Policy and Investment Strategy.
- ◆ The promotion of a range of Fair Work and quality employment principles that we agree with investees.
- ◆ The broader influence we have across Scotland's investment and private sector communities.

Promoting diversity, equality, and inclusion (EDI) 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.

The Bank is also committed to supporting Scotland's net zero targets, as well as wider environmental good practice. We ask all investees to put in place a carbon management plan within 12 months of the Bank's investment, as well as providing guidance to investees on how to measure and understand their business's emissions. Where a company's operations could have a direct impact on other environmental factors, we will look to build appropriate responsible management practices into the investment's requirements.



Principle 2: Manage strategic impact on a portfolio basis

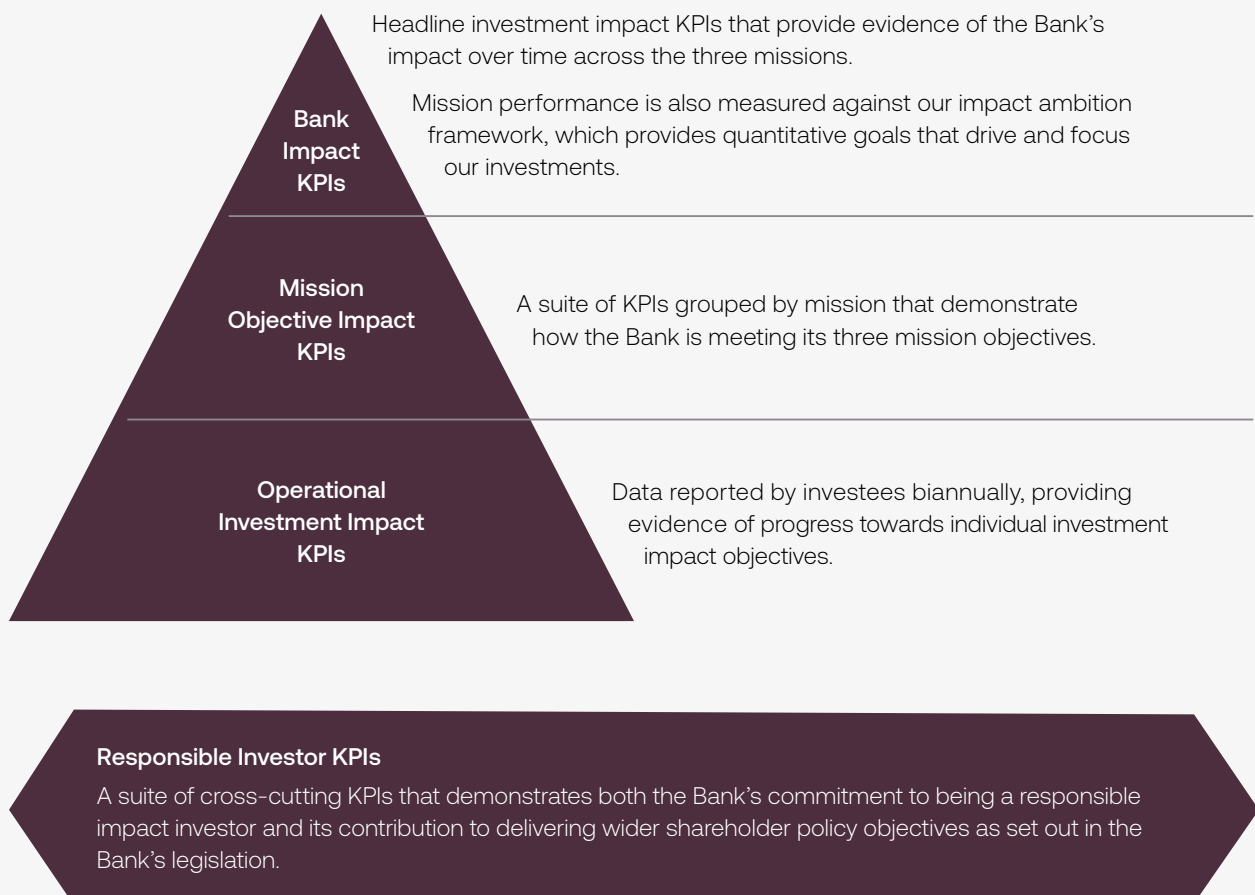
Principle 2: *The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognising that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.*



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To support the measurement of the Bank's investment impact performance we have designed a reporting hierarchy, which was formally embedded within the 2023-24 Financial Year (FY23/24).

Performance Reporting Hierarchy





Principle 2: Manage strategic impact on a portfolio basis continued

This suite of performance indicators is bespoke to the Bank, but where possible it is aligned to existing recognised impact indicators such as the IRIS+ metrics.

During 2023 the Bank also developed mission-focused, portfolio-level investment targets ('Ambitions'). These have been put in place to drive strategic impact across the portfolio, support the delivery of our missions, and work alongside the wider suite of KPIs that allow us to monitor the breadth of impact taking place.

As part of the Bank's due diligence activity, all investments are assessed against the five dimensions of impact as identified by the Impact Management Project. This information is used to create a tailored Impact Thesis (see information presented against Principle 4). All dimensions are scored on a low-high impact rating, allowing comparison of expected impact across – and within – the Bank's portfolio.

To support final investment decision-making, the Bank conducts an Impact Assessment for each investment. The purpose of the Assessment is to review the Bank's approach to impact and ESG (Environmental, Social, Governance) issues throughout the deal process, measured against four of the Principles for Impact Management. The assessment is focused on whether a company's commitment to impact and ESG management has been effectively evidenced during the investment decision-making process. The Assessments also help us to understand, over time, whether we are improving our internal practices and approaches to assessing and delivering impact throughout the investment process.

Post investment, impact data is collected from investees on a twice-yearly basis, with investee and portfolio impact performance considered as part of the Bank's Balanced Scorecard and within the Bank's corporate governance processes (specifically, Valuations Committee). Impact performance is discussed with investees as part of our portfolio monitoring engagement activities; see information provided against Principle 6.

Our impact performance is reported publicly on an annual basis in our [Impact Report](#), with portfolio- and mission-level highlights also provided within our [Annual Report and Accounts](#).

Staff incentive systems, including the Mission Contribution and the Long-Term Incentive Plan (LTIP) schemes, have been developed to ensure impact is embedded within and across the culture of the organisation.





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

Principle 3: *The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.*



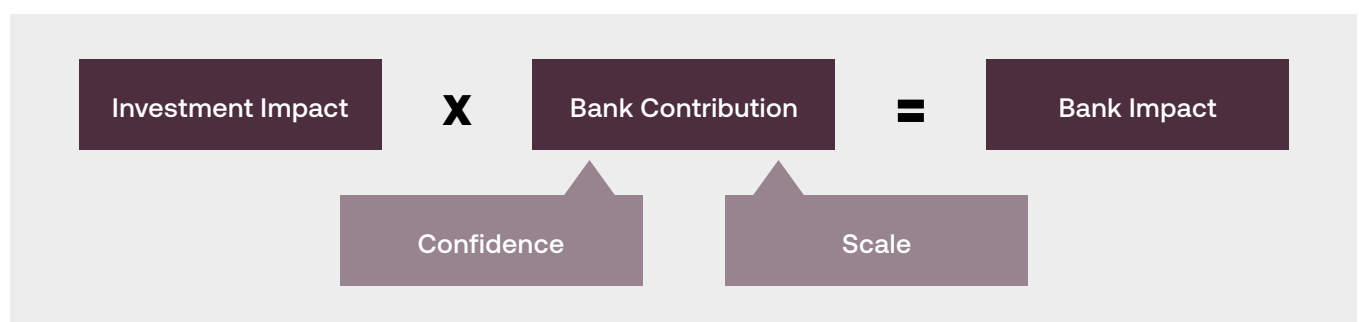
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In addition to delivering mission-focused impact, a core principle of our Investment Strategy is to attract private sector funds to co-invest alongside our public sector capital. This improves the scale of investment, its sustainability, and future exit prospects. The complex nature of the grand challenges means that our investments alone will not be enough to deliver solutions; they require a mix of public policy, private and third sector initiatives, which are delivered by a range of stakeholders drawing on both public and private finance to achieve the necessary scale and impact.

As part of our investment decision-making process, we therefore consider all investment opportunities against the five dimensions of impact identified within the Impact Management Project, which includes an analysis of the Bank's 'Contribution' to delivery of impact. Within this we identify and score our contribution against three dimensions:

- 1) **Financial additionality** – where capital is not available, or not available in sufficient quantity or terms.
- 2) **Value additionality** – our contribution of knowledge, advice, governance support, ESG, climate and impact expertise.
- 3) **Mobilisation** – where the Bank's presence provides assurance or other comfort that allows others to invest at the same time or subsequently.

The Bank determines its level of contribution through a combination of the confidence we take that we are providing an additional financial and/or mobilisation role, and the scale of our contribution – which is typically an assessment of the 'value add' the Bank can bring outside of providing capital.



Additionally, as part of our due diligence activity, we create a Theory of Change (ToC) model for each investment to illustrate how our actions and capital support the delivery of mission impacts over the longer term (see information provided against Principle 4). This model identifies the input contribution of the Bank, as well as the outputs, outcomes, and impact that this contribution is expected to support. The Bank's contributions are both financial and non-financial in nature.

Post investment we review our contribution internally within our investment governance and portfolio management processes, and seek external validation of our assessment through our Portfolio Customer Survey (which is reviewed at both an individual company and aggregate level), and through our ongoing impact monitoring and regular investee engagement activity.



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

Principle 4: For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions:

- (1) What is the intended impact?
- (2) Who experiences the intended impact?
- (3) How significant is the intended impact?

The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.



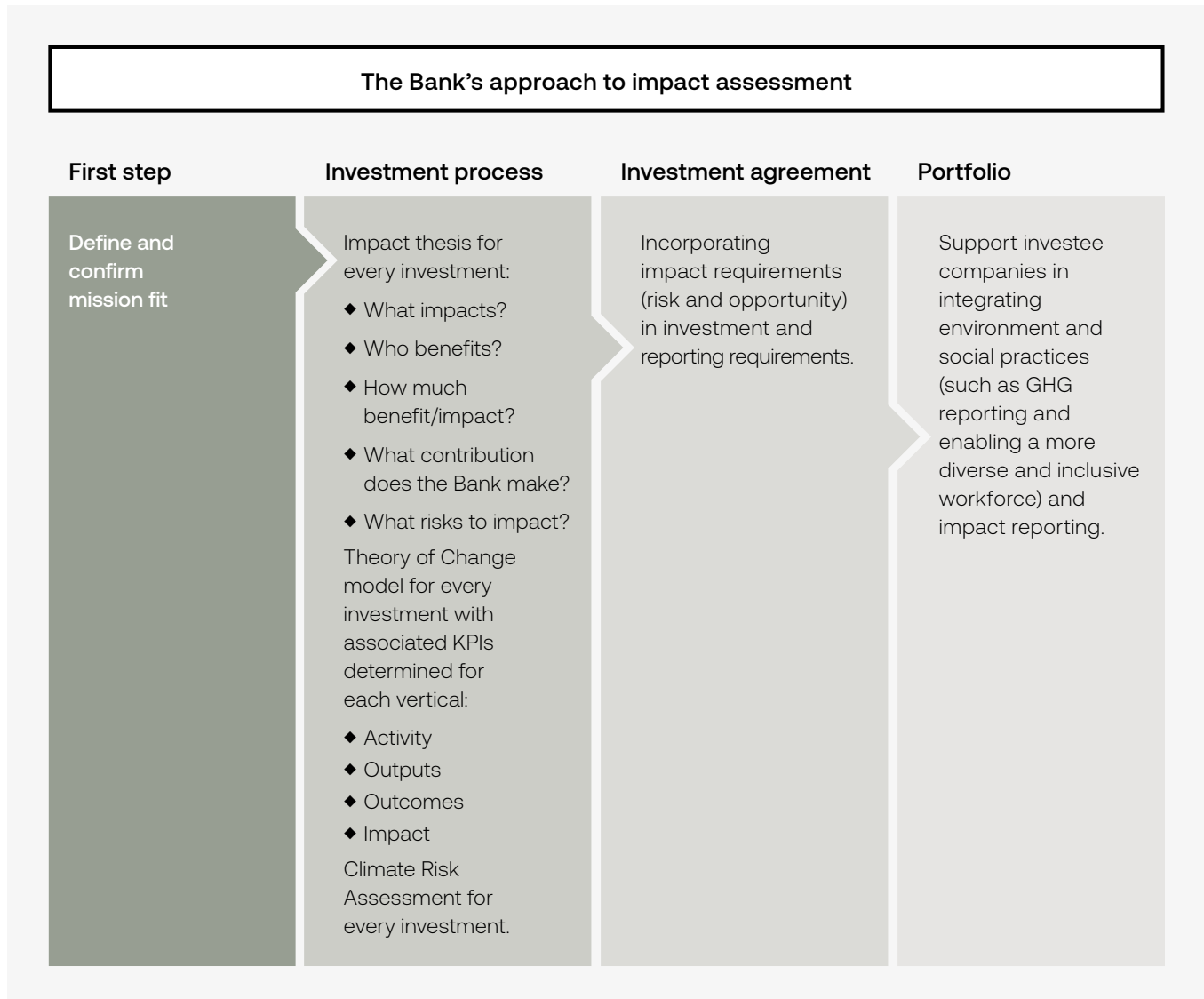
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The Bank's approach to impact investing has been built on international good practices. We have developed an impact assessment and reporting framework which considers investment impact from the point of origination through to portfolio management. The delivery of this framework is supported by a suite of internal guidance to aid the integration of impact within investment decision-making and across the investment lifecycle, which helps to ensure consistency and transparency in our assessment and reporting processes.

This guidance includes the development and application of a suite of impact key performance indicators that are applied at investment, mission, and portfolio level; this enables us to measure impact over the investment period and against our strategic mission objectives. We capture impact data baselines at the point of investment to allow us to measure progress from the outset; subsequent data reported to us by investees is aggregated and published in our annual Impact Report.



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



Impact Thesis – five dimensions of impact

Each investment proposition that the Bank receives is filtered through a mission impact lens from the point of initial enquiry. Once mission fit is established, we consider all investment opportunities against the five dimensions of impact, as identified by the Impact Management Project, to create a bespoke 'Impact Thesis'. This is an industry-recognised framework that supports a consistent approach to assessing the potential scale of impact based on five elements (What, Who, How much, Contribution, and Risk). All dimensions are scored on a low-high impact rating.

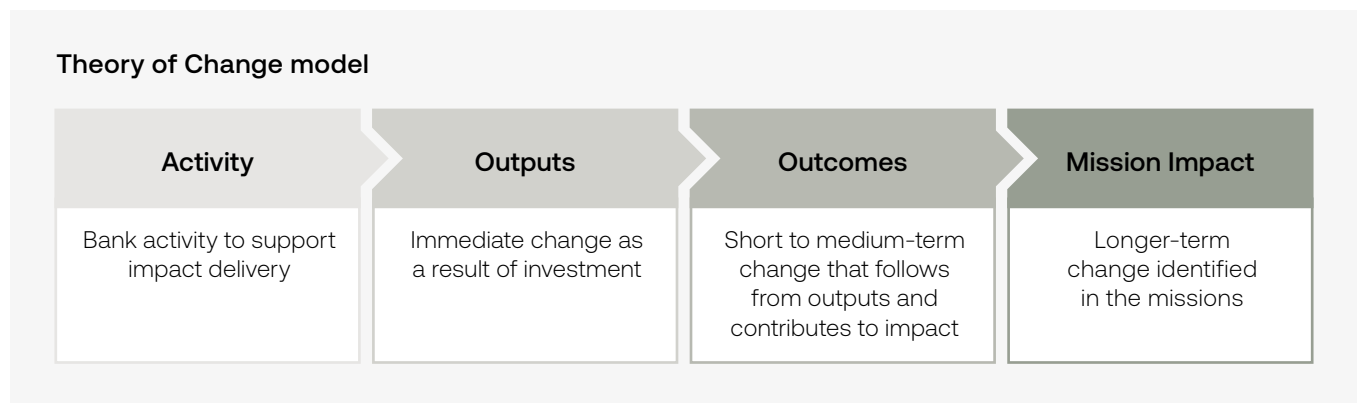
This process, alongside individualised Theory of Change models that we create for each investment, enables the identification of the type, scale, and beneficiaries of the investment, as well as understanding the specific contribution the Bank's finance and involvement is adding. The Bank then uses this thesis to assess the performance of its investments at an individual and portfolio level, and to consider any ESG or impact risks that require ongoing management or mitigation.



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

Theory of Change models

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



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

ESG, impact and climate risk

To support investment decision making and on-going monitoring we conduct ESG-related due diligence for every investment, as well as completing a Climate Risk Assessment. This information is used to determine the impact reporting framework, and it shapes the post investment impact-related actions that the investee is expected to deliver as a condition of our investment.

The Bank also assesses and documents wider ESG and impact risks, alongside ethical considerations, as part of its investment decision-making process. Through this we aim to set out:

- ◆ The risk of negative outcomes from the investment.
- ◆ The risk that positive impacts won't be achieved.
- ◆ Any further ethical issues that should be noted and monitored.



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

Principle 5: For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.



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As an institution we not only invest to enable the Bank's missions, but we also act as a responsible investor. Our [Responsible and Ethical Investment Policy](#) sets out the ESG requirements that are applied to all of our investments; it also outlines how we aim to enhance ESG outcomes where practical. The Policy was revised in 2024 to include emerging risks, such as the potential impacts of generative AI and vaping.

To support this objective, we have developed an ESG Toolkit to help investment and portfolio teams to assess and monitor ESG risks throughout the investment lifecycle. The output of our ESG due diligence is used to shape our Post Investment Action Plans (agreed with investees ahead of final investment decision) to support the monitoring and management of ESG-related risks within their own businesses. The nature of these plans will differ by company and/or sector but, as a minimum, all investees are now expected to develop or hold an Environmental and Social Management System and a Carbon Management Plan within the first 12 months of our investment, as well as adhering to the Scottish Government's Fair Work First Principles. Support is provided to investees as appropriate to ensure adherence to these requirements, and to encourage the embedding of strong ESG practices within their operations.

Additionally, promoting diversity, equality, and inclusion is a core component of our activity both within the Bank and through our external engagement and investments. We recognise many of the businesses within our portfolio are in the early stages of their growth, and we can use our knowledge to share and instil positive practices that support equality as their business grows. For example, we use investment covenants in a proportionate and relevant manner to positively influence change. As a minimum these covenants will include:

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

Where we invest equity, we also typically have observer rights on investee boards. This allows us to better understand the needs and challenges of individual businesses.

Information relating to investee ESG and impact risk management practices, EDI and Fair Work is documented in our [Responsible and Ethical Investment Policy](#). It is also collected as part of our annual impact monitoring practices and considered within impact performance governance.



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

Principle 6: *The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.*



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As part of our due diligence and investment committee decision-making process we produce an Impact Thesis and Theory of Change (ToC) for each investment. These tools identify the output(s), outcome(s) and impact(s) expected to be demonstrated as a result of our investment. These are set out as qualitative narrative, as well as being quantified against delivery timeframes where appropriate.

The ToC models are co-created with investees and include mutually agreed Key Performance Indicators that allow us (and the investee) to monitor and assess impact performance against expectations over time.

The indicators identified in the ToC are transposed into an impact monitoring report, which includes a wider set of reporting metrics to help determine the impact performance of the investment. Monitoring reports, associated data collection expectations, and impact-related post-investment actions are agreed with investees as part of the Investment Agreement.

Impact performance is reported to the Bank by investees on a bi-annual basis for direct investments, and on an annual basis for Fund investments. Investees are asked to identify and explain any areas of under-performance or issues that may affect impact delivery.

The Bank has recently developed a portfolio and impact management platform that supports the

collection, management, and analysis of impact data (and commercial management information), thereby strengthening existing data collection, analysis, and reporting functionality.

We internally review investee- and portfolio-level impact performance within monthly portfolio management meetings, as well as at quarterly Valuations Committees. This includes consideration of under-performance and the actions required to address this. To inform this review we assess all known impact data and create a RAG rating to monitor changes to impact performance over time. We publish an annual [Impact Report](#) each year, which sets out the impact delivered by our investments within the preceding calendar year.

During 2023, we developed a suite of mission-related impact targets ('Ambitions') which have been integrated into the Bank's existing impact assessment and monitoring processes. Performance against Ambitions will be considered within our existing impact performance governance, including through reviews of portfolio company performance and the Bank's portfolio management governance.

The Bank has regular engagement with investees and undertakes a Portfolio Customer Survey to ensure investees have opportunity to provide feedback on the investment process, impact management, and relationship with the Bank.



Principle 7: Conduct exits considering the effect on sustained impact

Principle 7: *When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.*



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As a young institution with a focus on the provision of patient capital, the Bank has not yet undertaken any exits.

Mission alignment and impact is the primary lens through which we invest. We recognise that delivery of impact is a long-term objective, and for many investments the anticipated impacts may not be observable during the investment term; the expected duration of impact is assessed and scored within each investment's Impact Thesis.

The Bank has created internal 'Responsible Exits Guidance', which includes detailed information on considerations for debt, equity, and fund investments. Discussion of responsible exits is included within our due diligence and investment committee framework,

and investment committee papers include a section on 'Responsible Exits' to ensure that this is considered within the decision-making process. We have also developed a 'Responsible Exits Checklist' to ensure a consistent approach is followed, and all relevant areas considered, at the point that an exit is being undertaken in the future.

A core element of the Bank's impact value add is supporting our investee companies in embedding their own impact management frameworks through the development of policies, procedures, management capability and systems. It is therefore anticipated that the positive cultural changes enacted within companies as the result of our investment would be sustained, and a continuation of impact delivery seen post the Bank exiting an investment.



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

Principle 8: *The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.*



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The Bank has developed a culture of learning and development in relation to its impact management and wider investment practices. This is evidenced through the ongoing evolution and refinement of our impact frameworks and supporting investment and impact documentation, and the use of 'Insight Debriefs' post deal-closure to review investment processes and consolidate and share learning. The Bank has also committed to periodic review and verification of its impact strategy and performance via its Long-Term Incentive Plan (LTIP).

Operationally, impact management and the impact performance of each investment (and aggregate portfolio) is routinely considered as part of the Bank's governance and forms a core standing item within the Bank's Valuations Committee. The insights gained through our impact practices also feed into the Bank's commitments related to equality, diversity and inclusion, as well as having informed the revised Responsible and Ethical Investment Policy and Investment Strategy.

Externally, the Bank continues to deepen its role in bringing together and broadening the impact investment community in Scotland. Actions taken to support this include:

- ◆ The ongoing publication of impact reports and insight papers.
- ◆ Holding the Investing with Impact event in early 2024, bringing together businesses, investors, and other stakeholders to discuss how to deliver long-term impacts.
- ◆ Introducing the Bank's 'Learning Communities' programme, which invites investee companies to learn from experts in core areas of impact delivery, as well as sharing their own experiences.
- ◆ The launch of a partnership with Strathclyde Business School – the 'Scottish Impact Investor Readiness Programme' – aimed at senior leaders of growing businesses who are looking to enhance the positive impacts their company delivers.



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

Principle 9: *The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.*



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The Disclosure Statement affirms the alignment of The Scottish National Investment Bank Plc's (the Bank) policies and procedures with the Impact Principles and will be updated annually.

The Bank's Disclosure Statement is submitted to the Impact Principles for public disclosure and is publicly disclosed on the Bank's website.

Independent verification will be undertaken on a regular basis, with the next verification due to take place in late 2025. The findings of verifications will be disclosed publicly via the Operating Principles of Impact Management and the Bank's website and are subject to fiduciary and regulatory concerns.

BlueMark Verification

In December 2023, the Bank engaged BlueMark, a Tideline company, to independently verify alignment of the Bank's impact management practices with the Operating Principles for Impact Management. BlueMark's Verifier Statement from the 2023 review can be found [here](#).

Please note: BlueMark's verification does not constitute either an endorsement of the client's practices or a verification of the resulting impacts achieved.

ABOUT BLUEMARK

BlueMark is a leading provider of impact verification services for investors and companies. Founded in 2020, BlueMark's mission is to "strengthen trust in impact investing." BlueMark's verification methodologies draw on a range of industry standards, frameworks, and regulations, including the Impact Management Project, the Operating Principles for Impact Management, the Principles for Responsible Investment, SDG Impact, and the Sustainable Finance Disclosure Regulation.





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