



Business Plan

Financial Year 2022/23



The
Scottish
National
Investment
Bank



This is the Scottish National Investment Bank's 2022 Business Plan, outlining the Bank's objectives and budget, with a detailed focus on the period from 1 April 2022 to 31 March 2023, which will take the Bank to the end of its first full five years of operation from launch.

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Chief Executive's Introduction

The first full year of operations for the Scottish National Investment Bank has been a year of significant progress. The Bank's team has been substantively recruited, many of its operational systems have been put in place, and since launch £194.4 million of investment has been committed across 14 mission-aligned investments in projects and businesses across the whole of Scotland.



The Bank's inaugural business plan for a first full year of operations (1 April 2021 to 31 March 2022), identified the following objectives:

- ◆ **Embracing its Missions:** putting the missions at the heart of everything the Bank does.
- ◆ **Delivering Investment:** a commitment to deploy £2 billion of public capital to be provided to the Bank for investment by Scottish Government over the first 10 years of the Bank's life.
- ◆ **Financial Management:** to manage costs within budget; and, to build the Bank's investment portfolio with mission-aligned investments, generating income to support its journey to financial self-sustainability.
- ◆ **Mission Impact Assessment & Reporting:** develop a world class investment impact assessment and reporting framework to evidence the delivery of the Bank's missions.
- ◆ **People & Culture:** to attract the talented people the Bank needs to deliver investment that supports its missions and purpose and, with them, create a culture centred around the Bank's missions that enables its people to flourish.
- ◆ **Engagement with the Ecosystem:** engaging and educating the ecosystem to enable a deeper understanding of the Bank's ambition and purpose.
- ◆ **Development of the Bank's Balanced Scorecard:** to ensure the Bank reports both its financial and non-financial reporting and stays true to its mission impact investment mandate.
- ◆ **Continued Build of the Bank:** including achieving the required regulatory status to support the growth of the Bank's investment activity and its asset management business; and the consultation and development of the Bank's equality strategy.



Chief Executive's Introduction continued

In setting these initial objectives we hoped to build the foundations of the perpetual institution that the Bank aspires to become: an institution providing investment to support the creation of a fairer, more sustainable economy in Scotland. Whilst refined, the strategic objectives for the FY22/23 business plan remain consistent to those identified last year.

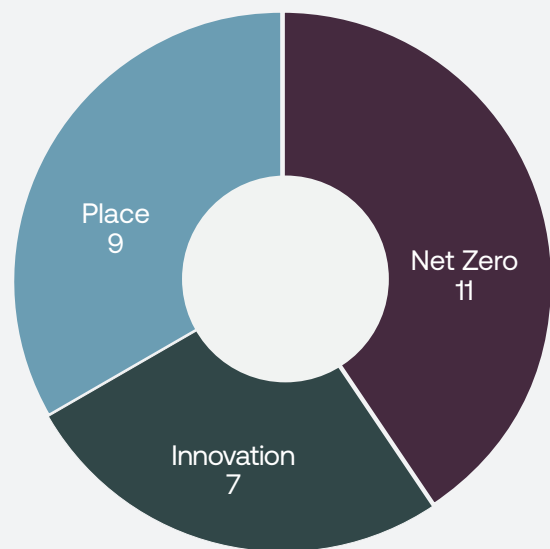
The period since the Bank's launch has been one of considerable challenge for Scotland's businesses. The pandemic, alongside more recent world events, have significantly impacted and will continue to impact the Scottish and international economies. The Bank needs to be prepared to adapt to and support the resulting changing priorities for businesses and projects connected to Scotland.

I am immensely proud of what the Bank has achieved in the last 12 months.

Since its launch the Bank has delivered 14 investments committing £194.4 million. The Bank has invested diversely and widely in the Scottish economy and across Scotland as a whole, which is key to its 'place' mission of extending equality through investing in places.

Alongside its investment portfolio, the Bank's pipeline has developed considerably and significant inward enquiry was received. We look forward to moving to more active investment origination in the coming business plan period.

**Number of investments by mission alignment
(primary and secondary)**



Correct at 31 March 2022

**Number of investments per
primary location**



Correct at 31 March 2022

The Bank's Net Zero Mission was identified as its primary mission ahead of launch and continues to be a key focus in deal origination. However, the focus on the climate emergency has only grown since the Bank's launch, not least in the follow up to COP26, and so the Bank is approaching its Net Zero Mission as a common theme across all its investments.

The Bank will therefore continue to take the impact on climate change into consideration in every investment it makes, including climate change assessment and ongoing monitoring for all investments.

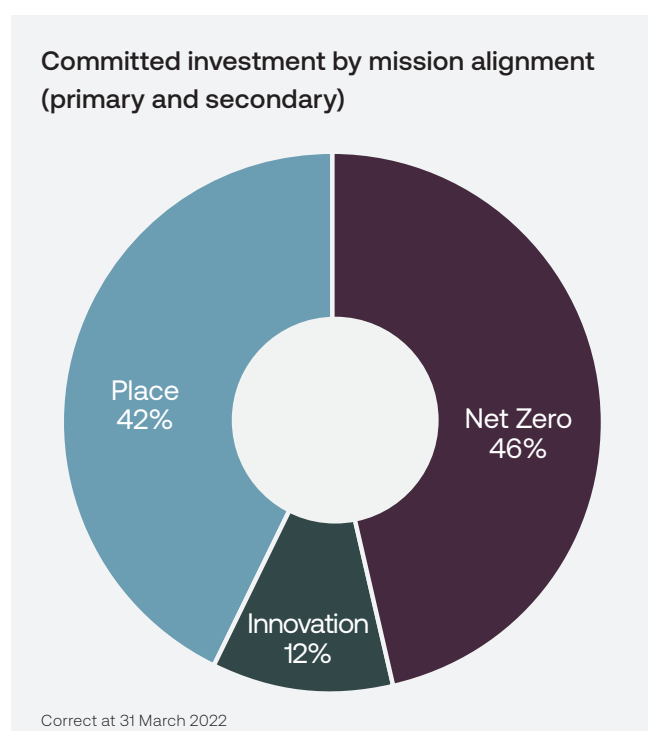
A dedicated Impact Assessment & Reporting team has been recruited. All the Bank's investments require the business or project to enable mission impacts as a condition of the Bank's investment, alongside expected commercial investment returns.



Chief Executive's Introduction continued

We will continue to develop our impact reporting capabilities alongside engaging with the wider Scottish ecosystem to share the Bank's experiences in impact investing and encourage other investors to focus on both financial and non-financial returns in their investment decisions.

Considerable progress has been made in investing in innovative and scaling businesses. The Bank has delivered direct investment from £1 million to £30 million and has co-invested alongside a number of private sector investors, crowding-in additional capital in support of the Bank's missions.



The Bank's ability to provide long-term and strategic growth capital can support Scotland's businesses to scale up and unlock additional growth in the Scottish economy. The Scottish Government's recently published National Strategy for Economic Transformation underlined the importance of developing Scotland's entrepreneurial ecosystem and the Bank's investments to date have demonstrated its ability to contribute to that development, together with its mission alignment to the strategy's ambition for a more productive and innovative Scotland.

Cost savings have been achieved through close cost management and a value for money culture together with savings from continuing COVID restrictions in the year. In combination with the investments made, this close control of costs has ensured the Bank has taken its first steps towards financial self-sustainability, which we hope to reach by the end of this new business plan period.

We have hired an outstanding team of over 60 talented individuals, all motivated by our missions and keen to make a difference to Scotland's future economy. Our newly formed team have worked closely to identify and set our values as an organisation.

The Bank has welcomed the opportunity to align our employment practises with the Fair Work principles. Establishing effective employee voice channels has been a priority including the creation of a Team Voice forum and active engagement with the growing Bank team through pulse surveys.

The Bank's Equality Strategy was developed this year with the commitment to use it in our own employment practices, through our investments and suppliers, and with the ambition to influence and encourage others to support the advancement of equality, diversity and inclusion.

We have made good initial progress in engaging with our ecosystem and establishing relationships with our partners across the public and private sector, building awareness of the Bank's purpose as a development investment bank in delivering patient capital to businesses and projects that will support the delivery of our missions as a condition of our investment. Continuing this awareness and understanding of the Bank's missions, remit and activities remains a key priority. We will focus on developing our networks, sharing the Bank's investment strategy and developing potential partnerships for collaboration and co-investment.

The Bank has begun its journey on measuring and monitoring the delivery of both its financial and non-financial impacts, centred on the balanced



Chief Executive's Introduction continued

scorecard methodology which underpins all our reporting. We produced our first Annual Report and Accounts, including details on both the financial performance and non-financial performance of initial investments made in the short period from launch to 31 March 2021.

As our portfolio grows this reporting will also grow in depth and detail, particularly as both financial returns and impact returns on patient capital investment are delivered over the long-term. This is reflected in our mission end dates of 2040 and 2045.

We made considerable progress towards achieving the desired regulatory status to support the Bank's future growth in FY21/22, and we will progress this further in the coming period. We established a robust risk management framework and all essential policies and procedures. As we move into our second full financial year we will seek to further embed and continuously improve, as it is important that the core infrastructure and systems are embedded fully before the Bank moves to the next stage of its evolution.

The Bank has been established to be a perpetual investment institution, to reinvest and recycle the initial £2 billion of public capital, that will be provided by Scottish Government over the Bank's first ten years. In order to achieve this the Bank will invest

“The Bank is well positioned to continue to build its strong foundations, and to deliver further mission-aligned investments for a successful business plan period.”

returned capital from existing investments into further Scottish businesses and projects seeking investment over the longer term. The infrastructure we have put in place will support the development of the Bank as a self-sufficient and perpetual investment fund, and further work will be undertaken in the coming business plan period to advance this.

The Bank is well positioned to embed the strong foundations it has built to achieve its strategic objectives and to deliver further mission-aligned investments for a successful business plan period in FY22/23.

Sarah Roughead
Interim Chief Executive Officer
Scottish National Investment Bank

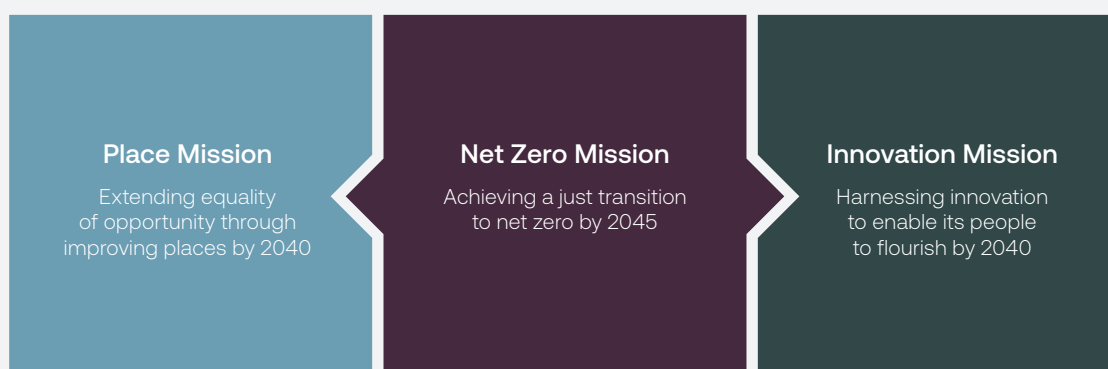


Executive Summary

The Bank is the first development investment bank for Scotland. The Bank aims to deliver patient, mission impact investment to support the development of a stronger, fairer and more sustainable Scottish economy. The Bank's core purposes are:

Mission impact investor: to provide patient, long-term investment capital to businesses and projects, that support the delivery of the Bank's missions, which in turn address the grand challenges faced by Scotland. The Bank's missions provide a clear long-term strategic direction and focus for its investment activity.

The Bank's Missions



Perpetual Investment Fund for Scotland: capitalised with £2 billion of public capital in the Bank's first 10 years, with the ambition for that capital to be recycled and reinvested over time to create a perpetual investment fund for the Scottish economy.

As a development investment bank, the Scottish National Investment Bank invests on commercial terms in businesses and projects. Over time the income it receives from its investments will enable the Bank to become financially self-sustaining, and any excess income can be invested alongside its recycled capital.

Leverage the Bank's public capital: to encourage private sector investors to invest alongside the Bank in its investments.

The Bank wants to maximise the impact of its public capital by leveraging in additional private sector investment in support of its missions. In addition to crowding-in investment from co-investors, this leverage can be achieved by investment management including managing third party private sector funds, or by potentially leveraging the Bank's balance sheet in the public debt capital markets (that will be subject to the required Ministerial and regulatory approvals). In its establishment phase, as the Bank grows and gains the required regulatory permissions for investment management, it will seek to crowd-in private capital on an investment-by-investment basis. Evidence of this can already be seen in the Bank's growing investment portfolio.

This is the Scottish National Investment Bank's 2022 Business Plan, outlining the Bank's objectives and budget, with a detailed focus on the period from 1 April 2022 to 31 March 2023, which will take the Bank to the end of its first full five years of operation from launch.



Executive Summary continued

Over this business plan period the Bank will build on the considerable progress achieved in the Bank's first full year of activity and has prioritised action in the following areas:

1. Missions and Impact

2. Investment and Financial Performance

3. Ecosystem Engagement and Insights

4. People and Culture

5. Governance and Risk

The Bank's objectives in these respects are complementary and mutually reinforcing. Delivering progress in each area is important to ensure that the ambitions of the Bank to deliver against its missions and to become a perpetual investment institution in the Scottish economic landscape are realised.

1. Missions and Impact

The Bank has been established as a mission-led investor. The missions it has been set seek to address the key grand challenges facing Scotland.

The Bank seeks to deliver impact against its missions in all of its investments. It will focus on ensuring that it not only delivers a commercial return on its investments, but that its investments will deliver positive social, environmental and economic impacts. Through its equality strategy the Bank aims to influence and improve equality and diversity in each of the Bank's investments.

Each investment proposition that the Bank has received is assessed through a mission impact lens and is aligned with the Bank's mission ambitions.

Progressively throughout this business plan period, the Bank expects to be able to demonstrate mission outputs enabled by the Bank's investment in its first five years. It will also aim to project the impacts expected to be enabled over the longer term, noting that both patient capital investment and mission impacts are delivered over the long-term and the Bank's missions are long dated to reflect this.

2. Investment and Financial Performance

The Bank has been established to invest in commercially viable businesses and projects that support the delivery of the Bank's missions and help to build a fairer and more sustainable Scottish economy. By the end of this business plan period the Bank expects to have committed at least £1 billion of investment.

The Bank aims to steadily grow the income from its investment portfolio towards the point of supporting the Bank's financial self-sustainability. The Bank will grow its income and carefully manage its costs to ensure financial self-sustainability is both achievable and sustainable for the long-term.

A core ambition of the Bank is to crowd-in additional private capital alongside its public capital. The Bank has been crowding-in private capital since its launch on an investment-by-investment basis. Over the business plan period the Bank expects to progress towards achieving the necessary regulatory permissions to crowd-in further private sector capital by managing third party capital and subject to regulatory and government permissions leverage the Bank's balance sheet.

This, alongside the recycling and reinvestment of the £2 billion of public capital committed to the Bank by Scottish Government over its first 10 years, will support the development of the Bank as a perpetual investment fund for the Scottish economy.



Executive Summary continued

3. Ecosystem Engagement and Insights

As a public development bank, the Scottish National Investment Bank occupies a privileged position. Its ecosystem spans both the public and private sectors and it is crucial that the Bank works effectively across both.

As a new institution the Bank has prioritised raising awareness and understanding of its activities amongst its ecosystem and has engaged extensively with its public sector partners in particular. This will support effective collaboration across the public sector and ensure the Bank can contribute its insights to policy and regulatory development.

The Bank will also look to widen and deepen its engagement across the private sector, building on the extensive engagement with businesses and projects through its investment origination function. The Bank will look to increase its engagement with industry on the barriers to investment, and on emerging opportunities.

In the coming period the Bank will continue to work on building its thought leadership and impact investment insight capabilities, expanding its engagement with both the private and public sectors. The Bank will become more networked, as it looks to share its insights, learn from others, and collaborate more widely.

By the end of this business plan period, the Bank expects to be well progressed on its journey to becoming a central and essential part of the private and public sector financial ecosystem in Scotland.

4. People and Culture

As a start-up organisation, the Bank is focussed on creating the right culture and values within its team to support the creation of a stable, trusted, long-term regulated institution supporting the Scottish economy.

The Bank has recruited extensively since launch and has established a number of initiatives to support the continued development of its team, the embedding of its culture and values, and to create an inspiring place for its team to flourish.

The Bank is committed to promoting equality through its own employment practices. The Bank's first Equality Strategy will be published in 2022 and will include its approach, policies and processes as an employer.

5. Governance and Risk

Realising the Bank's ambition to become a key part of the economic landscape will require the Bank to earn the trust of its ecosystem. Continuing to deliver a high standard of governance is crucial to establishing the Bank as a credible, risk-aware and regulated institution.

As a financial institution, the Bank's risk, governance and compliance frameworks are critical. The Bank has created a robust infrastructure of risk controls, processes and procedures, and will continuously improve and seek to reinforce these controls and continue to embed and promote a risk aware culture throughout the Bank's team.



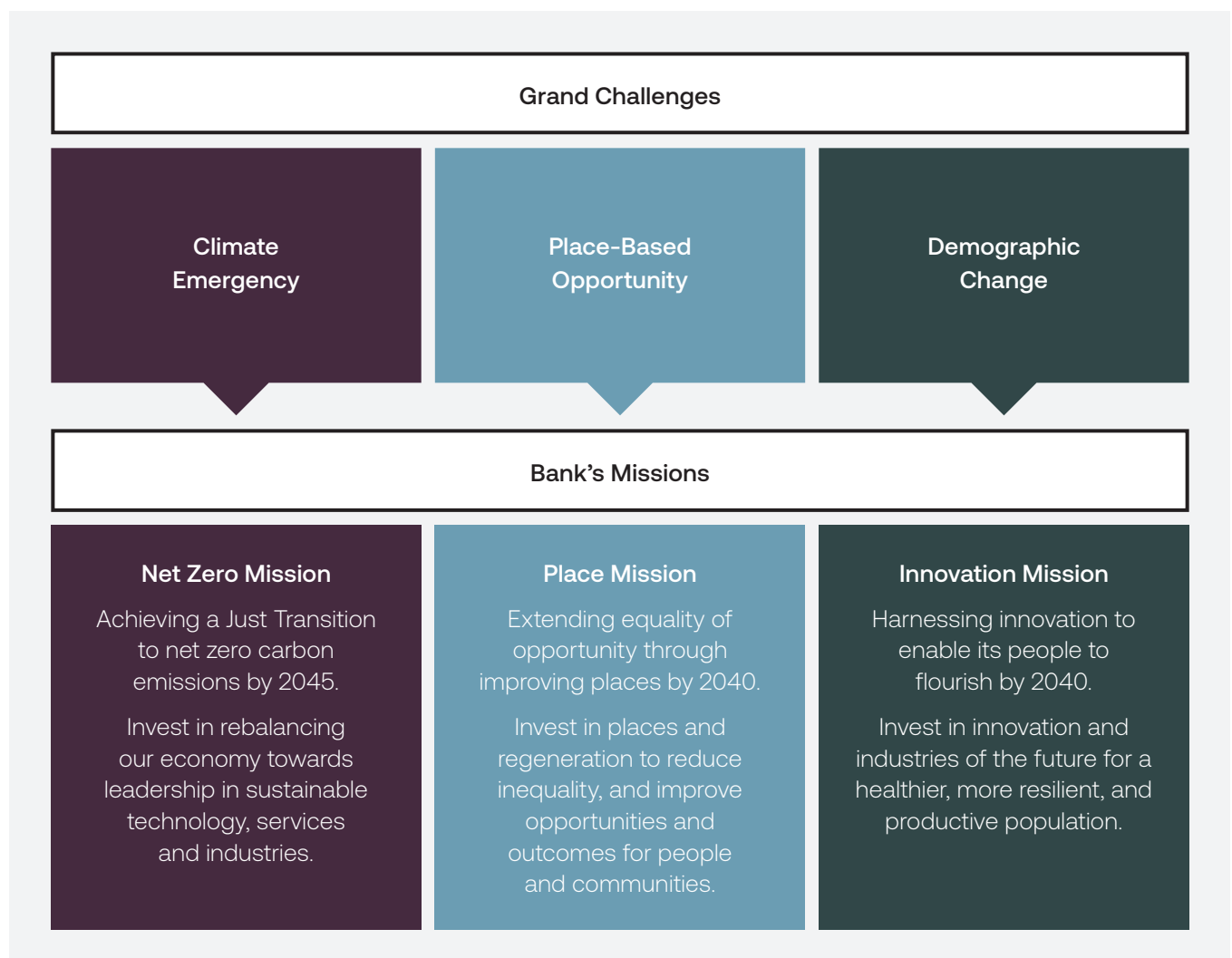
1. Missions and Impact

Established as a mission-led investor, the Bank has been set strategic missions that have been designed to address key long-term grand challenges facing Scotland.

The Bank therefore seeks to deliver impact against its missions in all of its investments. It will focus on ensuring that it not only delivers a commercial return on its investments but that its investments will enable positive social, environmental and economic impacts that support the delivery of the Bank's missions.

Each investment proposition that the Bank has received is assessed through a mission impact lens and is aligned with the Bank's mission ambitions.

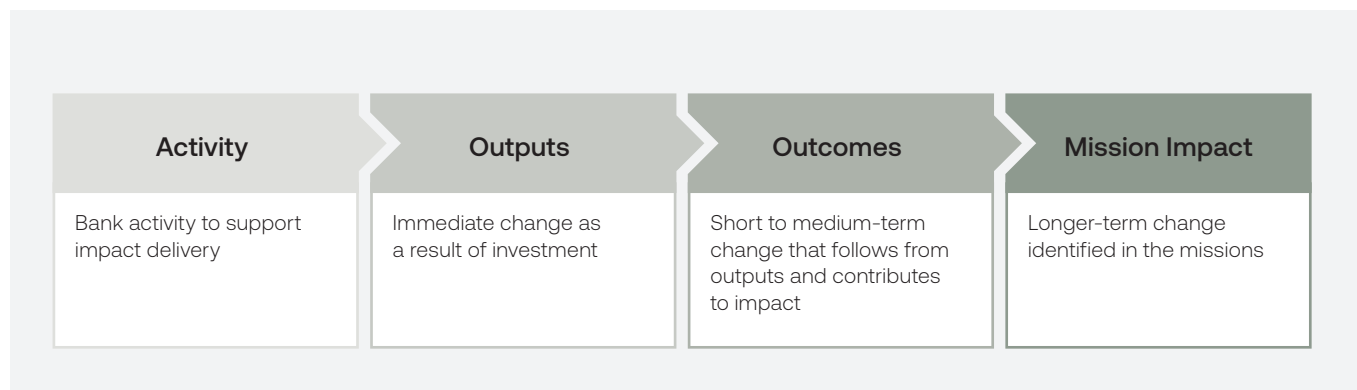
The Bank's missions are for the long-term and the Bank is taking a similarly long-term approach through its provision of patient capital. Measuring and reporting the impact of its investments is a key priority for the Bank, and a dedicated impact assessment and reporting function has been recruited.





1. Missions and Impact continued

The Bank's focus on patient capital to help solve long-term challenges means that in the early years, and across this business plan period, impact reporting data will focus on the outputs, shorter-term outcomes, and achievements of investments. This will enable the Bank to demonstrate how investments contribute to delivering the longer-term mission impact.



This framework will be used to design a set of Key Performance Indicators across each mission that can be used to identify and monitor impact and demonstrate the Bank's contribution to addressing the three grand challenges that the Scottish Government has identified.

In this business plan period, the Bank will build on the progress made to date to:

- ◆ ensure that investments are assessed through an impact lens and aligned with the Bank's mission ambitions at point of investment;
- ◆ support greater equality, diversity and inclusion, and high-quality fair employment in the investments the Bank makes;
- ◆ ensure that mission impacts are evident in the business plans and strategies of the projects and businesses the Bank invests in, holding investments to account through impact covenants as terms of investment;
- ◆ define appropriate impact performance indicators;
- ◆ track and report on progress towards the Bank's investment impacts;
- ◆ enable and support more sustainable business practices through advice and guidance to the Bank's portfolio companies; and,
- ◆ demonstrate how a focus on impact can also generate financial and commercial benefits and provide thought leadership to encourage the growth of impact investing within the wider investment ecosystem.



1. Missions and Impact continued

Assessing Mission Impact

A priority for the Bank in this business plan period is to ensure that portfolio data and reporting begins to reflect the impact trajectory that was assumed at the point of investment. Over time this information can be aggregated at a Bank portfolio level. The long-term and strategic nature of the Bank's investment means that evidence of impact will not be immediate and may take many years to become apparent. The Bank will use leverage and influence to enable the missions but these are ultimately delivered by the businesses and projects in which it invests.

Longer term priorities within the business plan period will focus on understanding and reporting on investment outcomes, the expected changes that the Bank's investment enabled, and in time will lead to portfolio impact performance. The Bank will ensure that emerging lessons are integrated into its investment pipelines and will continue to expand engagement with the local and wider global impact ecosystem.

To support the development of an Impact Framework against which investment performance can be determined, the Bank has distilled a set of 'mission impact objectives' for each of the three missions. These impact objectives have been designed to provide greater understanding of the Bank's strategic impact investment priorities. This will focus the Bank's investment origination activity and the development of an impact reporting framework that will demonstrate change as a result of the Bank's investment.

In support of these aims, key activities in this business plan period will include embedding the Operating Principles for Impact Management (OPIM) into the Bank's investment governance processes and utilising the Impact Management Project framework for each investment. The first formal external verification of the Bank's compliance with OPIM will be initiated as evidence of international good practices in impact investing.

A key priority is to work with the Bank's investees to ensure that reporting needs are fully understood, and that data and information can be provided as required in investment agreements. Impact measurement criteria will evolve over the nearer term of the business plan period. In parallel the Bank will continue to evolve the covenants and reporting requirements that it already includes in its investment agreements to optimise the Bank's leverage through the range of financial instruments it deploys.

Beyond individual investments, the team will engage external stakeholders in Scotland and more broadly to develop best practice, promote awareness of the Bank's missions and the value of impact investing.

The Bank's approach to impact assessment will be complementary to its equality's objectives. The Bank's Equality Strategy will set out its commitments to its employees and its investment activities. Fair Work principles will also underpin the Bank's expectations of its investees, and there will be a focus on improving equality and diversity in investee operations where practical.



1. Missions and Impact continued

The Bank will also move forward in its planning for a net zero portfolio, commencing its project on the Taskforce on Climate Related Financial Disclosures in FY22/23 and later in the business plan period reporting formally on these disclosures and progress towards its net zero strategy. Further detail on impact objectives can be found in the Bank's FY22/23 Mission Report.

2022-23	2023-2025	Longer term
<ul style="list-style-type: none">◆ 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.	<ul style="list-style-type: none">◆ Gather and interrogate monitoring reports, and begin sharing practices and learning.◆ Demonstrate expected outputs and indicative outcomes for individual investments, and collate performance outcomes at a portfolio level.◆ Data and performance information used to engage external interests and shape internal investment processes.◆ Creation of a stand alone impact report.◆ Implementation of TCFD and Net Zero Strategy.	<ul style="list-style-type: none">◆ As the portfolio expands and matures the Bank's ability to demonstrate outcomes against the missions increases.◆ Evidence (and attribution) of impact will become evident in the longer term.◆ Investment impact demonstrated through regular publication of impact data and investment case studies.



2. Investment and Financial Performance

The Bank has been established to invest in commercially viable businesses and projects that support the delivery of the Bank's missions and help to build a fairer and more sustainable Scottish economy.

The Bank will seek to act as a catalyst for private investment into businesses and projects aligned to the Bank's missions, creating a multiplier effect of the Bank's capital and investment into Scotland as a whole. This is referred to as 'crowding-in'.

Since its launch the Bank has delivered 14 investments, committing £194.4 million forming part of current investment rounds totalling £493.2 million in these companies and projects. The Bank will continue to build its portfolio of mission impact investments by seeking out underinvested opportunities in the Scottish market and delivering investment in commercially viable propositions where the private sector has been unable to invest.

As a development bank, the pipeline of potential and committed investments will carry a higher degree of risk than other investors, however its investment screening and due diligence processes are designed to ensure that the risks are understood and appropriately compensated for.

Establishing a strong investment portfolio will be crucial to the delivery of mission impacts, and to achieving financial self-sustainability. The Bank's objectives in this business plan period address:

- ◆ Continuing to build the Bank's investment portfolio and origination capabilities.
- ◆ Developing the Bank's investment portfolio management practices.
- ◆ Ensuring investments enable mission impact.
- ◆ Crowding-in additional investment; and,
- ◆ Progressing towards financial self-sustainability.

The Bank's investment activity is governed by its investment strategy (copy available on the Bank's website).

Continuing to build the Bank's Investment Portfolio and Origination Capabilities

In FY22/23 the Bank will seek to commit £218 million in investment and over this business plan period the Bank will aim to commit £200 million of investment per annum to businesses, projects and funds that are connected to Scotland and which support delivery of the Bank's missions. By the end of this business plan period the Bank's investment commitment will have grown to £1 billion utilising the Bank's capitalisation that Scottish Government has committed to across 2021-2026. The Bank will also reinvest the income it receives from its investments beyond that required to cover its operating costs to create a perpetual investment fund.

Investment commitment reflects the completion of new investments in the period. There can be a delay between the commitment of investment and the related drawdown of funds. This delay is driven by the nature of the investment, for example direct equity investment is most often drawn in full on day one of the commitment, project finance debt is likely to be drawn against an agreed draw profile across several years and fund commitments are likely to be drawn over longer periods for example five years with less certainty of draw profile.

As a new institution, the Bank is still developing its track record on which it can base its future investment portfolio and income assumptions both of which will develop over the course of this business plan period.



2. Investment and Financial Performance continued

The Bank will develop and expand its market engagement to support its origination of investment opportunities over the business plan period. Initial market engagement already undertaken will be built on to develop the Bank's network and support the development of the Bank as a central part of the Scottish financial ecosystem.

The Bank will seek to progressively increase the proportion of direct origination investments it makes, engaging closely with its ecosystem in doing so. Investment opportunities will be directly sourced through identifying high potential businesses and projects in need of investment to scale, and provide this investment crowding-in private capital where appropriate.

The Bank will engage more proactively with the Scottish economy and with its wider ecosystem to unlock investment opportunities and accelerate economic growth, particularly with existing investors, advisory community, industry and representative bodies, Enterprise Agencies and other public sector partners.

The Bank's public sector partners have a crucial role to play in supporting the Bank's deal flow. The Scottish Government's recently published National Strategy for Economic Transformation underlined the importance of developing Scotland's entrepreneurial ecosystem. The Enterprise Agencies in particular have demonstrated successes in supporting the development of new businesses and enabling access to seed capital. The Bank is well placed to support the growth and scaling up of businesses in Scotland which can deliver significant economic gains, including innovation and productivity growth, but which can require greater sums of investment than has previously been delivered through public sector investment. The Bank's investments to date have demonstrated its ability to support growing businesses and the Bank sees a key role for itself in unlocking further growth in the entrepreneurial ecosystem in Scotland.

Investment Portfolio Management

As a patient investor, it is a key priority for the Bank to develop its relationships with the businesses and projects it invests in. This enables the Bank to monitor the delivery of both financial and mission impact performance and can support the development of the investee's business or project. The Bank will always look to exercise its investee board observer rights and where applicable appoint an Investment Director to an investee board.

As the Bank is frequently investing in under-invested sectors or in new technologies, it often takes a higher risk than commercial banks or investors would typically take. That approach comes with expected financial losses and so the Bank has placed critical importance on the advance notice and careful management of those investments that underperform.

In FY22/23 the Bank will conduct its first survey of investees to ascertain how it is performing and identify opportunities for continuous improvement. This survey will be conducted annually to provide insight into the impact of the Bank's investment on individual investees, and the performance of the Bank as an investor.

Crowding-In

A key priority for the Bank is to crowd other investors into its mission-led investments. Attracting additional private capital will increase the volume of investment directed towards the Bank's missions, reduce its exposure to risks associated with investment, and allow its capital to be spread across a greater number of investment propositions.

Since its launch the Bank has successfully demonstrated its ability to crowd-in private capital on a co-investment basis. The Bank's investment in M Squared Lasers was delivered alongside investment from Santander, and its investment in R3 IoT was made as a part of a wider venture capital round led by US-based investor Space Capital. The Bank has also invested in external funds that



2. Investment and Financial Performance continued

are aligned to its missions, crowding-in additional institutional investment as it does so. Several of the Bank's investments in FY21/22 will also cornerstone upcoming investment raising rounds.

In this business plan period, the Bank will continue to deliver co-investment on an investment-by-investment basis. In FY22/23 the Bank will continue its project to apply to the Financial Conduct Authority for authorisation to enable the Bank to undertake regulated financial services activities, including, by the end of the business plan period, the ability to manage third party capital.

Mission Impact

The non-financial performance of the Bank's investments is of equal importance to their financial performance. To ensure that the Bank is delivering against its missions and capturing the mission impacts delivered by its investees, priorities in this business plan period will include:

- ◆ Enhancing and further integrating investment processes and governance. This will complement the Bank's work on impact assessment and reporting.
- ◆ Ensuring that the mission impact needs, and expectations of investees continue to be clearly and consistently reflected in the Bank's due diligence, investment agreements and portfolio management and reporting requirements in all the investments it makes. This will complement the Bank's investment portfolio management efforts.
- ◆ Reporting on the non-financial mission impacts of the Bank's investments. Reporting the Bank's non-financial and financial performance will be centred on the balanced scorecard approach.

These measures will help to ensure that delivery of the Bank's missions remains embedded throughout its investment activities.

Financial Self-Sustainability

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 ten 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.

The Bank is a patient capital investor, which results in a slower and longer term delivery of financial returns from most of its investment activities. The Bank invests through a range of equity, debt and fund instruments and the proportion or mix of these across its portfolio will determine the profile of the Bank's financial returns.

The Bank currently requires Scottish Government resource capital to support its operations during its start-up phase. Income derived from the Bank's investment activity will support the medium-term goal for the Bank to be financially self-sustaining. In the longer-term, income in excess of the Bank's operating costs will be invested alongside its public capital, supporting further investment towards the delivery of the Bank's missions.

In this business plan period the Bank aims to become financially self-sustainable through efficient income generation and cost management. The Bank will focus on building an investment portfolio in which annual investment income received covers annual operational expenditure; thereby significantly reducing the need for government support to operate the Bank over the business plan period.

Achieving financial self-sustainability will be a key milestone in the development of the architecture of the Bank. As financial self-sustainability is achieved the Bank's ambition is to seek classification as a public financial corporation allowing for greater flexibility in managing government budgets for investment across years and leveraging the Bank's balance sheet to further crowd-in private capital.



2. Investment and Financial Performance continued

In this business plan period the Bank will:

- ◆ Focus on building the Bank's investment portfolio with quality patient capital, mission impact investments, which are expected to generate income on a commercial basis.
- ◆ Seek out underinvested risk in line with its role as a development bank to cornerstone investments. In investing in this risk, the Bank will seek suitable compensation for the level of risk it is taking, noting investments can both outperform and underperform the investment cases considered at the time of investment. The Bank accepts that high risk investment will lead to financial volatility and that there may be losses and write-downs from its investments.
- ◆ Set a projected target rate of return which the Bank's investment will seek to exceed across its portfolio.
- ◆ Aim to generate sufficient fee and interest income to support operational costs by the end of the business plan period.
- ◆ Embed strong controls around expenditure and promote a value for money culture to ensure operating costs are within budget throughout the business plan period and beyond.
- ◆ Develop the supporting infrastructure necessary and apply for the required regulatory permissions to raise and manage third party capital.

The Bank is a new institution and is developing its track record on which to base its future investment portfolio and income assumptions. At this point in time it is more challenging for the Bank to predict returns and, as a result, actual income versus predictions included in the business plan financials on page 18 have the potential to vary greatly.

Total investment is typically measured by commitment, whereas annual government budgets are measured on capital drawn. The timing of capital drawdown will vary depending on the requirements of the business or project and may run across financial years. The capital for investment budget in a year will therefore include amounts drawn for new investment commitments, and to satisfy drawdowns from prior year commitments. The investment mix and deployment of capital will be closely monitored as the Bank's track record and portfolio develops.



2. Investment and Financial Performance continued

The Bank has profiled its budget on receiving capital for investment of £200 million per annum in line with Government guidance on the expected deployment profile of the £2 billion committed by Scottish Government to the Bank over its first 10 years.

Business Plan Budget £m	Budget FY21/22**	FY22/23	FY23/24	FY24/25	FY25/26
Capital Committed	200	218	212	202	199
Capital Drawn - Capital for investment allocated from Scottish Government	200	205	200	200	200
Investment Income	3.0	11.8	20.6	25.8	32.2
Operating Expenditure					
Employee costs*	(9.0)	(9.8)	(11.7)	(12.6)	(13.1)
Non-employee costs	(7.0)	(5.0)	(7.0)	(7.2)	(7.9)
Total operating costs	(16.0)	(14.8)	(18.7)	(19.8)	(21.0)
Operating (loss)/profit	(13.0)	(3.0)	1.9	6.0	11.2
Net investment unrealised gains and losses	-	(3.2)	(6.2)	(7.5)	(6.3)
Net (loss)/profit before tax	(13.0)	(6.2)	(4.3)	(1.5)	4.9

Scottish Government ('SG') Resource Budget Requirement	Budget FY21/22**	FY22/23	FY23/24	FY24/25	FY25/26
Net (loss)/profit before tax	(13.0)	(6.2)	(4.3)	(1.5)	4.9
Less: Capitalised Interest included in Investment Income	(1.0)	(5.9)	(9.5)	(7.9)	(6.8)
Add: Net investment unrealised gains and losses	-	3.2	6.2	7.5	6.3
Adjusted Net (loss)/profit before tax for SG Budget Reporting	(14.0)	(8.9)	(7.6)	(1.9)	4.4
Forecast SG Resource Budget Requirement	14.0	8.9	7.6	1.9	0.0
Net profit before tax after forecast SG Resource Allocation	0.0	0.0	0.0	0.0	4.4

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

*Employee costs include full package remuneration, National Insurance and pension contributions.

**Non-cash P&L items were excluded from the resource (RDEL) budget in prior year, accounting treatments have been clarified in year and these balances are now included in resource budget. These have been reflected in employee costs for FY21/22 for consistency. Operating profit and loss was stated excluding capitalised interest in prior year and has been adjusted above for consistency.



2. Investment and Financial Performance continued

2022-23	2023-2025	Longer term
<ul style="list-style-type: none">◆ Commit £218 million to mission aligned investment.◆ Control costs within allocated budgets.◆ Survey of investee companies.◆ Continue to crowd-in co-investment.◆ Seek regulatory permissions to further support crowding-in of investment.	<ul style="list-style-type: none">◆ Reach total of £1 billion of committed investment.◆ Command sufficient investment income to cover operational costs and control costs to meet financial self-sustainability.◆ Develop relationships with investees to support mission impact delivery, and development of investee companies.◆ Continue to build portfolio of mission-impact investments.◆ Seek regulatory permissions to support management of third party capital.	<ul style="list-style-type: none">◆ Commit £2 billion of mission aligned investment.◆ Recycle investment returns in next generation of businesses and projects.◆ Become financially self-sustaining and explore public financial corporation status.◆ Manage third party capital and leverage the Bank's balance sheet.



3. Ecosystem Engagement & Insights

The Bank has a wide range of stakeholders that it seeks to interact with proactively. These include its shareholder, other public sector agencies, governmental departments and private institutional investors alongside the Bank's engagement with civic society, and its work with businesses, projects and other investors.

In its first full year of operations the Bank has begun to build its relationships with its ecosystem and its key partners. Extensive engagement has taken place to raise awareness of the Bank's missions, remit and activities, and to set the basis for long-term, productive collaboration.

In this business plan period, the Bank will build on this base of engagement to deepen its relationships with its key partners, and to establish the Bank as a central part of the Scottish investment landscape for the long-term.

In this regard the Bank's objectives in this Business Plan period address:

- ◆ Raising awareness and understanding of the Bank's missions, remit and activities.
- ◆ Establishing the Bank's place in the ecosystem; and,
- ◆ Developing and sharing Bank insights.

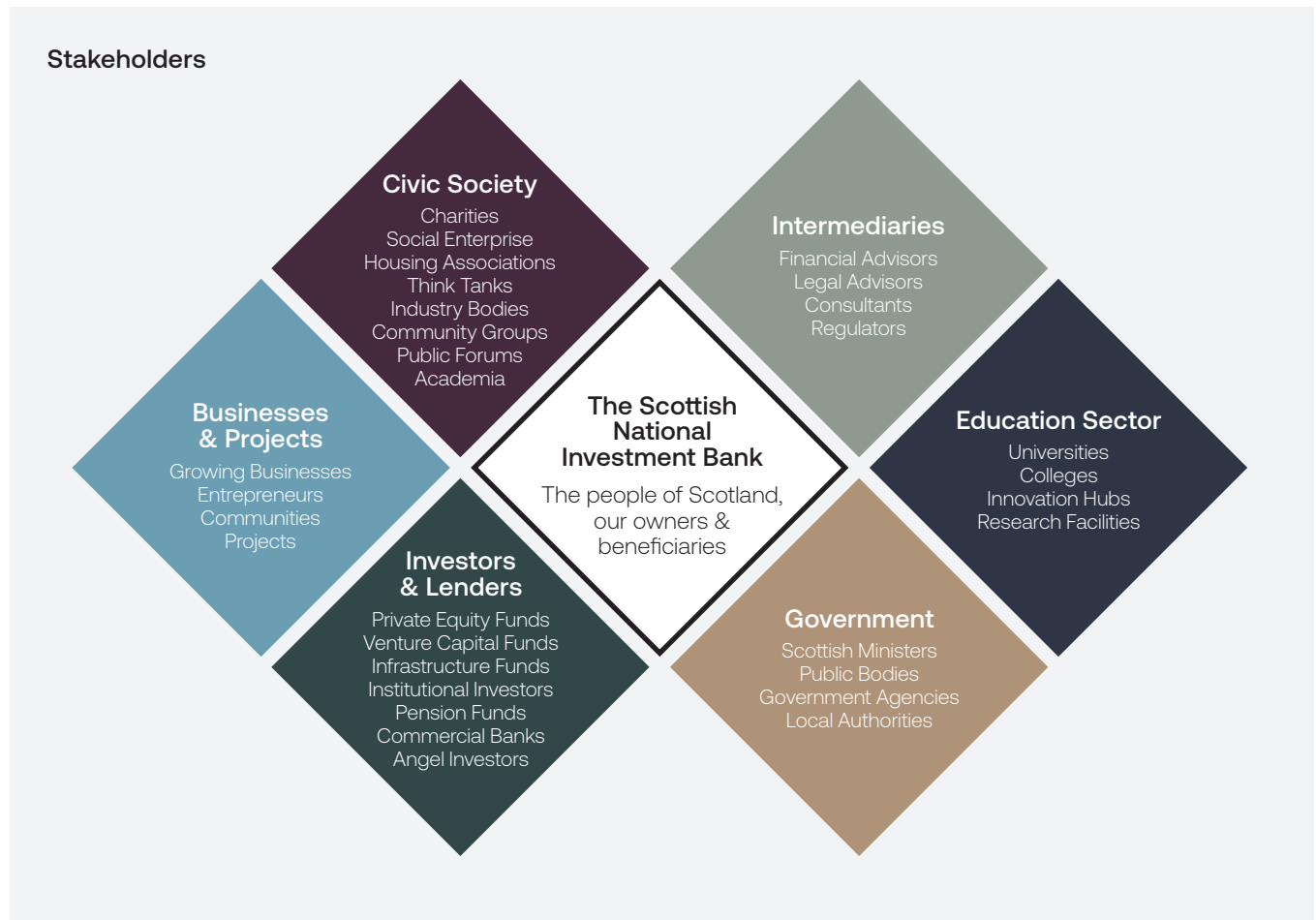
Raising Awareness and Understanding

As a new institution, and as the first mission-led development bank established in Scotland, it is imperative that the Bank's missions, remit and activities are understood by its ecosystem. This both supports the Bank's origination function and develops opportunities for productive collaboration with the Bank's public and private sector partners.

Further developing these relationships in this business plan period will help to ensure the Bank's investment is best targeted where it can maximise its impact upon its missions, and is complementary to the existing investment ecosystem. The Bank will continue to communicate its missions and scope of activities both through direct engagement and, increasingly, through its interactions with the media and attendance at conferences and events. The Bank will particularly seek to further develop relationships with key media partners, tailoring its approach to ensure it reaches its key stakeholder groups.



3. Ecosystem Engagement & Insights continued



As the portfolio grows further, the Bank will share the stories of its investments to help catalyse further investment, driving insights and sharing learnings across the ecosystem about the Bank's activities.

In addition to deepening and extending its engagement with its ecosystem across Scotland, the Bank will also look to raise its profile amongst investors and partners in other localities, supporting its work to crowd-in further investors into the Scottish investment ecosystem.

Establishing the Bank in the Ecosystem

In the period since launch the Bank has targeted engagement across Scottish Government and other public sector partners. As a new body in the public sector landscape, it is important that the Bank develop

relationships necessary to ensure that businesses are supported efficiently and effectively across public sector bodies, and that the Bank is able to contribute its insights to policy and regulatory development.

Engagement has taken place with a wide range of Scottish Government teams and public bodies to ensure key policymakers, and those engaged in business support, are aware of the Bank's missions and the investment it can offer. The Bank has similarly engaged with UK wide bodies including the British Business Bank and the new UK Infrastructure Bank. In FY22/23 the Bank will deepen and further expand that engagement, particularly focussing on increasing its engagement with local authorities across Scotland and UK Government departments on reserved issues.



3. Ecosystem Engagement & Insights continued

The Bank will also look to widen and deepen its engagement across the private sector, building on the extensive engagement with businesses and projects through its investment origination function. The Bank will look to increase its engagement with industry on the barriers to investment, and on emerging opportunities.

The Bank will also use these engagements to deepen industry's understanding of the Bank's role and approach to mission-based investment. The Bank is keen to develop relationships across the investment landscape, with the Bank committed to engaging further with Banks, Private Equity, Venture Capital and Angel Networks, amongst others. The Bank is already a member of Scottish Financial Enterprise, Scottish Council for Development & Industry and Black Professionals Scotland. It is the Bank's ambition to become more networked, as it looks to share insights, learn from others, and collaborate more widely.

The Bank is increasingly engaged in sharing its insights with Scottish Government policymakers and other contributors to thought leadership across civic society and the private sector. The Bank has been represented in key networks such as the Green Heat Finance Taskforce and the Financial Services Growth and Development Board. In addition, the Bank will continue to informally engage directly with government teams on issues of policy and regulation. The Bank is well placed to inform policymakers of business concerns and the application of policy and is equally well placed to advise businesses of upcoming policy.

As a development bank, the Bank's remit is to support the development of new markets that are supportive of its missions. Therefore, having a clear view of policy and regulatory decision-making is key to ensuring that the Bank can deliver its mission impacts. The Bank retains its operational independence in its investment decision-making but will engage productively with government at the level of policy and regulatory development.

Finally, the Bank will continue its engagement with the Scottish Parliament. As a public body the Bank has a responsibility to engage with the Scottish Parliament to support it both in its scrutiny of the Bank, and in its consideration of policy and regulation. In the last year the Bank has met with several of the Parliament's Committees and has provided written evidence on UK legislative developments and in response to Scottish Parliament inquiries. The Bank will continue to engage across the Scottish Parliament and its Committees in FY22/23.

Developing and Sharing Bank Insights

The Bank will grow and develop the provision of insights into its mission impact investment activities, supporting government in the development of policy and regulation, and leading others to invest alongside the Bank to support the delivery of its missions, and thereby addressing the identified grand challenges of the Scottish economy.

In this business plan period the Bank will establish itself as an insightful, credible and trusted investment institution in both the private and public sectors by building effective relationships, collaborating across the ecosystem, and developing market engagement through its insight publications.

The Bank will also work with other public development banks and commercial financial institutions to identify opportunities and key learnings from others. These collaborations will amplify the impacts of the Bank's, and the wider ecosystem's, work in addressing the grand challenges to which the Bank's missions are directed, noting that the Bank alone cannot deliver the missions and it has a role to play in supporting and partnering with others in addressing Scotland's grand challenges.



3. Ecosystem Engagement & Insights continued

2022-23	2023-2025	Longer term
<ul style="list-style-type: none">◆ 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.	<ul style="list-style-type: none">◆ Established policy and insights function supporting regular engagement and collaboration with stakeholders and provision of insights to market, policymakers and regulators.◆ Direct engagement with policymakers and regulators on policy and regulatory development.◆ Strengthened coordination across the public sector to deliver seamless business support.◆ Widen and deepen its engagement across the private sector.◆ Through engagement with private sector, increase understanding of barriers to investment and emerging opportunities.	<ul style="list-style-type: none">◆ The Bank is a trusted partner in the investment ecosystem.◆ The Bank has a positive reputation as a collaborative partner.◆ The Bank is recognised as a valuable source of expert insights.



4. People & Culture

Since its launch the Bank has recruited extensively and has put in place a talented and experienced team who are passionate about the Bank's purpose and missions. In this business plan period the Bank will continue to develop initiatives to enable it to deliver its long-term objectives; and to ensure it has diverse talent with the right skills, capability and support to achieve its aims.

The Bank has adopted the principles of Fair Work and will continue to develop its policies and processes accordingly to provide fair and equal opportunity in all aspects of employment, including remuneration, recruitment, and training and development.

Having the right environment and enabling the team to deliver will be fundamental to the Bank's success and will therefore remain priorities for the Bank in FY22/23.

Equality

The Bank is committed to advancing equality for all as a role model and influencer. The Bank's Equality Strategy will be published in the first year of this business plan period. It will set out the Bank's commitment to improving equality through the Bank's employment practices, its investment activity, and to encourage the businesses and projects the Bank invests in and its suppliers and partners to focus on improving equality and diversity in their own businesses.

Implementing the plan to deliver the Bank's Equality Strategy and equality outcomes will be a priority for the business plan period, including:

- ◆ Developing partnerships with experts to bring insights and best practice into the Bank.
- ◆ Assessing the Bank's employment practices identifying opportunities to improve.
- ◆ Providing a flexible and supportive environment which is led and championed by inclusive leaders.
- ◆ Measuring and monitoring progress to provide insight and continuous improvement.
- ◆ Continuing to develop the Bank's employment practices in line with the Fair Work principles.

Investing in our Team

In the first year of this business plan period the Bank will continue to develop a high performing and engaging culture to deliver excellence. The Bank will deliver this:

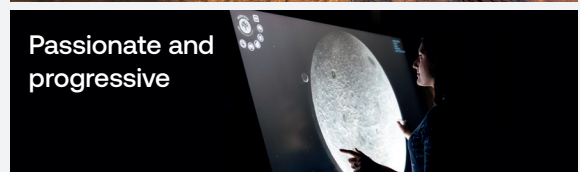
- ◆ Through clear objectives aligned to its business plan, and training its people managers on effective performance management. The Bank will develop further internal communication channels for transparency and inclusion, embed the Bank's Team Voice forum and seek regular feedback through people surveys.
- ◆ By bringing to life the Bank's core values and behaviours in all that it does, embedding its values and behaviours through the Bank's recruitment, performance and reward practices and assessing the health of the Bank's culture through its Team Voice channels.

Our Values

**Missions
at its heart**



**Passionate and
progressive**



**Working in
partnership**





4. People & Culture continued

- ◆ By identifying and encouraging continuous learning and development to meet the needs of individuals and the Bank, including through regular development planning discussions to agree individual development goals and by equipping people managers with the skills and resources to provide feedback, coaching and support to succeed.
- ◆ Through investing in the health and wellbeing of its people, providing resources and support to help individuals be at their best in and out of work, increasing awareness of wellbeing and mental health issues, and developing people managers to proactively support team members.

2022-23	2023-2025	Longer term
<ul style="list-style-type: none">◆ 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.	<ul style="list-style-type: none">◆ Executing the plan to deliver on the Bank's Equality Strategy and Equality Outcomes.◆ Continue to develop a high performing and engaging culture through transparent and inclusive communication channels.◆ On-going learning and development to meet the needs of individuals and the Bank.◆ Investing in the health and wellbeing of its people.	<ul style="list-style-type: none">◆ The Bank is a role model for achieving Equality in Scotland and making positive impact through its Equality Strategy.◆ The Bank has created a great place to work and is able to recruit and retain the skills and expertise needed to deliver its missions through lived values and purpose.



5. Governance and Risk

The Bank is committed to high standards of governance and compliance with all relevant regulatory requirements. Being able to demonstrate best in class governance and compliance practices is fundamental to the Bank's reputation and long-term sustainable success. Realising the Bank's ambition to become a key part of the economic landscape for years to come will require the Bank to earn the trust of its ecosystem. Delivering a high standard of governance is crucial to that, and a key component of that will be establishing the Bank as a credible, risk-aware and regulated institution.

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Having robust and transparent standards is also fundamental to the willingness of third parties to engage with the Bank for investment, and in the future asset management of third-party capital.

Through engagement, the Bank will further develop stakeholder trust and confidence in its professional and governance standards. Across the business plan period the Bank will ensure that high standards of governance are consistently met and maintained to support the delivery of the Bank's purpose, strategy and values.

To ensure the Bank continues to improve and demonstrate progress, it has developed a balanced scorecard framework linking the Bank's wider reporting obligations, both financial and non-financial.

Risk Aware Culture

As a development bank, the Bank is exposed to many risks in carrying out its mission-led investment activity. These risks were identified ahead of launch and risk management is an ongoing activity for the Bank. To enable the effective implementation of its wider Investment Strategy and to protect itself and stakeholders, the Bank has established a transparent risk governance structure, operating the 'Three Lines of Defence' model.





5. Governance and Risk continued

Embedding a 'Risk Aware Culture' within the Bank team will continue to be a key priority in the business plan period. The Bank has hired a number of key individuals with the requisite experience to support the further development and embedding of this framework during the business plan period.

The Bank has put in place a comprehensive Risk Management Framework (RMF) and will continue to refine and develop this as it grows. The RMF serves to categorise and identify the key risks to the Bank as a business and the processes and procedures, as well as information flows, which underpin the successful mitigation of those risks alongside the risk inherent in the investments the Bank makes and its investment portfolio, as a whole i.e., investment risk.

Across its first full year of operations the Bank began the process of embedding its approach to risk. All areas of the RMF and supporting policies will continue to be reviewed and revised. In addition, appropriate risk management data, including the identification and reporting of operational incidents, will be developed, captured, refined, and reported during FY22/23. This will allow the key risk indicators to be quantified and reviewed as the data builds.

The Bank conducts thorough due diligence on all its potential investment opportunities. Due diligence involves assembling and analysing all available information on an investment, including legal, financial, technical, market and insurance checks.

As a development bank, the Bank naturally assumes a higher level of investment risk than most private sector investors as part of its activity, recognising that excessive risk taking and poorly managed risks can lead to losses and reputational damage for the Bank and the shareholder. In the business plan period, the Bank will:

- ◆ Ensure the investment portfolio takes into consideration and reflects: the risk appetite of the Bank; mission alignment; geographical diversity of investment location across the whole of Scotland; the fund, debt and equity investment portfolio mix strategy; risk rating profiles; and concentration risk.
- ◆ Ensure a risk aware culture is evident across the whole of the Bank, ensuring that the whole team recognises that they have a contribution to make to reporting and managing the risks the Bank accepts as part of its operations, as identified in the RMF and a strong working knowledge of the RMF is embedded within the team.
- ◆ Embed best practice with regards to the investment assessment, approval and post-close investment management processes whilst providing expert judgement and oversight to ensure the satisfactory analysis and interrogation of information upon which the Bank's investment committees can base an informed investment decision and on which investments are continuously monitored.
- ◆ Contribute to the building of the investment portfolio with a view to achieving an appropriately balanced and well-diversified range of investments whilst recognising that:
 - In the early years of the Bank's development, individual investments will necessarily have a higher impact on concentration levels until the time that a larger established portfolio has been built. This means that the underperformance of any individual investment in the Bank's initial few years will have materially more impact on the Bank's portfolio as a whole.
 - As a development bank, the Bank will naturally have a higher risk appetite than other investors and the Bank's growing portfolio and portfolio performance will reflect this increased risk.



5. Governance and Risk continued

While a comprehensive range of structures, policies and systems are in place, it is important that the Bank builds on the progress made and continues to develop its corporate governance and compliance frameworks to effectively and efficiently support the delivery of the Bank's long-term objectives and priorities, ensuring its reputation is that of a trusted and well-managed financial institution.

2022-23	2023-2025	Longer term
<ul style="list-style-type: none">◆ 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.	<ul style="list-style-type: none">◆ Key risk indicators reviewed and refined over period.◆ Risk Aware Culture fully embedded into the Bank and moved to a business as usual basis.◆ Regulatory FCA approval granted to manage third party capital.	<ul style="list-style-type: none">◆ Reputation of the Bank established as a trusted and credible financial institution.



Concluding Comments

The ambitions and strategic objectives of the Bank remain consistent to those presented in the inaugural business plan and continue to reflect the early stage of the Bank's life. The team's focus will be to continue to build on the Bank's first year's achievements and to embed frameworks, processes and relationships throughout the new business plan period.

This business plan will enable the Bank to continue its path to delivering the long-term strategic objectives of its missions through investment to address the persistent grand challenges identified for the Scottish economy.

The Bank's objectives are ambitious and progressive with mission impact being a consistent focus in all that it does. There is much to deliver in this business plan period and the work the Bank undertakes now will lay many of the foundations for it to become a perpetual investment fund and a key part of the investment ecosystem for years to come. Working in partnership, the Bank team believes the strategic objectives outlined here will support the creation of a fairer, more sustainable and more innovative Scotland.