



# Working with the Bank

The  
Scottish  
National  
Investment  
Bank



## A guide to this document

This document details key elements of the Bank's investment process and appraisal, with the aim of providing clarity on what to expect and how your organisation can prepare for a potential investment.

We have detailed the investment process and key stages of review that we work through in order to make an investment. It also details the information we will require to complete these stages. This document also sets out considerations that we make in regards to compliance with subsidy control, how an investment aligns with our equality duties and strategy, and our Responsible and Ethical Investment Policy. We have also summarised our approach to portfolio management should we make an investment, and how we use information and communicate success.

## Contents

### **Investment approval process**

#### **Investment considerations**

1. Information requirements
2. Impact assessment and reporting
3. Investment due diligence
4. Equality
5. Subsidy control and State Aid
6. Ethical investment practices
7. Valuation
8. Milestones
9. Investment portfolio management
10. Communicating success
11. Collecting and using corporate and personal information
12. Responsible exit strategy
13. Risk management

### **Theory of Change example**



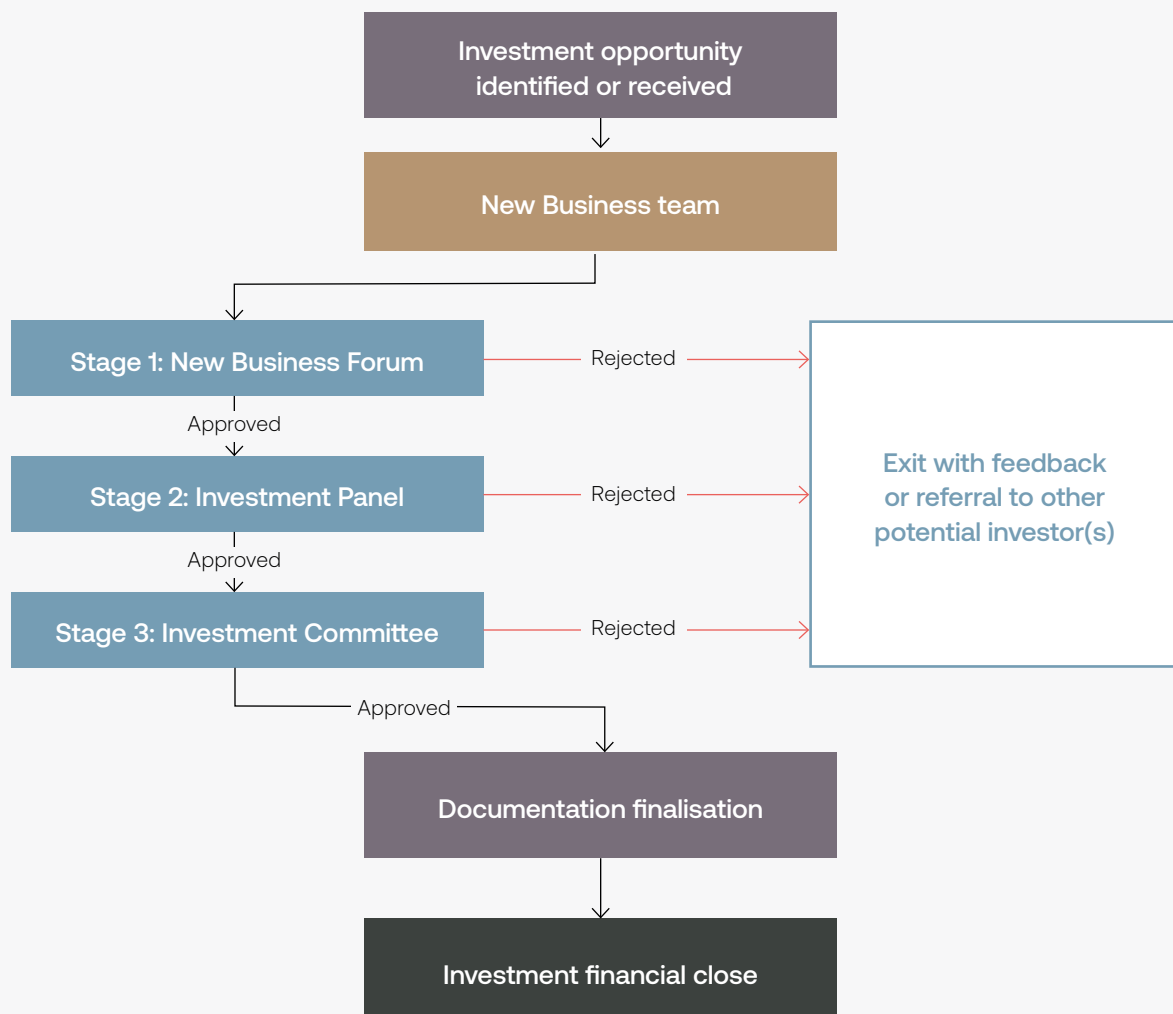
## Investment approval process

All investments are subject to a multi-stage approval process. Investments, including all follow-on investments, will only be sanctioned if approved at the Investment Committee. All other stages in our investment process are progressive with permission to proceed only. The time taken to complete an investment is determined by a range of factors, including the complexity and availability of due diligence. We work with potential investees to ensure that they understand our investment approval process and the information that they are required to provide at each stage.

We will endeavour to review and determine fit with the Bank's missions and investment strategy as soon as possible on receiving your investment deck. Typically we will aim to have a decision to you regarding our first stage within four weeks, depending on the level of information received. If we choose to progress with the investment at the first stage of our process, we will discuss the appropriate time frame and process regarding the next steps.

Upon receipt of the required information (see section 1), we will aim to complete our investment process within three to four months.

### Investment approval process





# Investment considerations

## 1. Information requirements

We require detailed information about your business/project (the “subject”) to inform our assessment and decision(s) on whether to take the investment proposition forward.

The table below describes key items required at an early stage in reviewing a proposal; it is not exhaustive and, if progressed, information and diligence requirements will be discussed. This is given as an indication of the type of information a potential investee should have prepared at the start of our investment process.

You will be liable for the costs associated with external diligence (including valuations) and legal costs incurred/engaged by the Bank for its reliance, whether or not the transaction is completed, unless otherwise agreed.

Estimates of these costs will be agreed with you before the relevant adviser(s) are appointed.

### Information requested from potential investees

Subject area	Item	Minimum requirement (must include)
Business Summary	1	Any current information memorandum (“IM”), fundraising presentation and/or teaser;
	2	Detailed explanation of how the subject’s activities fit with the Bank’s missions, any expected quantification of these impacts, and the key risks to these impacts and confirmation of compliance with the Bank’s Ethical Investment Policy;
	3	Summary of the subject’s development plan, covering at least the next five years; and
	4	Complete listing of the subject’s advisers and sponsors.
	5	Timeline of the development of the business and the product and milestones along the way.
Financial model (detailed Excel model) including	1	Detailed financial model based on <u>FAST</u> standards;
	2	Clear databook of assumptions driving the model, their source/rationale, and any supporting information/ documentation for these
	3	Three financial statements: income statement, balance sheet, and cashflow
Costs	1	Sources: uses breakdown of finance and costs/activities these are utilised for.
	2	Details of key customers and main suppliers including locations.
Other funding	1	Details of any existing or proposed indebtedness (incl. contingent liabilities); and
	2	Details of any grant or other government support received or in application.
Commercial information	1	Details of key contracts, framework agreements, MoUs, customers, suppliers and other key stakeholders (current or target);
	2	Product list and development roadmap;
	3	Current order book and sales pipeline;
	4	Any key market reports on the subject’s sector or targeted sector; and
	5	Key competitors and subject’s differentiation to these.
	6	Details on supply chain management by the subject and how does the current macro economic environment likely to affect the subject.
Organisation	1	Employee structure chart and gender split, salaries and equalities data;
	2	Detail of Board members, key management, including summary CVs, roles, salaries and any recent departures/ dismissals and reasons for; and
	3	Hiring plans over the investment period.



## Investment considerations continued

### Information requested from potential investees (continued)

Subject area	Item	Minimum requirement (must include)
Ownership and structure	1	Details of the existing investors;
	2	Fundraising history and valuations at each round;
	3	Share classes and rights attached to these;
	4	Details of all the dilutive securities including options, warrants etc; and
	5	Expected valuation and terms for any current fundraising.
Legal	1	Corporate structure chart including all subsidiaries, their registration details, and entities sharing ownership with group companies;
	2	Summary of any specific constitutional restrictions;
Audited accounts	1	Audited accounts for last three years (or for the period available); and
	2	Current accounting and financial policies (including hedging).
IP	1	Detailed summary of the IP/patents held by the subject and in application.
Other	1	Summary of all the insurances policies taken by the management.
	2	Any other relevant items.
	3	Longer term plan and exit aspirations / strategy.



## Investment considerations continued

### 2. Impact assessment and reporting

We will assess the scope, scale, and significance of the impact our investment could enable. As part of our investment agreement, we will require investees to commit to the development of either a Carbon Management Plan, Net Zero Strategy or equivalent, and an Environmental and Social Management System for their business, and to provide calendar year impact data and reporting so that we can aggregate portfolio impact performance.

We work with our investee businesses to ensure that our impact reporting requirements are proportionate and achievable.

We develop an Impact Thesis and Theory of Change model for each business or project in our portfolio, which helps us to articulate the expected impacts and then monitor performance against them over the course of our investment. Our team will work with you to develop these documents as you move through the investment process.

As well as developing these models in a way that is individually tailored to each investment, the Bank also has specific impact and ESG requirements that apply to all of its investees. These are:

- ◆ All investees must adhere to our Responsible and Ethical Investment Policy.
- ◆ All must support Scotland's Fair Work principles, including paying at least the Real Living Wage to all direct employees and any use of zero hours labour must be justified to the Bank's satisfaction.
- ◆ All investees must develop a Carbon Management Plan, Net Zero Strategy or equivalent, and Environmental and Social Management System within 12 months of the Bank's investment.

- ◆ All investees must either have, or put in place in a proportionate and timely manner, policies and practices to support **equality, diversity and inclusion**. These policies and practices should be aligned with the Bank's equalities objectives as laid out in the Bank's Equality Strategy.
- ◆ Where a company's activities would negatively impact the natural environment it must have, or be willing to put in place in a timely manner, appropriate mitigation measures.
- ◆ All investees are required to provide impact reporting data to the Bank (biannually for direct investments; annually for funds); the metrics for reporting are agreed between investee and Bank ahead of investment.

Supporting our investee companies on their impact performance and reporting journey is one of the key areas where we believe we can add value. Our experience shows that many investees benefit from the insight that we can provide in supporting a journey to net zero and improving opportunities for people and our communities, developing reports as well as in putting good internal governance and working practices in place – this information can be useful to stakeholders' suppliers, customers, employees, and other investors.

### 3. Investment due diligence

We will undertake due diligence in line with market standards in making our direct debt and equity investments. This can cover Legal, Technical, Financial, Commercial and Management, Insurance, Taxation, and/or Environmental Social and Governance (ESG) due diligence, as appropriate for each investment opportunity. We will apply our own investment assessment standards to all investment opportunities we consider, and we will make our investment decisions independently of the Scottish Government or any other investor.



## Investment considerations continued

### 4. Equality

Equality and diversity has been integral to the Bank since our inception and first strategy in 2022. This year, in 2025, we have published our revised [Equality Outcomes and strategy](#) for meeting them. We will continue to work with stakeholders and the wider ecosystem to continuously improve equality and diversity in the Scottish economy via our investments, impact and insights. This updated strategy outlines how we plan to meet that goal.

As part of our formal due diligence, we collect and review data relating to equality and fair work practices in the projects and businesses we consider investing in, and where relevant make recommendations for change.

Where appropriate, we utilise covenants within our investment agreements, shareholder rights and other mechanisms to deliver more ambitious and impactful approaches to equality with the aim of improving business practices in Scotland.

Equality data is regularly collected from our portfolio companies, and where appropriate through our process, to monitor progress against our ambition.

### 5. Subsidy control and State Aid

The operative parts of the UK's Subsidy Control Act 2022 were enacted on 4 January 2023. Under the new legislation and operational guidance, the Bank acts as a Commercial Market Operator, ensuring that investment pricing and terms are commercial and reflect the risk and anticipated return we are taking within the capital structure of any given transaction.

We also assess compliance with the European Union State Aid approval obtained from the European Commission in 2020 prior to the Bank's establishment. This is because the European Union State Aid Approval continues to act as a legacy scheme under the new UK legislation. Key compliance considerations for the Bank are:

**Market Failure Framework** – the existing Market Failure Framework set out by the Commission, read alongside the terms of the Bank's Decision Letter, offers a solid basis for us to invest, with the flexibility to deliver our missions with impact. Scope to invest in market failures outside of the existing Commission framework may also be considered where appropriate analysis and/or consultation has taken place.

- ◆ **Crowding in** – we will deploy a series of measures to ensure that we do not 'crowd out' private sector investment, but instead actively seek to 'crowd in' other investors to help catalyse critical economic activity in pursuit of our missions.
- ◆ **Pricing and terms** – we will invest on a commercial basis (in line with the Market Economy Operator Principle) in all cases in a similar manner to the considerations required as a Commercial Market Operator under the UK regime.

Each prospective investment will be subject to a risk-based assessment of each of factors listed above. This assessment will take place at the outset and will be continually reviewed as the investment moves towards the Investment Committee.

### 6. Ethical investment practices

Our [Responsible and Ethical Investment Policy \(REIP\)](#) sets out how we integrate Environmental, Social and Governance (ESG) requirements in our investments and outlines a set of excluded activities for which the Bank's capital cannot be used. We regularly review our REIP to ensure our approach reflects the environment and context which we are working.

We consider alignment with our REIP throughout our investment assessment process with final investment approval contingent on compliance with this policy (or a legally binding action plan that will define the compliance timeline).

Once invested, we ensure our investments comply with our REIP through regular monitoring and engagement. We always seek to include options in our investments to cease funding, take remedial action or exit should the business or project breach the REIP and be unable or unwilling to work with us to remedy the situation.



## Investment considerations continued

### 7. Valuation

We have a Valuations Policy that is aligned with global valuation standards, which provides a framework to ensure that valuations are performed across the investment portfolio on a timely basis, prepared, reviewed and authorised by those independent to the investment origination and portfolio monitoring teams, and are prepared in compliance with relevant accounting standards, legislation and FCA published guidance.

We have a dedicated Investment Oversight and Valuations Committee that has responsibility to provide assurance to the Board that our valuation methodology and policies are robust. Through independent challenge, the Committee considers specific valuations of individual investments and of the portfolio. All investments are reviewed quarterly, with a full revaluation performed at a minimum six monthly frequency.

### 8. Milestones

We look for the businesses and projects we invest in to set milestones. These are set to help form the business plan and the strategic and operational priorities for the management team. For the Bank, it helps our team to track the performance of the business over the course of the investment. We will work with the business at the point of investment to agree on a set of ambitious but achievable milestones.

### 9. Investment portfolio management

Once the deal is complete, we will actively manage any investment made, to achieve commercial returns and positive impact.

Following any deal there are usually several actions, therefore the Deal team will remain involved for a period after the investment has closed. However, overall responsibility for managing the investment will sit with our Portfolio team who will be introduced at the earliest possible time; in some cases this will be before the deal closes.

The purpose of closely monitoring the investment portfolio is three-fold:

- ◆ Working in partnership to add value to the portfolio company through our expertise in impact investing and accelerating growth and supporting scaleup.
- ◆ To maintain the quality of our investments and to safeguard our assets with a view to avoiding potential losses.
- ◆ To inform our active origination strategy to help ensure that we continue to build a cohesive portfolio that can deliver our impact and commercial objectives.

In order to monitor the investment, we will regularly request information such as (but not limited to) management accounts, board packs and progress reports at regular intervals. We will also require impact data reporting. All asset monitoring requirements are a mandatory condition of our investment, and these will be discussed with the investee at the appropriate point in our process. In the case of equity investments, it is also anticipated that we will observe all Board meetings, receive all the information that a Board Director is entitled to and, where required, appoint a Director to the Board.





## Investment considerations continued

### 10. Communicating success

As a publicly funded institution, we are required to report regularly on the delivery of our missions and to share information on committed investment.

Summary information on investments will be communicated publicly on our website, in relevant external reports, and in the media. Our investee companies will be required to support these communications by providing access to relevant information and resources on request. We will have final sign off on the timing and content of all investment announcements and related website content.

### 11. Collecting and using corporate and personal information

The information we collect ensures that we understand your business or project and how it operates and is governed.

It assists our collation of the due diligence data needed to consider a potential investment, and helps meet our legal 'know your customer' obligations under financial crime prevention legislation and act as a baseline for impact reporting.

The information will be held securely and kept strictly confidential by the Bank and will not be shared with third parties without your consent. It will only be used for these purposes and will not be shared with any other organisations outside the Scottish National Investment Bank group for marketing purposes.

Some of the information collected will constitute personal information for the purposes of UK Data Protection legislation and the UK GDPR. We will retain the information for only as long as it is required for the purpose for which it is used.

Please see our privacy policy (<https://www.thebank.scot/privacy-and-cookie-policy>) for further details on how we collect, store, use and share your personal data.

Please note that the Bank is a public authority and is covered by Scots freedom of information legislation. This means it must release requested information unless one of more legal exemptions are applicable, for example, information which is commercially sensitive or covered by legally enforceable confidentiality obligations. Information requests are assessed on a case-by-case basis and the Bank will normally liaise with any affected third parties before releasing information.

### 12. Responsible exit strategy

In making our equity investments we consider our investment exit strategy at the outset of our investment and review these assumptions annually to ensure we continue to balance delivery of impact and commercial returns.

When an opportunity to exit arises, we will work with the management and other shareholders of the business or project to determine whether it is the right time, the right value, or the logical point within a business' life for us to exit.

We seek to responsibly exit our investments with the aim of ensuring that in exiting, the positive societal or environmental mission impacts delivered by the investment will continue. We believe that through our investees adopting and embedding lasting policies and practices within their businesses or projects that support sustainability, equality and responsible governance it creates value which will be reflected at exit.

The Bank's intention, subject to Shareholder approval, is for positive financial returns to be re-invested into further mission aligned investments to create the perpetual investment institution. The delivery of our ambition to be a perpetual investment fund for Scotland requires a passionate, diverse mission-aligned team that operates in a well governed, controlled and risk aware operational structure.

Investments will be made based on the measured judgement of our team of expert investors.



## Investment considerations continued

### 13. Risk management

The Bank is exposed to various risks in pursuit of its investment strategy and impact missions and we have established a set of policies, procedures and structures to manage these risks. These are described in the [Risk Management Framework \(RMF\)](#) which defines our approach to risk management, from ensuring that our risk strategy reflects the organisation's overall corporate strategy, to defining the methodology for assessment and measurement of current and emerging risk.

While we will deliver our missions through our investments, it is recognised that, by its nature, any investment carries risk. Investment risk for the Bank is risk of financial losses or write-downs due to failed loans, under-performance of investments, or inadequate portfolio management.

Risk Appetite Statements are in place for each of the Bank's principal risks, including Investment Risk. The risk appetite statement for investment risk states that as a development bank, we will seek out underinvested risk which by its nature will be high risk. We therefore have a high appetite for investment risk and a low appetite for losses due to inadequate controls over the investment process or inadequate portfolio management. Key Risk Indicators (KRI) are in place against each of the principal risks. These are monitored on a quarterly basis to ensure that the Bank is operating within its stated appetite with breaches reported to the Board; it is important that net returns across the whole portfolio are positive, allowing us to demonstrate appropriate stewardship of public capital.

Additionally, as part of commitment to be a responsible investor we also consider climate risk as part of our investment assessment and reporting requirements and provide climate reporting through the Task Force on Climate-Related Financial Disclosures (TCFD).

The Bank seeks to identify, measure, monitor and mitigate various investment risks in its investment decision making and portfolio management processes. This is primarily achieved by comprehensive risk assessment of the proposed investments during investment origination and active risk monitoring of the investments in the Bank's portfolio. The Investment Risk team 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.



## Theory of Change example

One of the tools we use to assess the potential impact of our investment is a Theory of Change (ToC). Below is an example of a ToC exercise. We will work with the investee to develop this depending on the parameters of the specific investment ask.

The business or project could also complete an exercise to write up their own ToC as a result of Bank investment.

### Theory of Change Case Study:

**Overview of investment:** Modulate Homes is a Scottish house building company that specialises in the design and build of high-quality energy efficient modular homes. They are seeking investment to build 200 properties (mixed tenure) as part of a wider regeneration scheme for a current brownfield site in Edinburgh. The regeneration would include landscaping of the site, installation of a playground and address acute local housing shortages.

The company has approached the Bank to seek a £6 million equity investment as part of a wider investment round of £40 million to support the construction of the properties. The plan, which has been approved by the Council, includes the build of the following types and tenure of properties:

Property type	For Sale	For market rent	Affordable housing (mid-market rent)	Social housing – linked to Housing Association
1 bed flat	–	10	10	10
2 bed flat	9	9	8	8
2 bed flat (accessible)	1	1	2	2
3 bed flat	9	9	8	8
3 bed flat (accessible)	1	1	2	2
3 bed house	25	10	5	5
4 bed house	25	10	5	5
<b>Total</b>	<b>70</b>	<b>50</b>	<b>40</b>	<b>40</b>

The modular construction, which has been successfully used in other developments across Scotland, is designed to reduce the carbon footprint of the initial build and result in energy efficient homes, with lower carbon emissions and heating bills. The design of the flats means that there will be a maximum of 4 dwellings per building and the design is tenure blind. Thereby, while each block can be effectively managed by one housing provider, the individual blocks do not have to be grouped together, and the agreed plans propose that the different tenured housing is mixed across the site to promote social inclusion.

The proposal allocates 40% of properties for affordable and/or social housing, which is higher than usual new build ratios. Modulate Homes have an agreement with a national housing association who will purchase and manage the homes allocated for mid-market rent and social housing. Another agreement is in place with an investor to purchase the homes allocated for market rent.



## Theory of Change example continued

**Impact and Mission(s)/Ambition(s) supported:** Investment in Modulate Homes primarily supports the Bank's Place mission through increasing the supply of high-quality affordable homes, with a secondary net zero impact through the reduction of emissions.

Activity	Outputs	Outcomes	Ultimate Impact
<ul style="list-style-type: none"><li>◆ Bank invests £6 million as part of £40 million funding round to enable Modulate to construct 200 new homes.</li><li>◆ The investment will set out covenants around Fair Work, EDI, GHG emissions, development of a Carbon Management Plan/Net Zero Strategy, and an ESMS – all of which will create positive impact.</li><li>◆ Bank supports Modulate Homes to demonstrate the effectiveness of its novel construction techniques.</li></ul>	<ul style="list-style-type: none"><li>◆ 200 new properties built, including 12 purpose built accessible flats – c480 people housed (2.4 average UK household).</li><li>◆ Mixed tenure housing opportunities.</li><li>◆ Jobs provided through construction and wider supply chain.</li><li>◆ Improved local area through redevelopment of existing brownfield site.</li><li>◆ Reduced emissions through energy efficient build.</li></ul>	<ul style="list-style-type: none"><li>◆ Quality housing stock in right location to meet local needs.</li><li>◆ Increased accessible housing stock.</li><li>◆ Improved employment and retention of local workers through provision of secure affordable housing.</li><li>◆ Enhanced built environment and utilisation of previously under-valued space.</li><li>◆ Improved community service provision with the addition of new park.</li><li>◆ Reduced domestic energy requirements through efficient build and running.</li></ul>	<ul style="list-style-type: none"><li>◆ Reduced homelessness and lessening of housing crisis.</li><li>◆ Increased community inclusion through mixed tenure model and provision of accessible homes.</li><li>◆ Improved health, wellbeing and employment outcomes through the provision of secure quality housing.</li><li>◆ Reduction of fuel poverty through energy efficient homes.</li><li>◆ Reduced emissions and delivery of net zero through new and improved construction techniques.</li></ul>



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