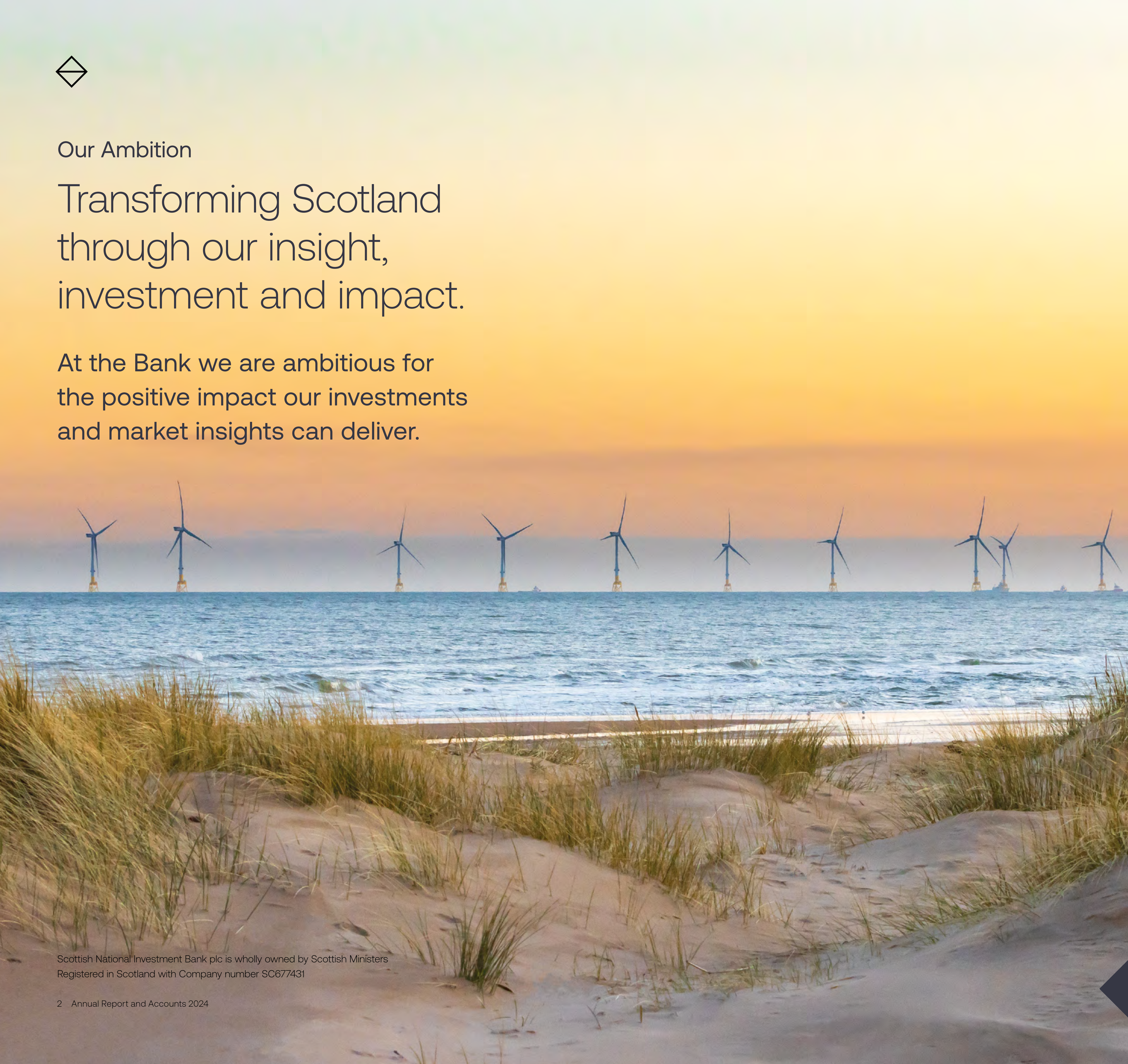
The Scottish National Investment Bank plc

Annual Report and Accounts 2024

Company number SC677431



Our Ambition

Transforming Scotland through our insight, investment and impact.

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

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

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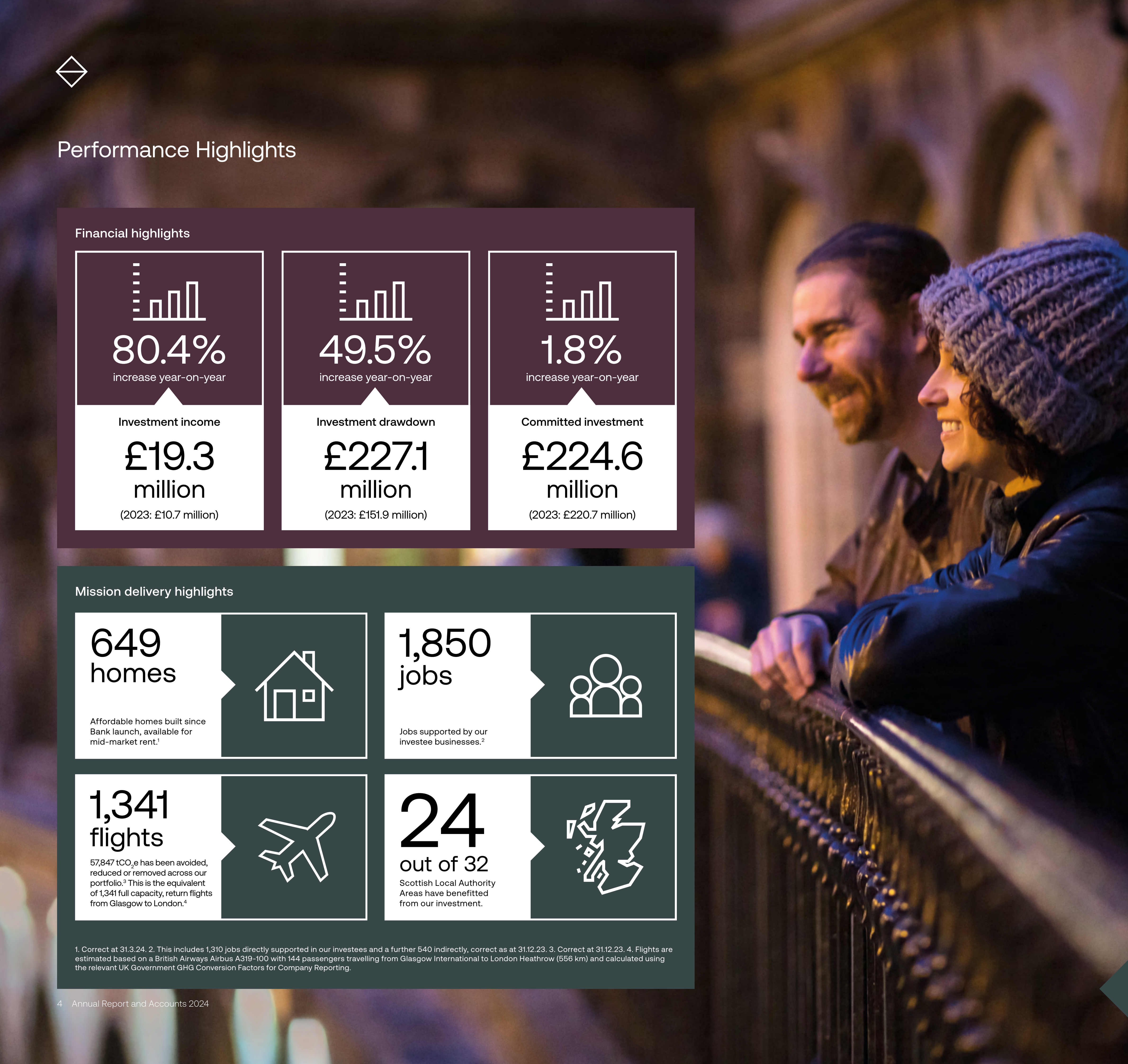


Strategic Report

Performance Highlights

Financial highlights

80.4% increase year-on-year	49.5% increase year-on-year	1.8% increase year-on-year
Investment income	**Investment drawdown**	**Committed investment**
£19.3 million	£227.1 million	£224.6 million
(2023: £10.7 million)	(2023: £151.9 million)	(2023: £220.7 million)

Mission delivery highlights

649 homes

Affordable homes built since Bank launch, available for mid-market rent.[1]

1,850 jobs

Jobs supported by our investee businesses.[2]

1,341 flights

57,847 tCO_2e has been avoided, reduced or removed across our portfolio.[3] This is the equivalent of 1,341 full capacity, return flights from Glasgow to London.[4]

24 out of 32

Scottish Local Authority Areas have benefitted from our investment.

1. Correct at 31.3.24. 2. This includes 1,310 jobs directly supported in our investees and a further 540 indirectly, correct as at 31.12.23. 3. Correct at 31.12.23. 4. Flights are estimated based on a British Airways Airbus A319-100 with 144 passengers travelling from Glasgow International to London Heathrow (556 km) and calculated using the relevant UK Government GHG Conversion Factors for Company Reporting.

Chairman's Statement

The Scottish National Investment Bank has now been operational for over three years. This set of Annual Report and Accounts reflect the first year that Al Denholm has been our Chief Executive Officer and has been a year of clear and demonstrable achievement and progress.

The Bank was established to drive growth in the Scottish economy through addressing three 'grand challenges' facing our society – the climate emergency, community inequalities, and the requirement to enhance productivity through greater commercial innovation. These challenges are as critical now as they were when we launched. Arguably, the need to drive economic growth has become even greater as factors such as inflation and the cost of living crisis have made life more difficult for many. Our growing portfolio of investments – up to 35 at the end of Financial Year 23/24 (FY23/24) - and perhaps even more importantly, the private sector financing that we have enabled to be invested alongside our own capital, demonstrate how we are supporting economic growth through investing in businesses that can transform the society we all live in.

Our approach to investment is unique within the Scottish investment ecosystem. We invest as an impact investor, meaning we seek real, demonstrable, quantifiable, progress towards our missions whenever we invest. It also means that we invest on commercial terms, agreeing appropriate risk-adjusted returns, providing value for the public capital that has been entrusted to us. Finally, we invest where we can see that our activity can drive investment from others, in particular the private sector. This can be as a co-investor alongside us, or as we help to create new markets to enable future investment. We do all of this with businesses and projects that align to our missions, so play a role in helping to create a future economy that has evolved to meet the needs of the world in which it operates.

Our missions continue to drive everything we do and are designed to reflect key challenges facing Scotland. They are:

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

Our missions were devised to be intentionally sector agnostic, and we have invested widely against a range of factors. Our diversified portfolio of investments is published on our website, and this highlights that as well as investing in many sectors, we have invested across Scotland. We have also invested in businesses at the early stage of achieving their ambition to achieve global scale, through to infrastructure that can enable broader future growth. Our ability to invest across asset classes, including equity, a range of debt solutions and in helping to establish new funds, has given us the flexibility to deploy our capital in structures where it can be most effective.

FY23/24 was the first year where our income (£19.3 million) exceeded our operational expenses (£16.1 million) and we were profitable, excluding capital losses. This was significant but we are conscious that in our early years this remains sensitive to the mix of investments, continued deployment, and availability of capital to invest. This acceleration towards profitability has been built on all of the work of the Bank since launch, with our income growing substantially year on year. A major factor in driving this was the clarity provided by Scottish Ministers at the time of our founding. The commitment to capitalise the Bank with £2 billion over 10 years was extremely important in communicating to the market the scale we were tasked with achieving.

Like many in receipt of taxpayer-funded capital, we see the significant value in moving to an approach where we agree multi-year budget settlements rather than the more restrictive annual budgeting cycle. The Bank was conceived as a perpetual institution that would reinvest investment returns for the people of Scotland. We need to make this structure a reality. Finding a solution to these challenges is my number one priority for the year ahead.

The portfolio of businesses in which we have invested includes some of the most exciting companies in some of the most exciting sectors across the Scottish economy. The portfolio page on the Bank's website (www.thebank.scot/portfolio) demonstrates the breadth of creativity on display. Businesses developing these innovative, new-to-market solutions have historically found the Scottish investment ecosystem somewhat paradoxical. There have been multiple sources of grant funding and early-stage seed funding to enable these businesses to launch, but the lack of growth funding has stunted their ability to scale. Our role is to identify these businesses and to provide this growth capital and in doing so to increase the propensity of the private sector to invest. In many cases private sector investors will see the value and potential of these businesses, but the definition of their risk appetite sometimes restricts their ability to invest. We have been pleased to see how our 'key stone' funding can help build a funding arch that spans from early-stage capital through to full commercialisation.

As we look to the future, our ambitions are to build on this role, going beyond enabling others to invest alongside us and creating new markets. In the medium term, we hope to be in a position to provide formal advice on the deployment of institutional capital and – further in the future – to manage the capital of other organisations alongside our public capital. As we extend into these additional roles, we will help to accelerate both economic growth and the realisation of non-financial benefits.

The combination of our investment activity with additional resources from the private sector will ultimately drive material change – supporting both dynamic economic growth through the commercial success of our investees and progress towards our missions – by achieving our quantified impact targets.

I am very proud of the skilled and dedicated team we have built across the Bank and of the positive role that the Board plays. The Board of Directors has been delighted to welcome Gary Page as a new Non-Executive Director, providing additional skills and experience. Over this past year I have been delighted to extend my term as Chair of the Board, and am excited about the future of the Bank.

Willie Watt
Chairman

Chief Executive Officer's Review

For FY23/24 the Bank has built on the momentum that has been growing since launch. From that launch in November 2020 to the end of our financial year in March 2024, we have committed c.£640 million of investment capital. £225 million of this was in the last financial year alone, ahead of the target we set out in our Business Plan of £211 million. We now have a portfolio of 35 investments, and we have agreed follow-on investments to 14 of these, providing the growth capital required for these businesses to accelerate towards scale.

As well as the commitments we have made, we have also deployed significantly more capital than in previous years. As a development Bank, when we make investment commitments, these are typically drawn down over a number of years, providing funds when they are required by the investee, while prudently managing our risks. In FY23/24 we deployed £227 million, up from £152 million in the previous financial year.

Beyond our own capital, the £640 million we have committed has also enabled a further c.£1 billion to be invested alongside the Bank, accelerating both economic growth and progress towards delivering our missions.

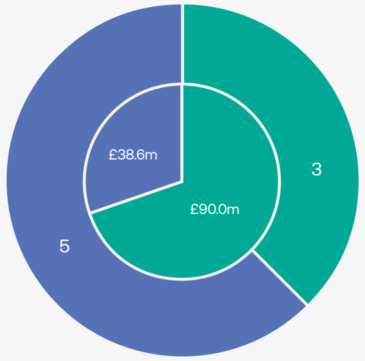
Our missions continue to drive everything that we do. Over the year we have continued to review how we define, and more importantly quantify, our progress towards these missions. A summary of that work is set out later in the document (page 11), with details provided in the Impact Report we published earlier in the year. In addition, we commissioned BlueMark, a leading provider of impact verification services, to independently review our approaches. Their review concluded that our impact management is on par with or more advanced than our peers.

Our investments drive both economic impact and progress towards our missions. They also continue to span the length and breadth of Scotland. We support businesses from the Highland and Islands down to the Borders, and from east coast to west coast. We support businesses still at relatively early stages, such as EnteroBiotix that has potentially life saving treatment entering clinical trials, to community-defining infrastructure developments such as the revived port at Ardersier. You can see how we have invested to support our three missions in the charts opposite.

For the year ahead we must continue to build on the successes of this year. As set out in our Business Plan, we have less capital to invest in FY24/25 than we did for the year covered in these results. This will require us to be more focused, prioritising the opportunities that can maximise progress towards our missions and that are likely to attract additional capital from other investors, while ensuring an appropriate return.

To complement our investment activity, we will build out our role in supporting the development of new markets. As part of this we will work across our ecosystem to identify opportunities that align to our missions and where we can see significant potential for both positive impact and commercial returns that is not currently being realised. Enabling these opportunities to become investable may require us

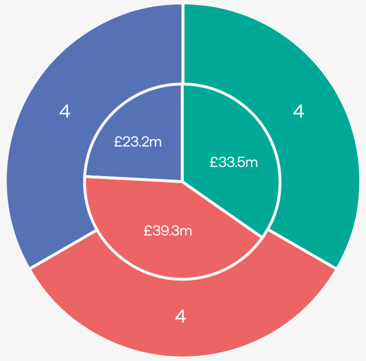
FY23/24 Committed Investment in New Companies



Total investment (£ million) and no. of investees by primary mission.

Net Zero
Innovation

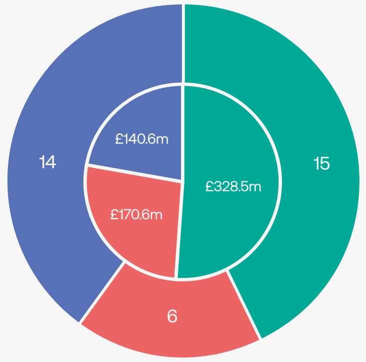
FY23/24 Committed Investment in Existing Companies



Total investment (£ million) and no. of investees by primary mission.

Net Zero
Place
Innovation

Committed Investment since Launch



Total investment (£ million) and no. of investees by primary mission from launch to 31 March 2024.

Net Zero
Place
Innovation

to carry out a range of activities. We may, for example, need to help reduce complexity within a given system, drive joined-up thinking across a range of stakeholders, identify policy or regulatory constraints, or define and resolve other barriers to investment.

This analysis of potential market opportunity will also support our ongoing engagement with the broader investment community. As we drive clarity of opportunity, this will enable other investors to invest alongside us, and will help us to build relationships toward our strategic goal of managing the capital of other institutions in addition to our core funding.

ScotWind, and the broader programme of activity to grow Scotland's offshore wind generation capacity, remains a strategic priority aligned to all our missions.

We will continue to work with stakeholders including government, developers, investors, supply chain businesses and beyond to identify where we can most effectively invest.

I would also like to thank our Board for the advice and guidance they have given me and the Bank's Executive team. The Bank is fortunate to have such an experienced and committed group of people. Finally, I would like to thank the Bank team. To lead such an energised group, who are clearly motivated by the Bank's purpose and ambitions is a genuine privilege, and I hope that they each take pride in the results set out in this report.

Al Denholm
Chief Executive Officer

Strategic Priorities

The Scottish National Investment Bank is Scotland's development bank. Our central priority remains to invest in businesses and projects that support delivery of our missions and provide a commercial, risk-adjusted financial return.

To achieve this, we will continue to invest for the long-term making equity investments, providing debt or, where necessary, investing in third party funds. Our investments are also designed to enable other investors to deploy their capital – attracting private sector financing to complement our own. As a development bank our risk appetite must therefore be greater than the majority of other investors so that we can help Scotland to attract increasing levels of investment capital, which will be required for us to deliver against our missions.

Our missions drive everything we do and are designed to reflect key challenges facing Scotland. These missions are:

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

The Bank's strategy remains consistent and is set out in more detail within our Business Plan (www.thebank.scot/about-us/key-publications), and we are delivering strongly against it. Our key strategic themes articulated in our Business Plan are:

Strategic Themes

For each of these areas, we are already progressing well against our target outcomes, with a detailed breakdown of this set out in the following section.

As an impact investor our investments provide both financial and non-financial returns. Over the past financial year we reviewed how we can most efficiently and effectively support the delivery of our missions. Full details of this work, along with our performance to date, are set out in our separate Impact Report (www.thebank.scot/impact-report-2024).

The strength of our delivery and the clarity of the future impact we can make is based on our talented and motivated team, which is why realising the potential of our people remains a key strategic priority for us.

The Bank's Impact Ambitions

At the Bank we are committed to maximising the impact of our investments. As part of evolving our approach to impact, and following industry best practice, in 2023 we developed our first set of 'impact ambitions'.

These are quantified targets for the headline impacts we want to achieve within each mission; they provide a "north star" for the Bank, designed to drive focus and intent in our investment decisions. We have set the targets to 2030 to represent the Bank's focus on long-term positive outcomes for people and planet.

Net Zero	"Address the climate crisis, through growing a fair and sustainable economy"	By 2030, the Bank will have invested £800 million - £1 billion in high potential Net Zero businesses and projects.	By 2030, the Bank's investments will have helped to avoid, reduce or remove 185,000 – 225,000 tCO_2e from the Earth's atmosphere.
Place	"Transform communities, making them places where everyone thrives"	By 2030, the Bank will have invested £400 million - £500 million in improving Scotland's places and communities.	By 2030, the Bank's investments will have positively impacted the lives of 350,000 – 430,000 people through regeneration, high-quality housing, and connectivity (both digital and physical).
Innovation	"Scale up innovation and technology, for a more competitive and productive economy"	By 2030, the Bank will have invested £400 million - £500 million in innovative, productive businesses.	By 2030, the Bank's investments in innovative industries will have contributed towards the creation and safeguarding of 6,300 – 7,700 jobs.

We are ambitious for the positive impact we can have within Scotland, and excited to make a real difference to peoples lives and to the environment that surrounds us all. In developing our ambitions, we are following a principle of continuous improvement – acknowledging the importance of learning and adapting as we (and our portfolio) mature over the coming years, and looking for opportunities to increase the impact effectiveness of our investments wherever possible. We will calculate our impact performance using a contribution based analysis. In this way, we include only the proportional share of impact that can be attributed to our investment. The total impact achieved by our portfolio companies will therefore exceed what is captured within our reporting.

Balanced Scorecard

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

Strategic Priority 1: Demonstrating and enabling impact

Performance against outcomes: STRONG / EXCELLENT

Outcomes 23/24

- Set ambitious long-term targets, with headline impact KPIs, that are aligned and focused on our missions and our active origination strategy.
- Implement our plans to support the recommendations from the Taskforce on Climate Related Financial Disclosures (TCFD).
- Demonstrate best practice in the application of impact through investment, as determined by an external audit – improving on our audit result from last year.
- Demonstrate progress towards our Equality Outcomes, as published in our Equality Strategy.

Progress 23/24

- We have defined quantitative impact ambitions to support the delivery of our missions in the period to 2030. These set out the number of people we want to reach, the jobs we want to support, and the emissions we want to avoid, reduce or remove through our investment activity. Detailed information is published in our Impact Report (www.thebank.scot/impact-report-2024)
- We have published our first Carbon Management Plan and TCFD Reports (www.thebank.scot/about-us/key-publications), delivering on our commitment to be progressive and lead by example in the field of carbon reporting. We've supported our portfolio to define and develop their own carbon management and net zero strategies.
- To demonstrate our commitment to impact investing we sought independent, external verification of our alignment to the Operating Principles for Impact Management (OPIM). BlueMark, a leading provider of impact verification services, independently reviewed our alignment with the OPIM, identifying 'Advanced' or 'High' alignment across seven of the eight principles. In comparison to our direct peers (other Development Finance Institutions), we outperformed the peer group median across four pillars while achieving parity on three others. Further details can be found in our OPIM Disclosure Statement and Verification Report. (www.thebank.scot/bluemark-verifier-statement)
- We have continued to embed Equality and Fair Work principles into our processes. Our Impact Report updates on action we have taken. We are committed to doing further work in this year's Business Plan priorities.

Strategic Priority 2: Delivering investment

Performance against outcomes: STRONG

Outcomes 23/24

- We will commit over £211 million of capital in mission-aligned investments in the year.
- We will have added value to the businesses in which we have invested, as established by a survey of our investee businesses.

Progress 23/24

- We have committed £225 million of mission-aligned investment in FY23/24. Up to date information on our investment portfolio is available on our website (www.thebank.scot/portfolio).
- We have invested across multiple sectors in support of our missions. We have made new investments and provided follow on finance to existing investees to support them in achieving scale:
  - **£129 million** in support of new investments.
  - **£96 million** follow on investment.
- Our Portfolio Management and Impact Reporting teams have worked closely with investees to provide support beyond financing, including:
  - Helping to develop investee net zero strategies and carbon management plans which are then reported and monitored under the Bank's TCFD commitments.
  - Building Board capability within our investee businesses for their next phase of growth, drawing on our insight and network.
- We have continued to act as a conduit on policy issues between our portfolio and the Scottish Government for example working with Highland Broadband on enabling the roll out of full fibre broadband in rural areas.
- We carried out a survey of our investee businesses, providing clear evidence for the support we provide, for example in areas such as helping to quantify environmental or social impact.

Balanced Scorecard continued

Strategic Priority 3: Building insights, partnerships and our reputation	**Performance against outcomes: STRONG**
Outcomes 23/24	**Progress 23/24**
◆ Deliver insights, thought leadership and stakeholder engagement that is valued by our ecosystem, as established through an independent survey.	◆ The fieldwork for the independent survey was carried out by an external, accredited, provider between December 2023 and March 2024, with key results being that 83% of respondents had a positive attitude towards the Bank (versus 68% last year), and the Bank being viewed as having expertise in investing with impact (68%) and as an effective collaborator within the ecosystem (64%). ◆ These results reflect the quality and quantity of insights we have developed and shared, both in private and in public. Examples of this insight are published on our website (www.thebank.scot/insights). ◆ These insights also supported our engagement activity, including regular participation at key target conferences, with circa 30 speaking and panel appearances. ◆ Insights and experience were further amplified through media partnerships with The Scotsman, The Times, Press & Journal, Energy Voice and OGV Energy. ◆ In addition we hosted an impact investing focused conference for over 250 people, with key themes being how impact investing can transform communities, how innovative funding models can drive productivity, and a reflection on female participation in entrepreneurship one year after the publication of the Pathways report. ◆ We have continued to engage widely across our ecosystem, including both the public and private sectors, for example supporting The Hunter Foundation's Scale Up 2.0 programme, and contributing to key industry bodies such as the British Venture Capital Association and the UK Sustainable Investment & Finance Association.

Strategic Priority 4: Enabling private sector investment	**Performance against outcomes: STRONG / EXCELLENT**
Outcomes 23/24	**Progress 23/24**
◆ That we will define and deliver our Third Party Capital strategy in line with plan. ◆ That we will encourage and enable others to invest alongside us.	◆ In the last financial year, the £225 million we have committed has enabled over £400 million to be invested alongside us. ◆ The Bank's co-investors range from angel syndicates to high street banks to global asset managers, demonstrating the Bank's ability to leverage multiple types of capital. Details of co-investors are noted next to each investment on our website (www.thebank.scot/portfolio). We also continue to work closely and collaboratively with the UK Infrastructure Bank and the British Business Bank. ◆ These relationships establish a basis to move solely from co-investing to the Bank managing and/or advising on the capital investments of others which will also require us to have the appropriate permissions from the regulator. ◆ Raising third party capital requires patience as the strategy is defined and tested through market engagement with potential investors. In the year, the Bank has undertaken engagement with multiple investors within the market, with feedback being used to refine our strategy. ◆ Aligned with the above, we have been actively engaged in the opportunities arising from the planned ScotWind offshore wind developments: - Our focus is primarily to enable investment in supply chain businesses and projects critical to delivery of the offshore wind pipeline. - We have been working closely with potential investees, developers, the Scottish Government and a variety of private institutions to maximise commercial investment opportunities. - We see a clear priority for investment opportunities in respect of critical and time dependent infrastructure that will be catalytic in terms of securing a wider domestic supply chain.

Balanced Scorecard continued

Strategic Priority 5: Targeting financial self-sustainability	Performance against outcomes: STRONG / EXCELLENT
Outcomes 23/24 ◆ Ensure our income and costs are in line with our agreed budget and we are on track to be operationally, financially self-sufficient by FY25/26. ◆ Our portfolio of investments is forecast to have commercial financial performance that reflects investment risk.	**Progress 23/24** ◆ Over FY23/24 our income £19.3 million (versus £10.7 million FY22/23 and £1.9 million FY21/22) was greater than our operational costs £16.1 million, for the first time.* ◆ This represented higher income and lower costs than budgeted, so led to operational profit for FY23/24 (excluding investment losses), reflecting the commercial performance of our portfolio. ◆ Based on current financial performance and internal modelling, our portfolio is expected to have a positive rate of return.

Strategic Priority 6: Realising the potential of our people	Performance against outcomes: EXCELLENT
Outcomes 23/24 ◆ We continue to have a strong culture and a motivated team across the Bank, as evidenced by our people surveys.	**Progress 23/24** ◆ We are proud of the Bank's culture and the ongoing positive engagement of our team, as demonstrated by 91% of staff stating that they are likely to recommend the Bank as a place to work, 100% responding that they are motivated by the Bank's missions, and 94% stating that they feel that the Bank provides an inclusive environment. ◆ We have defined our people proposition – our people 'promises' – centred around our purpose and missions, summarised later in this document. ◆ Our team have had the opportunity to develop their skills and have been supported in achieving their development goals through active personal development planning and access to external learning, with 76% stating that they agree that they have the opportunity to learn and grow at the Bank. ◆ We have provided line manager training to improve coaching for high performance, giving feedback, and on psychological safety. ◆ We have made our values more impactful and provided clarity on the behaviours that shape our culture. ◆ We have identified how we can improve our approach to recruitment to achieve better equality outcomes by working with the Employers Network for Equality & Inclusion.

*Please note that these results are not yet audited and will be formally published in our Annual Report and Accounts later in the year.

Impact investing

As a mission-led impact investor, our investment decisions go beyond just commercial returns. Every pound we invest needs to deliver social, environmental, and economic benefits across Scotland through businesses and projects that work in support of our three core missions.

Impact investing

Introduction

As Scotland's development bank we are also an impact investor. From the outset we have been set three missions that focus on key challenges facing Scotland. We make long-term investments in businesses and projects which confront these issues; we refer to this as our mission-impact investment approach. Our three missions, are:

The Bank's Missions

Net Zero

Address the climate crisis, through growing a fair and sustainable economy.

Place

Transform communities, making them places where everyone thrives.

Innovation

Scale up innovation and technology, for a more competitive and productive economy.

As a mission-led impact investor, our investment decisions go beyond just commercial returns. Every pound we invest needs to deliver social, environmental, and economic benefits across Scotland through businesses and projects that work in support of our three core missions.

Investing for impact

Reflecting our missions, and based on our in-market experience, we particularly seek opportunities to drive impact in:

The energy transition and net zero solutions

Scotland has a long and rich history in the energy sector, including associated technologies and expertise. Now, the challenge of making the transition to net zero – and ensuring that transition is fair and just – is central to our thinking. Net zero will require not only investments in Scotland's future energy industries, but also investments in people, supply chains, and the way we use power for heating and transport.

We continue to listen and learn from the experiences of people and businesses in these industries; and we use this insight to guide the Bank's thinking on how we can drive better impacts through our net zero investments. We've developed high-level principles for how we invest in the transition – you can read more about these in our Transition Finance report (www.thebank.scot/transition-finance). By applying these principles, our aim is to maximise the social, economic, and environmental impact gained through investment of public capital; making focused investments that will support Scotland's transition.

Building thriving communities

Scotland's geography means that, to ensure equality of opportunity and improved quality of life, careful consideration must be given to the nature of local economies and the different needs of communities throughout Scotland – rural and urban, highland and island, or agricultural and industrial. These considerations lie at the heart of determining the impact that our place-focused investments can make.

We see the biggest opportunities for place-based impacts through:

- Promoting access to quality employment across Scotland (including its remote and rural areas).
- Access to well-built, energy efficient and affordable homes to rent and buy.
- Access to digital services by delivering connectivity throughout Scotland's geographies.

Harnessing innovation and technology

Scotland has an enduring track record of producing innovations that benefit society, and our universities have an outstanding global reputation for both their research and their teaching. At the same time, however, we have seen a decades-long lag in productivity compared to comparable nations, whilst simultaneously facing the challenge of a changing workforce. Technology is rapidly changing the nature of work, whilst also accelerating competitiveness – and the potential for productivity gains – on a global scale.

The Bank seeks to address these challenges and opportunities through its innovation-focused investments. We want to help high-potential companies in flagship sectors to scale-up their operations, laying the foundations to become global leaders while also providing high-skilled jobs, bringing benefits for local communities across Scotland.

Impact Investing Case Study: Verlume

Delivering innovative technologies that change the energy landscape towards a sustainable future.

Amount committed by the Bank:
£6.6 million

Location:
Aberdeen

Case study:

Established in 2013, Verlume is a leader in underwater intelligent energy management and storage technologies – developing scalable energy solutions to decarbonise the offshore energy sector.

Verlume's suite of products include its 'Halo' energy storage system: subsea battery technology specifically designed to not only endure the often harsh and challenging marine environments, but also to thrive in the cool and steady ocean temperatures in order to manage intermittent renewable energy sources and enable clean energy systems. Coupled with this is the company's integrated intelligent energy management solution 'Axonn', so that Halo autonomously provides reliable, uninterrupted power to underwater infrastructure.

With a diverse range of applications – from powering subsea robotics, to providing clean energy to offshore infrastructure – Verlume's energy storage products play a key role in the energy transition, through creating resilient, clean, and integrated energy systems.

Investment Rationale and Impact Assumptions

The North-East of Scotland has potential to be a global powerhouse in the energy transition, and the technologies developed by Verlume play an integral role in serving the energy sector as it transforms, including the fast-expanding offshore wind and marine renewables sectors. In delivering a constant output of power, Verlume's energy management and storage solutions address the intermittent nature of renewable energy generation to provide a more stable, reliable, and secure energy system.

But as we transition to a renewables-focused, low-carbon energy system, it's important to ensure we take our people and communities with us. Our investment into Verlume underpins this core principle.

Verlume's workforce is bolstered by individuals from a diverse range of backgrounds in STEM (Science, Technology, Engineering & Maths) disciplines who are passionate about leveraging their skills to help drive the energy transition. Employing engineers and technicians from the subsea engineering and oil and gas sectors with skills transferrable to its own operations, Verlume is able to help safeguard the wealth of talent and experience in the region, contributing to a transition that is fair and just.

In April 2023 the Bank invested £6.6 million to support Verlume in boosting its expansion plans, allowing the company to further invest in its people and transfer the region's considerable knowledge and skills within the subsea sector into marine renewable energy.

> "The investment from the Scottish National Investment Bank into Verlume was significant for our business, in particular for growing our team, our technology and operational capabilities to undertake significantly larger projects.
>
> Our mission is to deliver clean energy to challenging locations, to make things possible today that were impossible yesterday. So, as part of the energy transition, Verlume is playing a significant part in providing the enabling technology to allow the offshore energy environment to become a place where operations are more efficient, integrated and clean."
>
> **Richard Knox, Chief Executive Officer, Verlume**

UN Sustainable Development Goals supported by this investment

Impact investing continued

Managing for impact

Our Ambitions (set out on page 11) are designed to form part of a multi-layered approach to impact at the Bank, working alongside the many ways in which we strive to enable deeper and broader impact through our investments, and in the Scottish ecosystem more broadly.

Key to this approach is how we manage for impact at every stage of the investment lifecycle. From first enquiry onwards, we seek to understand the current and potential future impacts of investee businesses and projects, as well as identifying ways the Bank can support investee companies to embed and enhance their impact.

In late 2023 we worked with BlueMark, a leading provider of independent verification of impact practices, to review our alignment with the Operating Principles for Impact Management ('OPIM'). The assessment identified 'Advanced' or 'High' alignment across seven of the eight principles; demonstrating that we are on par with or outperforming our DFI (Development Finance Institution) peer group. We have taken valuable learnings from the verification that will help us to continue to evolve and improve how we manage impact throughout the investment process.

We regularly engage with our portfolio on impact issues: working with investees to establish a full suite of policies and practices to manage impact and ESG, as well as agreeing reporting requirements that help companies to measure and evidence their impacts. The Bank also has requirements of portfolio companies in relation to employment and Fair Work; Equality, Diversity and Inclusion; carbon management and environmental action; and we work with investees to support them as they build out these capabilities.

The Bank also recognises the importance of equal access to finance across the economy. In early 2024 we committed to the Pathways Pledge initiative to help to tackle the gender imbalance in entrepreneurship and investment in Scotland – drawing on our own internal data and insight into the diversity of those seeking investment from us, as well as working with investees to develop a best-practice approach to Equality, Diversity and Inclusion.

Finally, the Bank is ever mindful of its own operational impacts; in FY23/24 we published our first organisational Carbon Management Plan and Task Force on Climate-Related Financial Disclosures (TCFD) report, as well as continuing to work towards our Equality Strategy commitments. More information on these activities can be found in the Bank's 2024 Impact Report (www.thebank.scot/impact-report-2024).

Collaborating with the impact ecosystem

We recognise that, to fully achieve the potential for positive impact in Scotland, it is critical for us to work with others in the ecosystem. Over the last two years we have convened two industry events focused on the role and scope of impact investment, as well as publishing a report on the impact landscape in Scotland. We have also hosted a roundtable event aimed specifically at overcoming barriers to the growth of impact investment in Scotland, working with representatives from across the industry and beyond to understand the most powerful actions to take to increase the availability of impact capital.

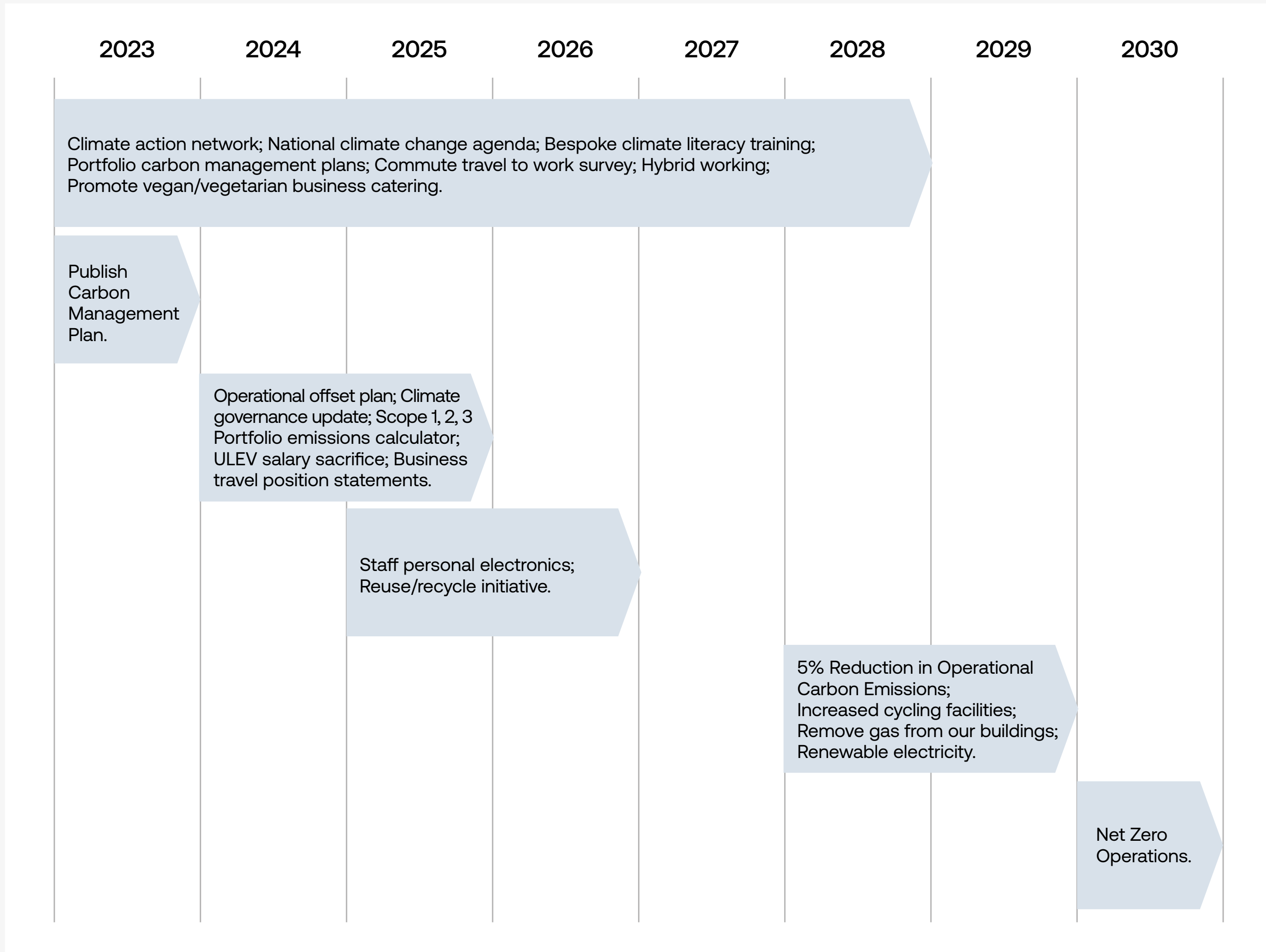
As well as working with like-minded investors, we also seek to increase both impact awareness and implementation effectiveness amongst the business community in Scotland. Most recently we have established a partnership with Strathclyde Business School to deliver an 'Impact Investor Readiness' programme, helping scaling businesses to embed impact thinking into their business strategies and operations from the outset. We are excited to continue to explore ways to encourage and collaborate on impact-led approaches across the ecosystem in the coming year.

Operational climate impact and TCFD reporting

Across FY23/24 we have focused our efforts on meeting the 11 recommendations set out within the TCFD framework, whilst also ensuring compliance with key legislation on climate change and biodiversity. This resulted in an updated governance structure in relation to climate change which will adapt over time. We have continued to engage our stakeholders on climate issues, providing advice and support to our portfolio and the wider public sector.

Our Impact team lead on our corporate climate change ambitions, including the development and implementation of carbon management and accounting processes. This year, we published our first climate change mitigation plan. Our Pathway to Net Zero: Carbon Management Plan 2023/24-2028/29 (www.thebank.scot/pathway-to-net-zero-carbon-management-plan) sets out how we will meet our statutory and voluntary requirements and manage both our operational and portfolio emissions. It also establishes our new carbon footprint baseline aimed at supporting the Scottish Government's Net Zero ambitions.

Our Carbon Management Plan Timeline



Impact investing continued

At the end of FY23/24, the Bank's total operational emissions have increased by 5.3% when compared to our 2022/23 baseline, from 58.66 tCO_2e to 61.78 tCO_2e. This aligns with the predicted increase in our emissions profile noted within our Carbon Management Plan – as a result of the continued growth of the business and our expanded reporting boundary, both of which are evident across our business travel and hotel stays.

Other variations can be attributed to a change in methodology for both homeworking and commute travel, while an alteration in emissions factor for electricity has seen this source increase.

Defining and quantifying emissions

Emissions sources are defined by the World Resources Institute Guidance for Public Sector Organisations and the Greenhouse Gas Protocol. They are separated into three separate Scopes:

- **Scope 1** - direct emissions from owned or controlled sources.
- **Scope 2** - indirect emissions from generating electricity, steam, heating and cooling, purchased and consumed.
- **Scope 3** - all other indirect emissions not included in Scope 2.

Operational Carbon Footprint

Source	Emissions Scope[1]	Metric	2022/23[2]	2023/24	Performance Indicator	
Gas	Scope 1	tCO_2e	6.49	6.65	2.46%	▲
Electricity	Scope 2[3]	tCO_2e	10.98	12.45	13.34%	▲
Water	Scope 3	tCO_2e	0.18	0.17	-6.81%	▼
Waste	Scope 3	tCO_2e	0.22	0.05	-76.04%	▼
Business Travel	Scope 3	tCO_2e	8.54	12.99	52.13%	▲
Hotel	Scope 3	tCO_2e	1.12	3.08	175.07%	▲
Commute Travel	Scope 3	tCO_2e	23.63	11.32	-52.08%	▼
Home Working	Scope 3	tCO_2e	7.50	15.07	100.95%	▲
Total Emissions		**tCO_2e**	**58.66[4]**	**61.78**	**5.31%**	▲

1. Emissions Scopes have been classified using the GHG Protocol Corporate Standard.
2. Operational carbon footprint baseline.
3. Includes Scope 3 - Electricity transmission and distribution.
4. 2022/23 Operational Baseline Emissions

One of our key commitments in our Carbon Management Plan was to increase transparency around our climate impact by reporting against the recommendations within the Taskforce on Climate-Related Financial Disclosures (TCFD) framework. This commitment requires us to report on our climate-related governance, strategy, risk management and reporting metrics and targets.

TCFD Four Pillars

Source: www.fsb-tcfd.org/recommendations/

In January 2024, we published our first dedicated annual TCFD report (www.thebank.scot/tcfd-report-task-force-on-climate-related-financial-disclosures). The report outlines how we are aligning with the TCFD recommendations and framework, with the portfolio emissions for the calendar year 2022 and operational emissions based on FY22/23.

Over the last year, we have continued to take important steps to understand our key climate-related risks and enhance our processes.

We will publish our second dedicated TCFD report during the FY24/25. The information overleaf provides a summary to date of our alignment to the recommendations.

Impact investing continued

TCFD progress in FY23/24

We have continued to make good progress in incorporating climate risk and opportunity identification, and management, into our overarching business strategy. Our disclosures are consistent with the 11 TCFD recommendations. As a young organisation this will continue to evolve and improve as we mature.

Governance

The Risk Management and Conflicts Committee has oversight of the Bank's climate actions, for which the Committee has been allocated responsibility for climate change at Board level.

The Bank's Risk Management Framework is owned by the Chief Risk Officer.

The Bank's Impact team includes the Associate Director of Climate Impact, who has responsibility for coordinating climate-related activities across the Bank, including day-to-day decision making, reporting and operational governance related to our Carbon Management Plan.

Strategy

Incorporating climate change into our processes

Our investment strategy states our investments will deliver positive social, environmental, and economic impacts that support the delivery of the Bank's missions.

We have implemented a range of climate change-related risks and opportunities as part of our investment processes and strategy. This Includes understanding the economic impact of climate change on our portfolio, which includes modelling scenarios in relation to flooding and relevant risks identified in 'Evidence for the third UK Climate Change Risk Assessment (CCRA3)'. We are in the process of enhancing our capabilities for evaluating climate change risk and exposure at a portfolio level.

We engage with our portfolio to define their Scope 1 and Scope 2 emissions and now require investee companies to develop a carbon management plan or review existing plans.

How we identify climate-related risks, opportunities and their potential impact

Climate-related risks and opportunities at the Bank are assessed using an in-house CRA, with the risks and opportunities falling under four key categories:

- Boundary
- Physical Risk
- Transition Risks
- Opportunity

Climate-related scenario planning

As noted within our TCFD report, climate-related scenario planning at the Bank has been limited thus far. However, across FY24/25, we are seeking to enhance our processes, with a view to improving our understanding regarding investment decision where climate change impacts are material to a transaction.

Further information in relation to our climate-related strategy alignment can be found in section 4 of our 2023/24 TCFD Report.

Risk Management

Our risk management approach

The Bank's strategic approach to climate risk is intrinsically linked to both our regular risk management processes and the Bank's overall strategy, and seeks to add value through challenge and independent oversight of business activities.

Climate related risk falls under the Bank's Level 1 risk 'Environmental, Social & Governance' and has been sub-classified into 'Level 2' risk types, which is the level at which the risk management methodology (ownership, analysis, mitigation, reporting, etc.) is applied.

How we identify climate-related risks, opportunities and their potential impact

We measure climate risk across four categories, using Climate Risk Assessment templates. This assessment is undertaken during our investment decision making process, prior to a company becoming an investee.

Metrics and Targets

Our approach

We have developed metrics and targets to monitor progress against our Carbon Management Plan. In developing these we have aligned our methodology to the Greenhouse Gas protocol, using a consolidation approach to monitor our operational performance, and the protocol's category 15 'Investments' to measure and manage our climate-related risks and opportunities.

Our investment climate impact

Our impact reporting period runs on a calendar year basis, rather than financial year; therefore, emissions in relation to our portfolio will be for the period January to December 2023. The Bank's total Scope 3 Investment emissions were 15,129.0 tCO_2e. We will report on our proportional share of these emissions in our next TCFD report (due in January 2025).

As a development bank, many of the companies we invest in are likely to increase their carbon footprint as they grow. While our investments are chosen to support Scotland's transition to a low carbon economy, the expansion of our portfolio and growth in our investees' businesses may increase the associated emissions and this is likely to continue to expand during the investment period. This is a reflection of the fact that our investment is often in heavy industries to directly enable a just transition through changing their role in the supply chain or developing technologies, or in companies who are scaling up their operations and outputs with the Bank's investment acting as a catalyst for growth. This is reflected in the graph on page 30 overleaf, which shows an increase in emissions of portfolio businesses associated with our Net Zero and Innovation missions. It's important to stress this is ultimately a snap-shot in time of where our portfolio is and will change each year. To support our reporting, and wider understanding of carbon management practices, we work with our portfolio businesses to help them understand their carbon emissions.

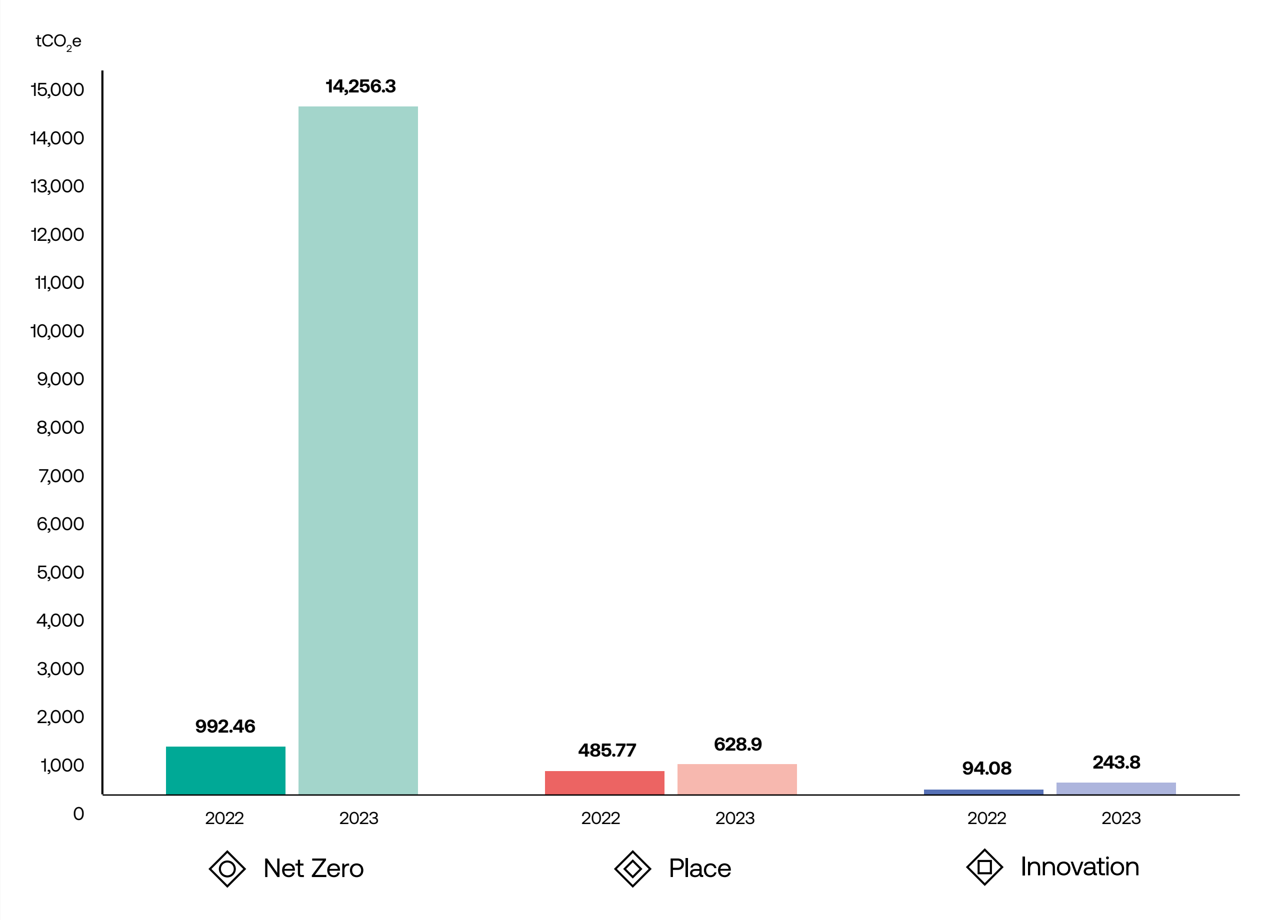
The table below provides details of emissions from our portfolio by their primary mission alignment, with the graph overleaf providing a comparison of portfolio emissions to the previous year.

Emissions by Primary Mission 2023

Source	Scope 1	Scope 2	Total	Metric
Net Zero	13,645.9	610.4	14,256.3	tCO_2e
Place	477.4	151.5	628.9	tCO_2e
Innovation	56.4	187.4	243.8	tCO_2e
Total Scope 1 and 2 Emissions	**14,179.7**	**949.3**	**15,129.0**	tCO_2e
Total Scope 3 Investment Emissions			**15,129.0**	tCO_2e

Impact investing continued

tCO_2e of Scope 1 and Scope 2 emissions by mission



Our biodiversity impact

As a publicly funded institution, we have a duty under the Nature Conservation (Scotland) Act 2004 to further the conservation of biodiversity when carrying out our responsibilities. This includes producing a publicly available report every three years, which covers the actions we have taken to meet the biodiversity duty.

Reporting under the duty is dependent upon an organisation's role and remit. We fall within the requirements of the Level Three Template Public Bodies, as we *"do not engage directly or indirectly with communities, young people or the public and do not own or manage land, regulate land use, or have responsibilities linked to biodiversity."*

2023 was the first time the Bank was required to report under the duty. Our Biodiversity Duty Report covered both our operations and the relevant elements associated with our investments. A copy of the report can be found on our website (www.thebank.scot/biodiversity-duty-report-2020-2023).

Financial Performance

This report summarises our financial performance from 1 April 2023 to 31 March 2024. The Bank's audited financial statements are prepared in accordance with UK adopted international accounting standards and as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM). They are also prepared in accordance with the Companies Act 2006 and the directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers. These can be found in full on page 158. The detailed accounts are contained within the financial statements from page 123.

Key drivers of the Bank's financial performance

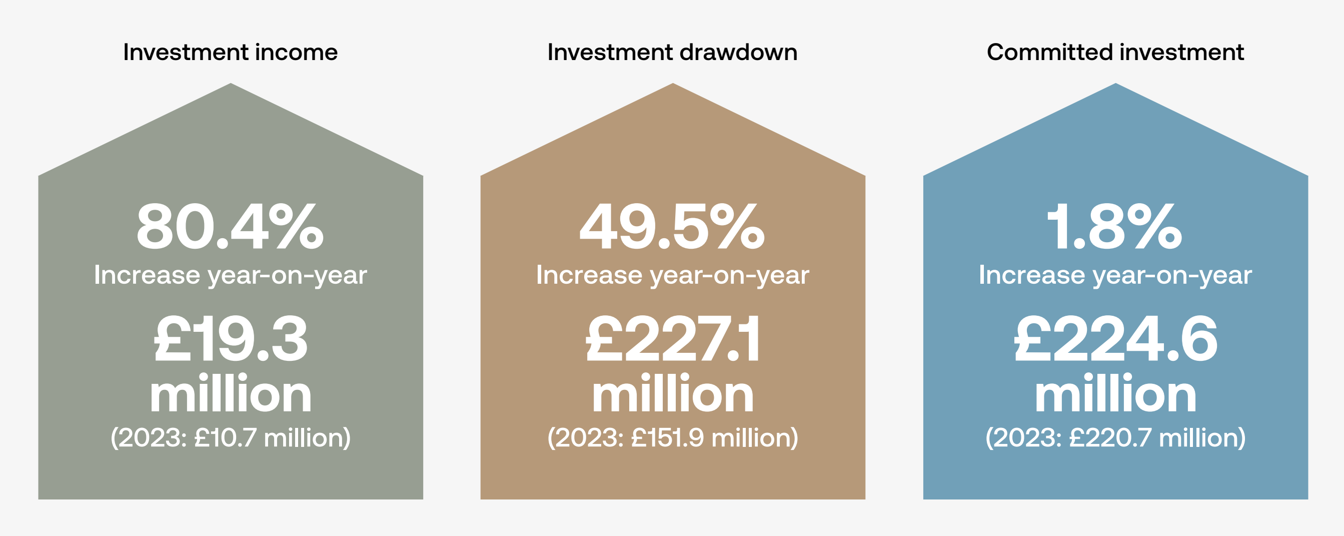
As an investment business focusing on generating both commercial returns and impact benefits from our investments, our financial performance is dependent on a number of significant items:

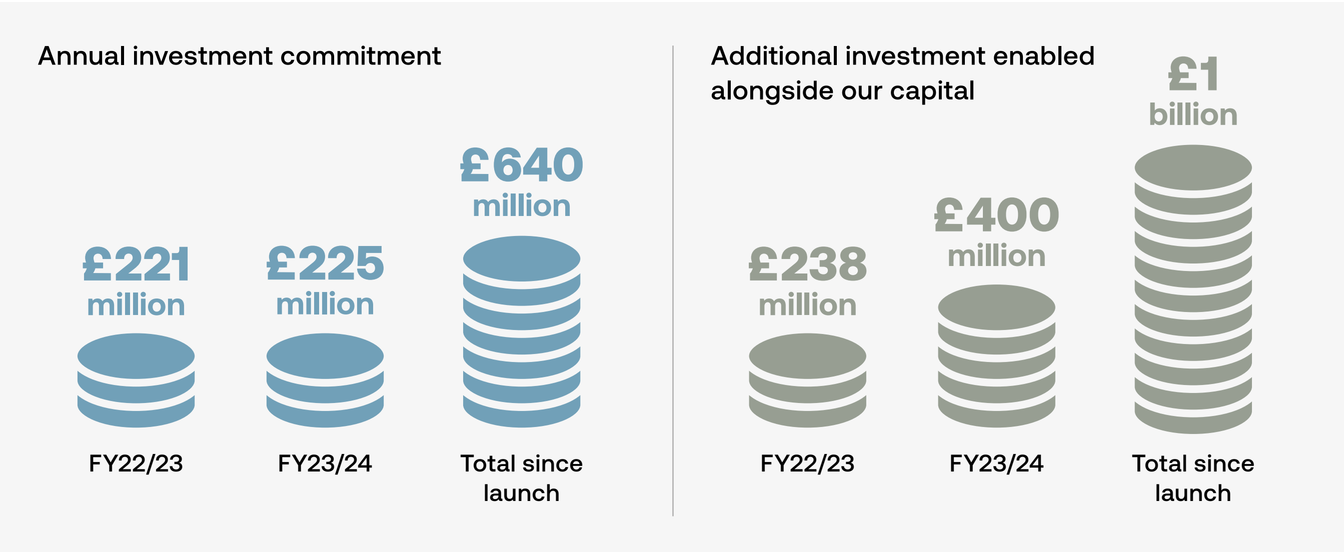
Financial Performance continued

Financial review

In FY23/24 we continued to make progress towards achieving our key financial aims, achieving operational financial self-sustainability through increased income generation and also increasing the committed and drawn capital we invest in mission-led investments. All these measures showed significant progress compared to the previous year as demonstrated by the graphic below. This reflects the increased awareness of what the Bank has to offer and the traction that we are achieving in deploying investment in the Scottish financial ecosystem. This was also achieved against a background of a challenging economic climate in both the domestic and global economy.

We are now approaching operational maturity from an employee headcount perspective, and while we continue to identify and refine future roles, key hires are in place and working to deliver our missions. Our expanding investment portfolio helped generate an impressive growth in income and coupled with prudent cost control and a value for money ethos across the business kept costs below budget.





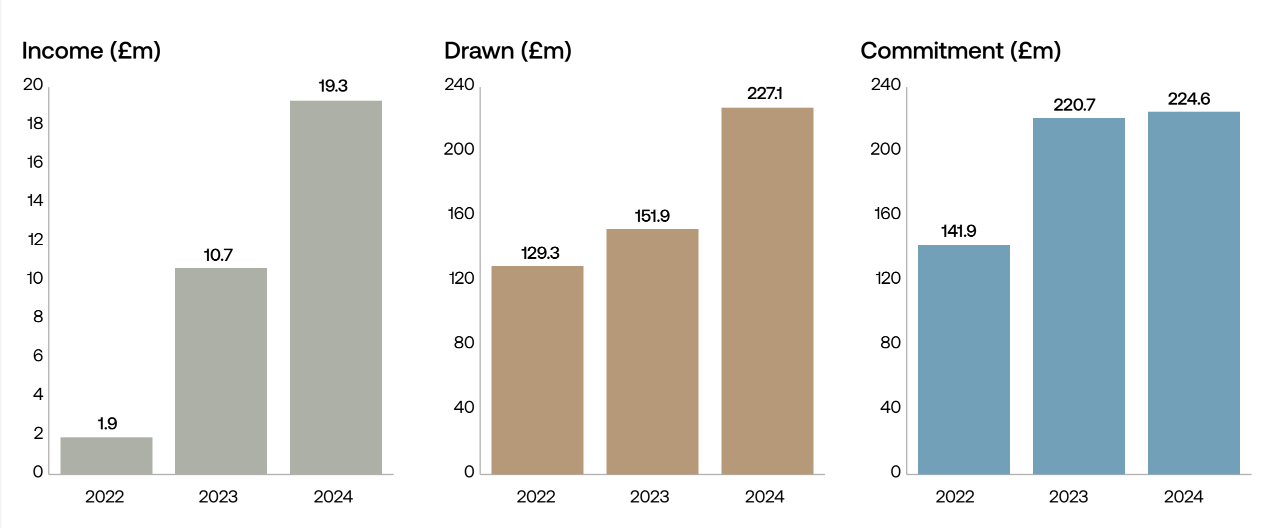
Financial highlights for the year include:

1. Growing investment commitments and drawdowns

We committed £224.6 million (2023: £220.7 million) of investment across eight new and 12 follow on investments. In relation to deployment, £227.1 million (2022: £151.9 million) worth of investments were made in the year, an increase of 49.5%. This highlights the progress made in both committing and deploying capital in the year.

Our investments were across all three missions and are diverse both in terms of type of investment – i.e., debt, equity and funds – and, importantly, geographical location with the Bank continuing to invest in businesses and projects that span the length and breadth of Scotland. Moreover, the Bank's investment was made alongside third party capital of £400 million, demonstrating the successful ability of the Bank to crowd in additional investment.

Investment Profile



2. Strong portfolio income generation

Our investment portfolio generated income of £19.3 million in the year (2023: £10.7 million), through a mixture of interest (both cash and capitalised) and fees. A significant increase of 80.4% year-on-year, demonstrating our commitment to generating a commercial return on investments and providing significant progress towards operational financial self-sustainability. As our investment portfolio grows, our income is also increasing which in turn reduces the requirement for our shareholder to support operational costs. While we have a growing portfolio and a strong pipeline, our track record is still relatively short, therefore our income still has the potential to vary year on year. We anticipate achieving sustained operational financial self-sustainability within the current business plan period.

Financial Performance continued

3. Movement in fair value of investments

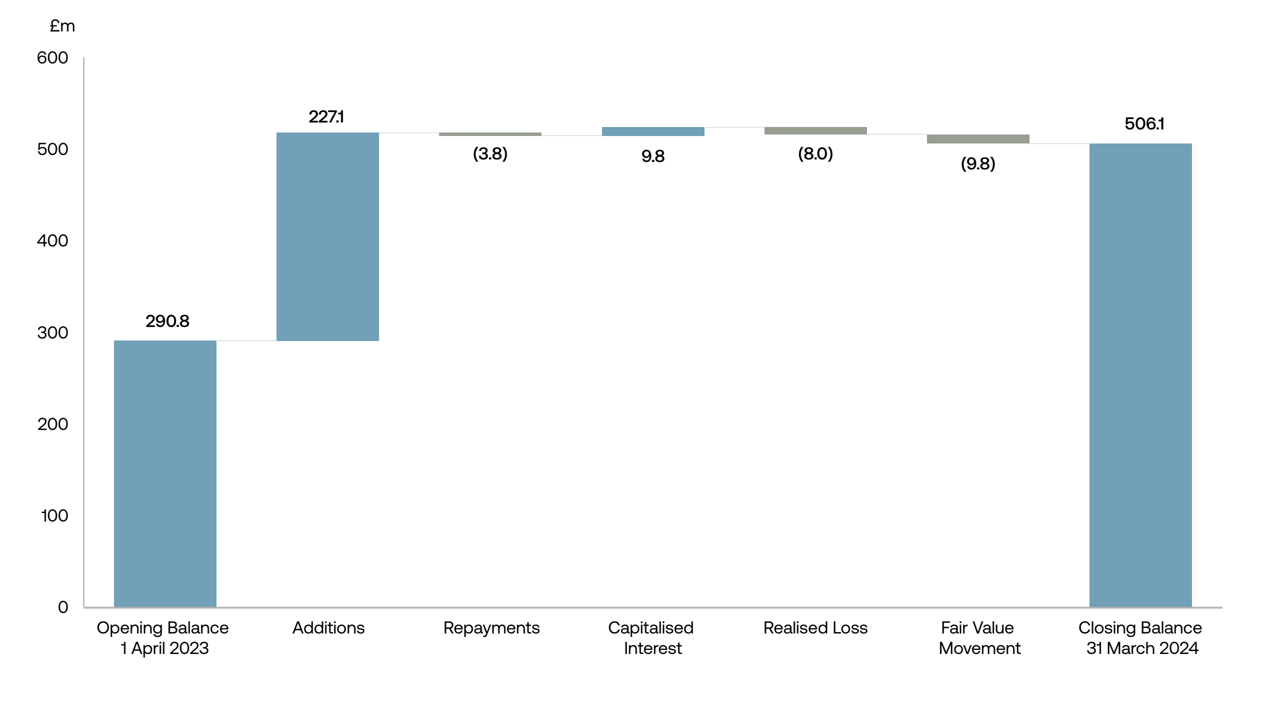
At the end of FY23/24 we had a portfolio of 35 investments. We monitor the performance of our investments on a regular basis. This includes a formal valuation process every quarter, which provides analysis of the performance of individual portfolio companies. As at 31 March 2024 our portfolio was valued at £506.1 million. We have invested an additional £227.1 million during the year into a mixture of existing and new investments. As a patient capital investor we plan to deliver a commercial return over a multi-year investment period that can be subject to in year fluctuations as evidenced by the unrealised loss of £9.8 million (2023: loss of £17.8 million) and the realised loss of £8.0 million (2023: loss of £nil) which, combined represents 4% of the year end portfolio value.

The majority of the fair value loss relates to adjustments reflecting underlying performance of investee companies with various unrealised movements, both positive and negative, across the portfolio, in line with the maturing nature of the Bank's portfolio investments. Fair value movements to a lesser extent also relate to market variances over the year, which have resulted in a change to the fair value of debt investments that are valued under the International Private Equity and Venture Capital Valuation (IPEV) guidelines. These movements are largely a result of macro-economic factors rather than being a specific reflection on our individual debt investments, though we continue to monitor this closely as part of our quarterly valuation process. In these accounts we have also recognised our full realised loss of £8.0 million on Circularity Scotland Limited as the administration process progresses to completion which includes crystallisation of a £4.5 million unrealised loss from prior year.

While we recognise that as a development bank it is likely that not all of our investments will deliver a positive return, we continue to work towards a positive commercial return across our portfolio as a whole. Therefore, our ability to support investments with higher risk profiles is critical in enabling other investors in the ecosystem to deploy their capital.

The higher risk profile, range, and number of investments that we make will increase the volatility of our portfolio in comparison to the private sector, which is reflected within our 'Unrealised Gains and Losses'. For more information on how we manage our risks, please refer to page 42.

Movement in fair value of investments



4. Tight cost control around operating expenses

We continue to challenge ourselves around the cost base, resource and quality requirements for our operational delivery, ensuring we have a value for money culture. In FY23/24 total operating costs increased to £16.1 million (2023: £13.0 million) but were 13% lower than budgeted costs of £18.5 million. This under budget spend, delivered in an environment of high inflationary pressures on our cost base demonstrates a strong cost control environment, value for money focus and the strength of the procurement process that the Bank operates. The Bank also continued to successfully recruit and support its talented employees and build out its infrastructure with 79 employees at the year-end (2023: 64 employees) helping to deliver a record year for investments.

Financial Performance continued

Summary

The loss before tax for the year was £14.6 million (2023: £20.2 million) predominantly due to the realised/unrealised losses on investments referred to earlier. Excluding this number, the Bank made a profit of £3.2 million compared to £2.4 million loss the year before. This demonstrates clear progress towards operational financial self-sustainability. While we recognise that as a development bank it is likely that not all of our investments will deliver a positive return, we continue to work towards a positive commercial return across our portfolio as a whole. Net assets were £516.2 million as at 31 March 2024 (31 March 2023: £299.9 million).

The results for the year are summarised below:

For the year 1 April 2023 to 31 March 2024	£'000
Investment income	19,269
Gross operating income	**19,269**
Realised losses on investments	(8,000)
Net unrealised losses on revaluation of investments	(9,797)
Net operating income	**1,472**
Operating expenses incl interest	(16,110)
Loss before tax	**(14,638)**
Tax credit	(400)
Loss for the year after tax	**(15,038)**

Financial position as at 31 March 2024	£'000
Investments	506,076
Property, plant and equipment	1,044
Deferred tax asset	5,625
Other assets/(liabilities)	
Cash and cash equivalents	6,109
Trade and other receivables	860
Trade and other payables	(3,558)
Total net assets	**516,156**
Equity	
Share capital	492,709
General fund	23,447
Total equity	**516,156**

The graphs below show the movement by category of the Statement of Comprehensive Income for the current and previous financial year.

FY23/24 analysis by category of Statement of Comprehensive Income (£m)

FY22/23 analysis by category of Statement of Comprehensive Income (£m)

Financial Performance continued

Income and expenditure

The Bank has made significant strides in income generation this year which, combined with continued cost control, has contributed to a smaller loss (including investment losses) than forecast and positioning us on a firm path towards operational financial self-sustainability.

The Bank has a robust procurement process with qualified staff ensuring adherence to public sector procurement rules. The Bank has strong financial governance with annual budgeting and regular reforecasting undertaken along with production of monthly management accounts. These processes helped deliver costs under budget for the year with total expenditure being significantly under the budget set at the start of the year.

Efficient management of expenses also allowed us to reduce our average "Creditor days" to three days as at 31 March 2024, complying with Scottish Government's prompt payment commitment (issued December 2009) of making payment of authorised invoices within 10 days.

Investment portfolio

We are a patient capital investor. We invest for the long term which results in commercial returns also being realised over a longer term. We invest through a range of equity, debt and fund instruments and the proportion or mix of these across our portfolio significantly influences the profile of our financial returns. We committed £224.6 million in the financial year to 31 March 2024 across eight new and 12 "follow on" investments (where we provide additional investment to an existing portfolio business). These ranged from £1 million to £50 million in equity, debt and fund investments spanning the length and breadth of Scotland. These investments are already directly supporting some of our most disadvantaged communities, as nearly 26% of our portfolio businesses have operations in the 20% of most deprived communities (defined as being those communities in the most deprived 20% as set out in the Scottish Index of Multiple Deprivation (www.simd.scot)).

For many investments, the timing of capital drawdown will vary depending on the requirements of the business or project and may run across several financial years. This means there is generally a delay between the commitment of funds to an investment and the full drawdown of those funds. This delay is driven by the nature of the investment, for example, direct equity is most often fully drawn on the day of the commitment. Fund commitments, however, are likely to be drawn over longer periods, for example, five years, and project finance debt is also often drawn over a number of years.

The capital we are allocated for a given year will therefore include amounts drawn for both new investments and to satisfy drawdowns from prior year commitments. Our investment mix ensures a mix of income profiles. This can include investments that generate income immediately, for example through interest and/or arrangement and monitoring fees, which are complemented by capital gains in equity investments that may take years to be realised.

We recognise the challenges that annual budgeting and the drawdown profile described above can create. These challenges impact both the Bank and the Scottish Government. It is a clear priority that we continue to work with our Shareholder to find solutions to this annual budgeting challenge that enable our shared aim of the Bank becoming a perpetual investment fund for Scotland. As a patient capital investor this solution must provide the flexibility that enables us to give current and potential investees the assurance that capital is available, potentially over multiple years.

Our current investment pipeline is strong. We now have a more mature pipeline of investment opportunities coupled with a pattern of deploying capital from investments committed in prior years.

We are very aware that the economic climate continues to be challenging. We have already witnessed changes to risk appetite within the investment sector. We are also aware of the pressures on the public finances and the challenge this presents for the financial year ahead. This is underlined by the decreased capital for investment of £181 million awarded to the Bank for FY24/25. The amount of funds available to deploy is lower than in the previous year and will constrain the speed at which we grow our income.

As Scotland transitions through a period of economic headwinds, our role in the market will be increasingly important as the risk appetite of private investors and more traditional investment sources reduces. Given this, it is even more critical that we continue to invest in businesses and projects, and that we enable private sector investment through prudent risk-taking.

This higher risk profile, range, and number of investments that we make will inevitably increase the volatility of our portfolio in comparison to the private sector. We continue to monitor the performance of our investments on a regular basis and have a formal quarterly valuation process which provides analysis of the performance of individual portfolio companies. In addition, our Investment Risk team perform a regular assessment of the portfolio considering trading performance and key risks, recommending, where appropriate, a close monitoring status.

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

Financial Performance continued

In our early years, as the portfolio continues to be built, this volatility will be increased and unrealised gains and losses are expected as a result of:

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

These are in line with industry and development finance expectations. In the period covered by these accounts we recognised a net unrealised loss of £9.8 million across our investment portfolio, which is closely monitored but not outside of our risk appetite.

A breakdown of the main components of the loss are discussed on page 34.

One of our key roles is to work alongside private, public and third sector partners. This is to help accelerate investment from all sources into businesses and projects that will support our missions. Therefore, we not only expect to make a positive return on our investments in the medium-to-longer term, but also to maximise our mission impact by working collaboratively with others in the market to maximise their opportunity to invest and hence to accelerate investment activity in the Scottish economy as a whole.

The Bank's funding

The capital we invest is provided by the Scottish Government in line with its commitment to capitalise the Bank with £2 billion over our first 10 years. Shares in the Bank are issued to the Scottish Government, on behalf of the people of Scotland, in return for the value of capital funding received for investment. Over time, it is envisaged this capital will be recycled and reinvested in the Scottish economy, creating a perpetual investment fund. In the financial year covered by these accounts, £188.6 million of shares were issued*.

We currently require funding to run our operations. As our investment portfolio grows and we continue to increase the income we generate, this will steadily reduce the requirement for the shareholder to support our operational costs. For FY23/24 a net resource figure of £4.8 million in the year was provided to cover operational costs including investment losses. At 31 March 2024 funding received and not yet deployed (for investment or operational expenditure) of £6.1 million is recorded on the balance sheet within the general fund and held within the Government Banking Service to ensure that there is minimal cost to the Exchequer. Resource funding received and utilised, together with the profit or loss retained for the year, is recorded in the general fund.

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

Outlook

Our objective is to have a portfolio and third party capital management strategy that provides commercial returns along with economic, environmental, and societal impact. This, in turn, will support the continued growth of the Bank and our aim of becoming a perpetual investment fund for Scotland. It will also help diversify our income and returns, contributing towards financial self-sustainability, and helping us to grow. To this end, we continue to build a mission aligned investment portfolio. With a healthy and growing income trajectory and tight cost controls it is forecast we will become operationally financially self-sustaining in the current business plan period, eliminating the requirement for the Scottish taxpayer to allocate budget for our operational expenditure. Reaching sustained operational financial self-sustainability in the current business plan period will be a key milestone for the Bank including cash sustainability in the medium term. We are progressing well along this journey towards being financially self-sustaining, as our income exceeded our operational expenses for the first time in this financial year.

> With a healthy and growing income trajectory and tight cost controls it is forecast we will become operationally financially self-sustaining in the current business plan period, eliminating the requirement for the Scottish taxpayer to allocate budget for our operational expenditure.

*The difference between this and the investment amount drawn in the year relates to five investments for £38.5 million made after 22 March 2024 for which shares will be issued after year end.

Risk Management

As a development bank, we recognise our pipeline of potential and committed investments are likely to carry a higher degree of risk than other investors. As such, our investments carry a level of inherent risk. While we accept that not all of our investments may be profitable, we do plan for a positive commercial return at a portfolio level.

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

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

Risk governance

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

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

- **The first line of defence** (management and employees with investment and operational responsibilities) has primary responsibility for the identification, management and reporting of the risks incurred in the execution of strategic and operational plans on a day-to-day basis and adopting appropriate controls and activities.
- **The second line of defence** (the internal control and oversight functions) is responsible for the design of risk policies and methodologies, supporting the first line in identifying risks, monitoring performance and compliance, delivery of risk reporting and providing objective independent review and appropriate challenge to the first line of defence.
- **The third line of defence** (internal audit) provides independent and objective assurance on the robustness and appropriateness of the overall system of internal control including periodic assessment of the overall risk governance framework. We operate an outsourced model and Grant Thornton was engaged by the Bank as our outsourced internal auditor through FY23/24, providing risk assurance on the effectiveness of our internal control framework, including first and second-line controls. During the year, we carried out a procurement process for internal audit services as the term of the appointment of Grant Thornton UK LLP was coming to an end. After a rigorous procurement process, the Committee approved BDO LLP as the outsourced provider of our internal audit function for a period of three years.

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

Risk culture

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

The Board continues to embed risk management culture by ensuring that the Executive team review and refresh our risk policies and risk profile through communication and employee engagement and training. There was particular focus in the year on risk training, with a further operational risk management programme being rolled out for all of our team, helping to ensure that our risk culture remains strong and embedded across the Bank. The training focused specifically on the timely identification and reporting of operational risk matters. It is the day-to-day responsibility of the Executive team to ensure that the risk management processes are cascaded and consistently embedded in the organisational culture of the Bank.

In particular:

- **Tone from the top:** The Bank’s management contributes to the communication of core values and expectations to staff. This includes the promotion of an environment of open communication and effective challenge. The Board and Executive team promote, monitor and assess the risk culture of the Bank.
- **Accountability:** There is clear ownership of risks and controls across the Bank. Employees at all levels are encouraged to embrace and internalise the core values of the Bank, actively embodying their role in managing risk.
- **Incentives:** Incentives play a key role in aligning the risk-taking behaviour with the Bank’s risk profile and long-term interest. The Board and the Executive team seek to reward and encourage all employees to demonstrate the right behaviours and culture as reflected in the Remuneration Policy.

Risk Management Framework

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

The RMF 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 risk.

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

The Chief Risk Officer and General Counsel owns the Investment Risk Policy which establishes a set of high-level principles to enable the effective identification, assessment, management, monitoring and reporting of investment risk in line with the agreed risk appetite level. The Investment Risk Policy is undergoing a comprehensive review to ensure its continued alignment with our risk management objectives.

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. It does this through proactive interrogation and

Risk Management continued

challenge of all proposals before presentation at Investment Committee, thus maintaining a robust contribution throughout the investment process and in accordance with the Investment Risk Policy. As part of this process, Investment Risk provide a written risk opinion to the Investment Committee. In addition, Investment Risk provides subject matter expertise to support the investment team to meet their own first line risk management roles and responsibilities. The Head of Investment Risk is a voting member on all Investment Committees. Active and regular risk monitoring of the Bank's investment portfolio is performed to ensure timely identification and mitigation of these identified risks. Regular reporting of the portfolio's risk profile and key risk metrics is provided to the Bank's Risk Management and Conflicts Committee, Valuation Committee and Executive Committee.

All investments are subject to ongoing performance review, the frequency of which depends upon an ongoing assessment of their individual quality; many investments will have financial and other information covenants which inform this process. Formal risk reviews are undertaken at least annually, and more frequently for those investments requiring greater levels of monitoring or active management.

Investments that are identified as approaching financial difficulty or having a heightened risk level are subject to an enhanced monitoring process ("Close Monitoring"). Close Monitoring aims to identify these issues and to take proactive steps to mitigate the risk of financial loss for the Bank.

During this financial year there has been continuous refinement and enrichment in the investment risk reporting.

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

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

The RMF has been reviewed during the year with enhancements made to the requirements on controls and self-identification of issues. Periodic assurance over the RMF is obtained through the internal audit function who undertook an audit of the revised RMF during the year. Details of this can be found in the report from the Chair of the Risk Management and Conflicts Committee on page 92.

Risk classification

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

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

During the period, the Board, through the Risk Management and Conflicts Committee, kept the RMF under review. Full details of this can be found in the report from the Chair of the Risk Management and Conflicts Committee on page 92. We carry out a robust assessment of the emerging and principal risks facing the Bank, including those that would threaten our business model, future performance, solvency and liquidity. These are detailed at a high level below. The types of principal risks to which the Bank is exposed have not changed significantly since our Annual Report for FY22/23.

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

Key

Level 1 Risk Type

Level 2 Risk Type

Risk Management continued

The Bank has defined and agreed risk mitigations and its risk appetite for each of our Level 1 principal risks. These were reviewed during FY23/24 and the risk appetite statements simplified to aid understanding. A revised suite of Key Risk Indicators has also been introduced to more closely monitor these on an ongoing basis. A summary of the definitions and appetite statements in relation to the different principal risks is outlined below.

Risk trend from 2023 reporting year
▼ Decreased risk ▶ No change to risk ▲ Increased risk

The Bank's Principal Risks

Level 1 Risks	Definition	Principal Risk	Risk appetite statement	Controls and Mitigants	Trend
Mission	The risk that the type, kind, or number of investments or loans originated or held by the Bank are not sufficiently aligned to a mission or fail to deliver the desired benefits.	**Mission alignment** The Bank is exposed to the risk that its investments are not aligned with or do not perform well against its missions.	The Bank has a low appetite for failing to deliver the expected mission impact ambitions.	◆ Impact thesis created for each investment considered throughout investment governance process. ◆ Impact related covenants included in Investment Agreements. ◆ Key Risk Indicators and risk reports assess mission concentration. ◆ Active portfolio management and reporting processes. Quarterly consideration at Valuations Committee and six-monthly Board reporting against mission-aligned Impact Ambitions.	▶ Unchanged
Investment	The risk of losses or write-downs due to failed loans, investments or inadequate portfolio management.	**Investment performance** The Bank is exposed to the risk of poorly performing or loss-making investments in the Bank's investment portfolio.	As a development bank, the bank will seek out underinvested risk which by its nature will be high risk. The Bank therefore has a high appetite for investment risk. There is a low appetite for losses due to inadequate controls over the investment process or inadequate portfolio management.	◆ Robust investment governance process, which reviews the commercial, financial and impact cases for investment. ◆ Independent second line risk analysis for each investment and at portfolio level. ◆ Investment management process oversees ongoing financial and non-financial performance.	▲ Increased
Financial	The risk of unstable capital or liquidity arising from fluctuations in funding streams, investment returns, financial performance, or external factors.	**Financial Management** The Bank is exposed to the risk of annual budgetary challenges due to the funding reliance on the Scottish Government and restrictions on our ability to fully reinvest proceeds from future investment exits under current Scottish Government accounting frameworks. This may limit new investment commitment if large parts of future capital budgets are reserved for investment commitments not yet drawn.	The Bank accepts the funding risk associated with relying solely on the Scottish Government for its funding. The Bank has a low risk appetite for not having the ability to recycle capital, recognising it is the ambition of both the Bank and Scottish Government for the Bank to be a perpetual institution. The Bank has a low appetite for inaccurate and untimely financial reporting.	◆ Bank ExCo have regular engagement with Shareholder to discuss financial performance and funding model and continue to push for solutions on financial flexibility over budget periods and multiyear budget settlements. ◆ Annual budget approved by ExCo and Board and regularly monitored throughout the financial year. ◆ Segregation of duties and review controls in place for all key financial processing and reporting processes.	▲ Increased

Risk Management continued

The Bank's Principal Risks continued

Level 1 Risks	Definition	Principal Risk	Risk appetite statement	Controls and Mitigants	Trend
Operational	The risk of direct or indirect losses resulting from inadequate or failed internal processes, people, and systems or from external events.	**Operational resilience** The Bank is exposed to the risk of disruption to its business operations through weaknesses or failures in processes, systems, people, suppliers, or physical premises.	The Bank has a low appetite for operational risk.	◆ Risk and Control Self-Assessments undertaken for each Business Area on a six-monthly basis. ◆ Business continuity management framework (business impact analysis, Business Continuity plans, disaster recovery process, incident management process, etc.). ◆ Policy suite in place to provide coverage over all key risk types.	▶ Unchanged
Environmental, Social and Governance	The risk that the Bank fails to protect the environment, enable strong social outcomes and embed strong corporate governance practices, including compliance with laws and regulations.	**Regulatory and legal compliance** The Bank is exposed to the risk of non-compliance or a breach of an applicable law, policy, or regulation to which the Bank is subject, leading to financial penalties, reputational damage and/or action from the Scottish Government/regulator.	The Bank has a low appetite for risks arising from a failure to establish, maintain and develop frameworks for the management of ESG risk, including a low appetite for compliance errors and breaches.	◆ Robust Board-level oversight of conduct and compliance culture. ◆ Compliance and Financial Crime checks embedded in investment process. ◆ Contract reviews by Legal function and (on a risk-basis) external firms. ◆ Regular training for all staff on compliance topics, including at induction.	▶ Unchanged
Culture	The risk that the Bank's culture does not align to the desired values, impeding the achievement of business objectives.	**People** The Bank is exposed to the risk that the organisation is not able to recruit, develop and retain staff with the right skills, experience, and values to deliver against the Bank's strategic objectives.	The Bank has a low appetite for any behaviour that goes against the Bank's values.	◆ Culture and values development programme. ◆ Regular employee engagement surveys. ◆ Performance and behaviour management process aligned to corporate goals/ risks. ◆ Learning and development programme, including induction. ◆ Culture of transparent staff communication. ◆ Diversity policies, training, and reporting.	▶ Unchanged
Stakeholder Risk	The risk that the Bank fails to meet stakeholder expectations due to actions by its staff, partners, third parties or invested companies.	**Stakeholder engagement** The Bank is exposed to the risk that it fails to engage with its key stakeholders, principally the existing financial and business ecosystem within Scotland, and its Shareholder, the Scottish Government.	The Bank has a low appetite for reputational risk due to actions by its staff, partners, third parties or invested companies or from failing to proactively manage reputation.	◆ Reputational risk monitoring report regularly presented to ExCo and Board, and proactive actions taken. ◆ Balanced scorecard with reporting format and frequency agreed with Shareholder. ◆ Engagement and communications strategy.	▶ Unchanged

Risk Management continued

Emerging risks

The Executive Committee regularly considers the principal risks and emerging risks both internal to the Bank and at a macroeconomic level.

Our key risks are assessed through the Risk and Control Self-Assessment (RCSA) process undertaken on a six-monthly basis. This is undertaken for each business area and captures the key risks facing the Bank in the next 12 months. Controls are documented and additional actions captured where the risk level exceeds our tolerance level.

This is supplemented by a regular assessment of emerging risks. Emerging risks are those whose effects have not yet been substantially felt by the Bank and/or those beyond the 12-month time horizon of RCSA. The emerging risks are assessed and actions implemented where required to protect the Bank.

Many of the emerging risks identified by industry publications are already being addressed directly as part of our strategy and missions. These include climate change, lack of economic opportunity and energy security (through our involvement in ScotWind).

Additional emerging risks that we have considered which are over and above our strategic focus include, but are not limited to:

- **UK/Scotland elections:** Upcoming elections increase the level of political uncertainty and external focus in relation to the Bank. This may include online misinformation and disinformation in relation to the Bank in the lead up to the elections. The Bank actively engages with our Shareholder, ministers and the media to manage our reputation with all stakeholder groups.
- **Government budget restrictions:** Economic headwinds have increased the strain on government finances. As we currently rely on government funding, this increases the risk relating to the annual budget settlements required to deliver our strategy and missions. We continue to work with our shareholder to identify an approach to the structure of our funding that support our role as a patient capital investor.
- **Market effects of high interest rates:** The ongoing high-interest rate environment means that highly indebted small and medium-sized enterprises may struggle. We consider such macroeconomic factors as part of the investment governance process. We also actively manage our portfolio of existing investees. This allows us to work closely with our investees in order to identify and mitigate any emerging concerns.
- **Cloud provider concentration:** There is an increasing reliance on a small number of cloud providers for key IT systems. We have a limited ability to influence the resilience capabilities and targets of these providers. We do, as far as possible, mitigate these risks through its business continuity and disaster recovery arrangements.

S172 Statement by the Directors

Under Section 172(1) of the Companies Act 2006 our Board has the responsibility to consider matters that include the likely consequences of any decisions in the long term; the interests of our people; the impact of our operations on the community and the environment; and the need to foster relationships with suppliers, customers, and others.

This section forms our Section 172(1) statement.

Our Board recognises the importance of strong relationships with our stakeholders and of understanding and having regard to their interests in its discussions and decision making. This is supported by our stakeholder engagement. We carried out our second stakeholder survey during the year. This survey combined both qualitative and quantitative input from stakeholders across the Bank's ecosystem, including the public sector, the business community and from other Financial Services providers.

A dedicated discussion on stakeholder engagement is included at every scheduled Board meeting. This report, in addition to others presented to the Board and our Committees, highlights interactions and engagement with our key stakeholders and insights into their views, in turn helping to inform the Board's decision-making.

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

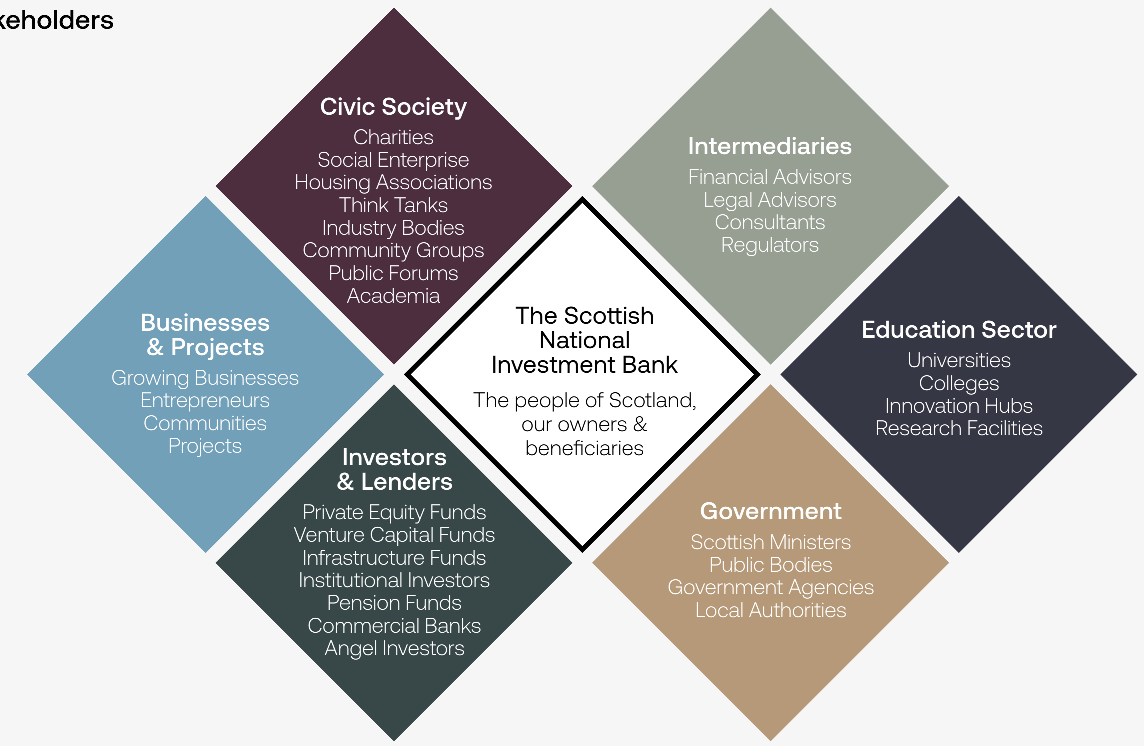
Stakeholders

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

A variety of activities have taken place in FY23/24, which support our Board's understanding of what matters most to our key stakeholders.

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

Stakeholders



S172 Statement by the Directors continued

Investee businesses

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

Examples of how we have engaged:

- We engage with our growing portfolio of businesses frequently, for example to integrate and report on impact as part of their business strategies and plans.
- We carried out our second survey of our investee businesses. This has provided insight into how our portfolio businesses perceive the Bank and will inform how we can make meaningful improvements.
- We delivered an Investing with Impact Event. This event was attended by a selection of our Non-Executive Directors, providing an opportunity to meet with our investee businesses and the wider ecosystem and hear feedback directly, as well as sharing their insights and experience.
- Regular reporting on our investment activity and portfolio, providing an opportunity for our Board and relevant Committee's to ask questions about our portfolio, and understand the interests and challenges faced by those businesses.
- During FY23/24, some members of our Board also took part in site visits.

Business community

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

Examples of how we have engaged:

- We regularly engage with potential co-investors, the advisory community, and representative bodies. For example, we are a member of Scottish Financial Enterprise (SFE), the representative body for Scotland's financial services industry and the British Private Equity & Venture Capital Association (BVCA) the representative body for private capital in the UK, and UK Sustainable Investment and Finance Association (UK SIF).
- Our Board recognises the value of sharing leading insights to generate a positive impact. The financial year has seen our profile grow in the ecosystem through increased engagement, including several successful hosted or co-hosted events. This has included our flagship conference in March 2024 that we held in partnership with The Scotsman and Insider, focusing on "Investing with Impact – Innovating across Scotland". At this event we brought together industry leaders, experts, and founders of businesses in Scotland. We have also published a range of leading insight papers, focusing on impact investing and on Scotland's 'just transition' to net zero.
- Our Non-Executive Directors and senior leaders across the Bank regularly attend, and speak at, conferences and events.
- We carried out our second 'Stakeholder Survey' with input sought from representatives across both the public and private sector.

Shareholder

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

The Minister with responsibility for the Bank has changed during the year. Following the election of the First Minister, Neil Gray, MSP, took over responsibility for the Bank as Cabinet Secretary for Wellbeing Economy, Fair Work and Energy. Mr Gray was appointed to the role on 29 March 2023. Following a cabinet reshuffle, Ms Màiri McAllan was appointed as the Cabinet Secretary for Wellbeing Economy, Net Zero and Energy in February 2024.

Examples of how we have engaged:

- The Chair, Senior Independent Director, members of the Executive Committee and other senior leaders from across the Bank, interact and meet regularly with the Scottish Government's Shareholder team.
- The Chair and members of the Executive leadership team have quarterly meetings with Ministers.
- A Shareholder's representative attends Board meetings as an observer.
- The Board meets with the Shareholder at the Annual General Meeting (AGM). We hosted our AGM in September 2023, which was attended by members of the Executive Committee, the Company Secretary, the Chair of the Board, and the Chairs of each of our Committees. The AGM provides an opportunity for direct engagement and for the shareholder to ask questions.

S172 Statement by the Directors continued

Regulators, policymakers, government, and other bodies

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

Examples of how we have engaged:

- Meetings with key partners in the policy landscape, including non-governmental organisations, to inform the Bank's understanding of developing policy and the views and perspectives of the wider ecosystem. For instance, we have engaged at a policy level on key strategic workstreams for the Bank including housing, with particular reference to rural housing, decarbonising transport, heat and buildings, energy, ScotWind, hydrogen and natural capital.
- Obtaining FCA authorisation for Scottish Investments Limited remained a focus for the financial year. As part of this, we have been in dialogue with the FCA.
- Senior representatives for the Bank have met with Parliamentary Committees, including in 2023/24 with the Economy and Fair Work Committee twice, and also with the Net Zero, Energy and Transport committee.
- Through a programme of ministerial engagement and political engagement, aligned to the Bank's strategic priorities, including development of the offshore wind supply chain and support for scaling innovative businesses. These programmes provide a valuable opportunity for two-way communication on key issues, as well as allowing the Bank to share its strategy and insights. They also support the Bank's awareness of policy and regulatory developments.
- Meetings with other public sector partners, including British Business Bank, UK Infrastructure Bank (with whom we signed a memorandum of understanding shortly after the end of the financial year), the Development Bank of Wales, and enterprise agencies.
- We have partnered and worked with several organisations in respect of Equality, Diversity, and Inclusion, helping us to shape our own ambitions in this area, and learn from other's experiences. We are a member of the Non-Departmental Public Bodies Equalities Forum, a Scotland wide group.

Communities and environment

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

Examples of how we have engaged:

- Our Board and Committees receive regular reports on the non-financial impact of the Bank's investments.
- In 2022, the Board agreed to appoint a Non-Executive Director with designated responsibility for climate risk and opportunities. Jacqueline Redmond was appointed to this role.
- The Board confirmed our ambition to support the recommendations from the Taskforce on Climate Related Financial Disclosures (TCFD). We continue to engage with peer organisations in relation to TCFD and with the Scottish Government and other organisations (such as the Sustainable Scotland Network) to discuss future policy direction and reporting requirements on climate risk.
- We are also a member of the Public Sector Environmental Managers Forum. This Forum shares best practice across Scotland in relation to the environment, including carbon reporting.
- The Board is also supported in relation to ESG matters by the Risk Management and Conflicts Committee. This Committee receives regular updates on climate and other environmental matters and reviews progress made against our ambitions in this area.
- A more detailed explanation of how we approach 'Sustainability' is included on pages 22 to 30.

The Scottish community is at the heart of our missions. We are extremely ambitious about our role to create insight, deliver investment and generate positive impacts for Scotland's communities, society, environment, and the economy.

S172 Statement by the Directors continued

People and culture

Our team is our greatest asset. We want to continue to be a positive place to work. The wellbeing, skills, expertise, and motivation of our team are vital to the successful delivery of our strategic ambitions. In the past year we have also set out a new 'People Promise' supported by clearly articulated values, to help set direction for our culture.

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

We have previously reported that the Board had taken an 'alternative arrangements' approach to workforce engagement. The Board have appointed a Non-Executive Director with designated responsibility for workforce engagement. Carolyn Jameson was appointed to this new role. We will continue to develop the way in which workforce engagement is delivered. However, Carolyn's appointment has continued to help inform the Board and Committee decision making by creating an additional way for the voice of our team to be heard.

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

Examples of how we have engaged:

- Through Team Voice, our employee representative forum. This Forum provides a platform for our team to share their interests and influence change. Team Voice met with our workforce engagement Non-Executive Director directly in FY23/24.
- Team Voice also met with the Remuneration and Nominations Committee, helping to bring employee interests into a strategic discussion on People-related initiatives and the Bank's people proposition.
- "Town Hall" sessions, where the Bank team come together in person, hosted by both the Chair of the Board and the Chief Executive Officer.
- The Executive Director, People and Culture, reports regularly to the Board, and the Remuneration and Nominations Committee, on workforce matters, covering topics raised by our People, employee-related trends, and employee sentiment.
- Our Board and the Remuneration and Nominations Committee review biannual People engagement surveys, providing insights into the views of our team.
- A wide range of the Bank team attends Board and Committee meetings, on a formal basis, to present and discuss reports.
- Less formal interactions also take place regularly with our Non-Executive Directors, including at employee events held in the financial year.
- Whistleblowing procedures are in place to allow our team to raise matters of concern in confidence. The Chair of the Audit Committee is the Bank's whistleblowing champion and responsible for overseeing the integrity, independence, and effectiveness of our whistleblowing procedures.

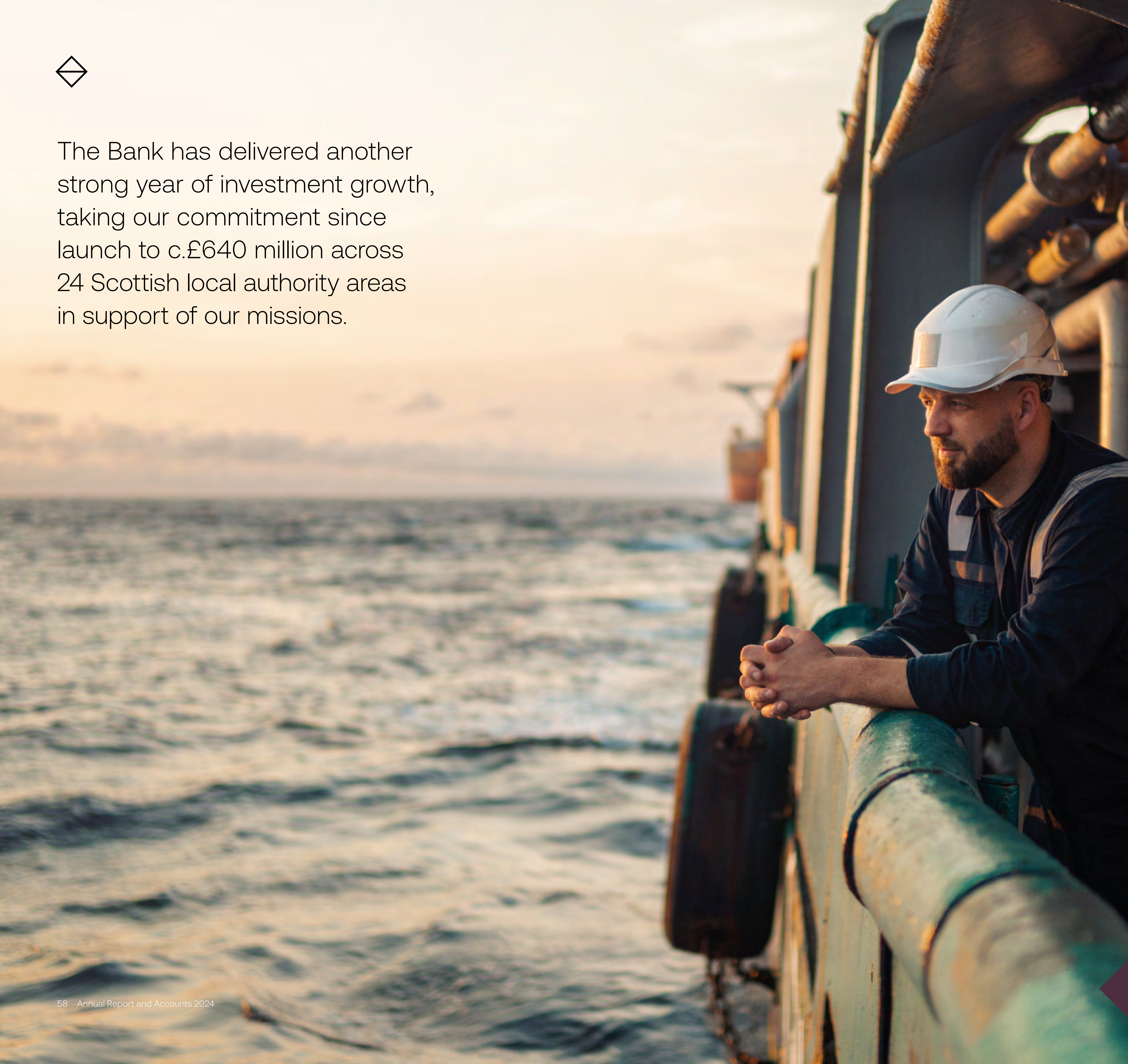
Our team is our greatest asset. We want to continue to be a positive place to work. The wellbeing, skills, expertise, and motivation of our team are vital to the successful delivery of our strategic ambitions.

Business partners and suppliers

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

Examples of how we have engaged:

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



The Bank has delivered another strong year of investment growth, taking our commitment since launch to c.£640 million across 24 Scottish local authority areas in support of our missions.

Corporate Governance Report

Chair's Governance Introduction

On behalf of the Board, I am pleased to introduce our Corporate Governance Report for the year ended 31 March 2024. The Corporate Governance Report sets out our approach to effective corporate governance. It also outlines key areas of focus for the Board in the financial year as we continue to drive long-term value and delivery of our strategy.

We are proud to be Scotland's development bank and, as a Board, are delighted to have overseen another year in which we have built momentum as a purpose led organisation within the Scottish investment landscape. Amongst the challenges of the economic environment, I am pleased that the Bank has delivered another strong year of investment growth, taking our commitment since launch to c.£640 million across 24 Scottish local authority areas in support of our missions.

Board developments

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

Michael Robertson was appointed to the Board in June 2022 as Interim Chief Financial Officer and I am delighted that this appointment was made permanent in October 2023. Al Denholm was appointed to the Board in May 2023 as Chief Executive Officer. Sarah Roughead resigned as a Director in December 2023 and we thank Sarah for her service to the Bank.

The Remuneration and Nominations Committee and the Board also spent time, in the year, reviewing the long-term succession planning for the Board and key roles within the Bank. My reappointment as Chair of the Board was approved by the Scottish Ministers with effect from November 2023 for a further four years. The Scottish Ministers also approved the reappointment of Carolyn Jameson, Peter Knott, Dr Jacqueline Redmond and Jonathan Taylor as Non-Executive Directors of the Board. Carolyn Jameson and Peter Knott were reappointed for a further four years and Dr Jacqueline Redmond and Jonathan Taylor were reappointed for a further three years.

We initiated a search process, in accordance with the Public Appointments process, to identify a further independent Non-Executive Director who would also serve as a Non-Executive Director to the investment arm of our Group, Scottish Investments Limited. This recruitment process was successfully concluded with the recommendation to appoint Gary Page. This recommendation was also approved by the Scottish Ministers and Gary was appointed in February 2024 for a four-year term.

The succession plan for the Non-Executive Directors that are reaching the end of the period of their initial tenure will continue to be a key focus for FY24/25.

Our governance framework

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

Our Corporate Governance Report provides further details on how the Board has operated during the reporting period and our governance arrangements. The reports from each of the committees are included on pages 82 to 99 and the Bank's statement of compliance with the UK Corporate Governance Code 2018 on page 70.

Board strategy

More than anything our missions shape what we do. The Board wholeheartedly supports the focus on strategic priorities that will enable the Bank to drive action around the grand and inter-related societal challenges in Scotland, including the climate emergency, place-based inequality, and innovation challenges. We are also determined to continue to learn and improve on what we already have in place. The Board has therefore continued to devote considerable time to the strategic drivers in the business and the challenges and opportunities of the Bank. As evidence of our strategic focus, I am pleased the Board came together with members of the Executive Committee for a dedicated off-site day in September 2023 to consider and ensure the Bank has the right long-term strategy. The key drivers of that strategy are more fully set out on pages 70 to 77.

The Board calendar has also seen consideration and oversight of important strategic initiatives, including the Bank's role as a key enabler for the ScotWind strategic market opportunity and challenge. The Bank launched three key strategies in the previous year: in respect of active investment origination, stakeholder engagement, and Equality, Diversity and Inclusion. We have continued to support and review the delivery of these strategies, of which there has been positive progress. For instance, in respect of Equality, Diversity and Inclusion, we have a key strategy and delivery group within the Bank solely dedicated to driving positive change. The year has also seen the Board engage in several deep dives into areas of the business to gain a greater depth of knowledge to inform our strategic and operational priorities, including in respect of investment origination, impact, and our approach to portfolio management.

Impact

The social, environmental, and economic returns delivered by the Bank's mission impact and our sustainability ambitions have continued to be a Board and Committee focus. Our most recent Annual Impact Report was published in May 2024. Approved by the Board, this report demonstrates our commitment to deliver impact for Scotland.

To demonstrate our commitment to impact investing we also sought independent, external verification of our alignment to the Operating Principles for Impact Management (OPIM). BlueMark, a leading provider of impact verification services, independently reviewed our alignment with the OPIM, identifying 'Advanced' or 'High' alignment across seven of the eight principles. In comparison to our direct peers (other DFIs), we outperformed the peer group median across four pillars while achieving parity on three others. Further details can be found in our PIM Disclosure Statement and Verification Report (www.thebank.scot/bluemark-verifier-statement).

Chair's Governance Introduction continued

The Bank's climate-related initiatives have continued to develop throughout the year. In terms of our governance framework, the Risk Management and Conflicts Committee has a defined responsibility for climate-related matters and climate-related risk is a key component of the risk management framework.

We have also seen continued improvements in our emission data collection methods and we published our 'Pathway to Net Zero - Carbon Management Plan' during the year.

The Board continues to support disclosure against the recommendations of the Taskforce on Climate-Related Financial Disclosure (TCFD) framework and I am delighted that the Bank's first TCFD Report was published during the year.

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

More information on the Bank's approach to impact and climate risk can be found on pages 18 to 30, and more generally on the activities carried out by the Board during the year on pages 70 to 77.

Engagement

Positive relationships with our key stakeholders continue to be essential to the long-term success of the Bank and this year has continued to see improvement and strengthening in our stakeholder engagement processes. You can read more about our stakeholder engagement activities on pages 51 to 57. Our People make the Bank what it is, and we recognise that engagement with our team is vital, particularly during the challenging times we have seen in the external environment in the year. Our two-way communication with the Bank's team continued to be supported by the appointment of a designated Non-Executive Director for workforce engagement. We continue to see demonstrable benefits in supporting the Board's oversight of matters related to our People and that the interests of our team are considered in decision-making.

Final thoughts

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

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

Willie Watt
Chair of the Board

Directors' Report

The Directors present their annual report on the affairs of the Bank, together with the audited financial statements and independent auditor's report for the year ended 31 March 2024.

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

- A description of the principal activities of the Group during this year is included in the Strategic Report on pages 5 to 57.
- The Group's risk management disclosures are set out in the Strategic Report on pages 42 to 50.
- Information on our employment disability policies, gender pay gap, and our actions on colleague engagement is in the Annual Report of Remuneration on pages 100 to 111.
- Details of significant post balance sheet events are contained in note 25 to the financial statements.
- Information about the use of financial instruments by the Bank and its subsidiaries is given in note 2 to the financial statements.
- Details on sustainability and the Bank's approach to ESG and how we will meet our statutory and voluntary reporting requirements is included in the Task Force on Climate-Related Financial Disclosures (TCFD) section on pages 24 to 30.

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

Dividends

The Directors do not recommend payment of a dividend (2023: nil).

Gifts

No gifts were made by the Bank (2023: nil). The cumulative value of gifts received by staff was de minimis (2023: nil).

Ownership and Shareholder governance

The Bank is wholly owned by Scottish Ministers on behalf of the people of Scotland. During the year, 213,552,160 ordinary shares of £1 each were issued to Scottish Ministers (2023: 129,903,810). As at 31 March 2024, 492,709,291 (2023: 279,157,131) shares were held in issue. The Bank did not purchase its own shares in the relevant period (2023: nil).

Directors' indemnities

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

Accounts direction

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

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

Directors' Report continued

Going concern

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

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

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

Long-term viability statement

The Bank's continuation as an entity is ultimately at the discretion of the Scottish Government.

The Board considered that the Bank has and will continue to have Scottish Government support and that its funding arrangements will remain in place. The Directors have based their assessment of viability on the Bank's business plan which is updated and approved annually by the Board.

To be a viable business, the Bank must successfully fund its balance sheet and hold adequate capital and liquidity over the entire period covered by its viability statement.

The Directors have determined that a four-year period from the financial year end is an appropriate period over which to provide its viability statement.

This is the period over which the Board considers that it can form a reasonable view of the key drivers of the Bank's performance including likely investment profile and value, together with operational costs until the next phase of the Bank's evolution in managing third party capital. With limited historical data and history of evolution of the pipeline, given the early stage of the Bank, further forecasting assumptions become less reliable until these are in place.

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

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

Statement of Disclosure of Information to Auditor

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

Auditor

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

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

Al Denholm
Chief Executive Officer
3 July 2024

Board of Directors

Willie Watt

Chair

Chair Designate July 2019 and Appointed as Chair in November 2020. Term expiry November 2027.

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

Al Denholm

Chief Executive Officer

Appointed Chief Executive Officer May 2023.

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

Candida Morley

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

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

Tracey Ashworth-Davies

Chair of Remuneration and Nominations Committee

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

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

Carolyn Jameson

Appointed to the Board in November 2020. Term expiry November 2027.

Carolyn is an experienced leader of technology businesses, with particular exposure to scaling businesses to exit events. She was previously Chief Trust Officer at Trustpilot at IPO, and prior to that, Chief Legal Officer at Skyscanner, where she led the sale of the business for £1.46 billion, and subsequently became Head of International M&A for Ctrip. She is on the Advisory Board of Scottish Equity Partners, acts as a non-executive director on a number of company boards including AIM listed Ten Lifestyle Group, and flights comparison website, Dohop.

Peter Knott

Chair of Audit Committee

Appointed to the Board in November 2020. Term expiry November 2027.

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

Key to appointments

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

Board of Directors continued

Jason McGibbon

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

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

Nicholas Moon

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

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

Gary Page

Appointed to the Board in February 2024. Term expiry November 2027.

Gary is an experienced banker having worked in the City of London for over 20 years in a range of investment and commercial banking roles primarily with ABN AMRO. He has subsequently built a non-executive portfolio and is currently Chair of Triodos Bank UK (TBUK), the UK subsidiary of Triodos Bank NV, one of Europe's leading sustainable banks. Gary helped TBUK secure its banking license from the Bank of England in 2018 when it became a subsidiary. Gary is also a non-executive director of the Student Loans Company and sits on Employment Tribunals. He has a degree from Cambridge University.

Jacqueline Redmond

Chair of Risk Management and Conflicts Committee

Appointed to the Board in November 2020. Term expiry November 2026.

Jacqueline is a champion of sustainable innovation and delivering a just net-zero transition. She currently chairs CENSIS, the SME Innovation Centre for sensing, imaging, and IoT technologies. Previously, she led Strathclyde University's PNDC industrialisation centre delivering decarbonisation solutions through whole energy solutions. Her experience includes roles as Chief Risk Officer at the Green Investment Bank, and executive roles at Shell and Scottish Power. A Chartered Engineer, Jacqueline holds degrees from both Strathclyde University and Paisley College of Technology.

Michael Robertson

Chief Financial Officer

Appointed as Chief Financial Officer in October 2023.

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

Jonathan Taylor

Appointed to the Board in November 2020. Term expiry November 2026.

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

Key to appointments

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

Our Governance Approach

The UK Corporate Governance Code

Other than those aspects set out in this Annual Report, the Board can confirm that the Bank has complied with the Code during the financial year insofar as it relates to the Bank. Details of how we have complied with the Code are set out more fully in this report, the Committee Chair reports, and the Annual Report on Remuneration. Details of areas of partial or full non-compliance are set out in the Audit Committee report on page 86. We also describe how we have engaged our workforce and stakeholder engagement under s.172 of the Companies Act in our Strategic Report. FCA listing rules are not applicable to us.

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

Our governance approach

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

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

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

Board members

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

As at the date of the publication of this report, the Board is made up of a Non-Executive Chair, two Executive Directors (the Chief Executive Officer and Chief Financial Officer) and nine other independent Non-Executive Directors. For part of the year, the Bank had an Interim Chief Executive Officer and the Chief Financial Officer was the Interim Chief Financial Officer prior to their permanent appointment. Current Director biographies are set out on pages 66 to 69.

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

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

Board appointments and reappointments

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

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

Board diversity and inclusion

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

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

The Board is committed to having a diverse and inclusive membership. Women represent 33% of the Board, and 33% of our Executive Committee, at 31 March 2024. However, we also recognise there's room for improvement. For example we are mindful that our gender diversity at Board and at the Executive Committee has declined since the previous year, and there is no ethnic diversity on our Board. For any Board vacancies that may arise in the future, we are committed to working proactively with the Scottish Government on the search and selection process to attract as diverse pools of applicants as possible.

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

Board independence

Consistent with the Code, there has been a division of responsibilities between the Chair and the Chief Executive Officer during the financial year – and at least half of the Board, excluding the Chair, are considered to be independent Non-Executive Directors. The public appointment process in 2020 determined that all Non-Executive Directors were free from any relationship or circumstance that could affect or appear to affect, their independent judgement. Any conflicts that may later arise are managed in accordance with the Bank's conflict of interest and Code of Conduct policies. Please see below for further detail.

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

The Chair is tasked with effective leadership of the Board, setting its agenda, enabling the Board's effectiveness, fostering a constructive and appropriate challenge of the performance and strategic initiatives of the Executive by the Board. It is also the Chair's responsibility to maintain external relationships with key stakeholders, including the Scottish Ministers.

During the year the Chair met with the Non-Executive Directors without management.

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

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

Our Governance Approach continued

The Chief Executive Officer is also accountable for the day-to-day running of the Bank, working collaboratively with the Chair, the Board, Scottish Ministers and with partners and stakeholders across the private, public and third sectors. During the reporting period, the Interim Chief Executive Officer and then the Chief Executive Officer has been the senior executive of the Bank, carrying out these responsibilities, and having overall accountability for the implementation of the Bank's business strategy in line with policies and plans agreed by the Board. During the year, the Interim Chief Executive Officer and then the Chief Executive Officer was the Accountable Officer and, therefore, personally accountable to the Scottish Parliament in relation to governance, internal controls, and the stewardship of the Bank's resources. The Accountable Officer's report is set out in pages 112 to 113.

Directors' conflicts of interest

The Board has established policy and procedures to identify and disclose potential and actual conflicts of interest. A Code of Conduct is in place.

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

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

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

Executive leadership

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

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

Board and committee structure

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

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

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

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

Committee overview

Audit Committee	Remuneration and Nominations Committee	Risk Management and Conflicts Committee	Valuations Committee
Assists the Board in its oversight of the integrity of the financial statements and any other formal announcements relating to its financial performance; monitoring the adequacy of internal financial controls; and monitoring the independence and performance of the internal audit function and the external auditors.	Assists the Board in its oversight of remuneration by overseeing the management of pay and reward practices; and makes recommendations to the Board in relation to the development and implementation of reward policies and practices to support the Bank's long-term strategy and values. Also supports the Board, with the agreement of the Scottish Ministers, Board composition and Board and Executive succession.	Assists the Board in its oversight of the effectiveness and robustness of the risk management systems and processes, including its risk management framework, risk appetite and tolerance, and assessing the adequacy of the non-financial internal controls. Plays a leading responsibility in the oversight of the climate-related strategies, statements, policies and procedures.	Assists the Board in its oversight of the investment portfolio and valuations methodology, policies and valuations processes, considering specific valuations of individual investments and the investment portfolio as a whole. Plays a critical role in oversight of the investment process, and in monitoring the financial and non-financial impact of the performance.
See pages 82 – 87 for full details of the Committee's role.	See pages 96 – 99 for full details on the Committees' role.	See pages 92 – 95 for full details on the Committee's role.	See pages 88 – 91 for full details on the Committee's role.

Regular reporting post each Committee meeting

The Board

Our Governance Approach continued

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

In line with the Code, all directors have access to the advice and services of the Bank's Company Secretary in relation to the discharge of their duties on the Board and any Committees they serve on including on all matters related to the Bank's governance. Any Director may also, at any time, take independent professional advice at the Bank's expense.

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

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

Board and committee effectiveness

The effectiveness of our Board is critical to our success.

The Board has committed to an independent evaluation of its effectiveness at least once every three years and the first independent evaluation has been completed. The report concluded that the Board and its committees are effectively constituted and operate professionally and there are no significant areas of concern regarding compliance with the principles of the Code.

That said, we take continuous improvement very seriously and there are points, and an agreed action plan for further improvement and an action plan for areas of further improvement has been agreed, ensuring we continue to evolve our governance to fit with our increasing maturity. Delivery against that plan will be monitored by the Chair and Company Secretary.

The Board also considered its performance and ways of working during the year at the dedicated strategy day, which also considered key areas of strategic focus. More details on the Strategy Day can be found on page 75. The number of Board meetings, in year, was kept under review to maintain the balance of oversight and strategy.

There have been further enhancements around meeting materials and reports, with the continued development of metrics and reports to better support the Board and Committees.

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

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

Board development

On appointment, the Board received an induction process covering aspects of the Bank's governance. During FY23/24, the Directors participated in internal training sessions on subjects including the ScotWind Initiative. We will continue to build further training sessions into the Board schedule for 2024.

Board activity FY23/24

During the year, the Board met for 11 Board meetings. Board member attendance at full Board meetings is provided at page 78. In addition, under Board delegated authority, a sub-group of the Board met for a number of meetings for administrative matters. A full Strategy Day was held in September.

Spotlight: Strategy Day

The Board and Executive leadership met in person in September 2023 for the Board's second Strategic session. Led by the Chair of the Board, the focus of the day was to define the Bank's ambition for 2030, and what will be needed to achieve it. Run as a series of mini-workshop sessions, the day consisted of:

- Reflections on the 2022 Strategy Day outputs
- Our missions
- The Bank as a perpetual institution
- Ways of working
- Investment methodology and execution

The spotlight overleaf provides a summary of some of the activities carried out by the Board during the year but does not represent all items considered. For example, the following activities have been carried out by the Board on a frequent basis during the financial year:

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

Our Governance Approach continued

Spotlight: Board activities in the year

June 2023

- Considered the Group strategic initiative to support the ScotWind programme
- Approved publication of Annual Report and Accounts and Financial Statements

September 2023

- Dedicated Strategy Day
- Deep dive into investment methodology and execution
- Considered appointments to the subsidiary boards
- Considered the Group strategic initiative to support the ScotWind programme
- Considered the Group strategic initiative to support third party capital strategy
- Considered the output of the Staff survey

October 2023

- FY24/25 Budget
- Considered the Group strategic initiative to support the ScotWind programme
- Considered the Group strategic initiative to support third party capital strategy
- Considered the TCFD Report
- Considered the Carbon Management Plan

December 2023

- FY24/25 Business Planning including financial projections to FY27/28

January 2024

- FY24/25 Business Plan, Financials and Corporate Performance Objectives
- Approved the Bank's financial and operating plans for 2024/2025

March 2024

- FY24/25 Business Plan
- Considered the output of the staff survey

Internal controls

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

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

A more detailed report on the Bank's internal control systems and risk management framework and processes is provided on pages 42 to 50.

Public Services Reform (Scotland) Act 2010

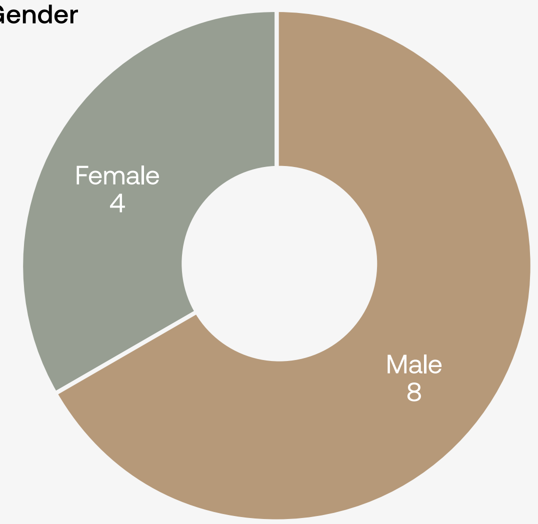
We are required under the Public Services Reform (Scotland) Act 2010 to publish information on expenditure and certain other matters as soon as reasonably practicable after the end of each financial year. This information will be made available at www.thebank.scot

Corporate Governance Snapshot

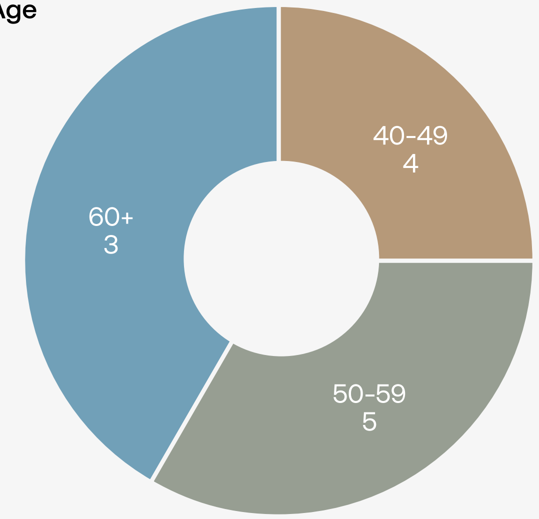
Our Board diversity

In addition to details set out in Our governance approach, this section provides some highlights about our governance. Please note that the figures in this section are based on Board composition as at 31 March 2024.

Gender



Age



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

Board attendance

	Held	Attended
Willie Watt	12	12
Tracey Ashworth-Davies[1]	12	11
Carolyn Jameson	12	12
Peter Knott[1]	12	11
Jason McGibbon	12	12
Nicholas Moon[1]	12	11
Candida Morley	12	12
Dr Jacqueline Redmond[1]	12	11
Sir Jonathan Taylor	12	12
Michael Robertson	12	12
Gary Page[2]	12	1
Al Denholm[3]	12	10

1. Unable to attend one Board meeting due to a prior commitment. 2. Joined February 2024. 3. Joined May 2023.

Key priorities for the Board FY24/25

Enabling impact	◆ Continue to embed and evolve our impact management practices throughout our investment decision making processes. ◆ Build on our TCFD reporting and Carbon Management Plan and develop the scope of our environmental and social reporting. ◆ Establish shared communities of learning with our investee companies, and other partners, to grow our collective impact, insight and influence across the market. ◆ Deliver leading practice in impact investment building on how we work with our investee companies and by learning from others in the market.
Delivering investment	◆ Due to the Scottish Government's budgetary constraints, the Bank has less capital to deploy in FY24/25. Therefore we need to prioritise our investments. The businesses and projects being prioritised will be considered on the basis they: - Are forecast to have a positive, risk-adjusted, financial return. - Have strong potential to attract investment from the private sector alongside our capital. - Have strong potential to contribute to our missions and our Impact Ambitions as set out on page 11. ◆ In addition to the above criteria, additional considerations for investment in the year ahead will be: - Proven management teams – executive and/or board-level experience and success in relevant sector. - Revenue generating – opportunities should be revenue generating at time of investment. - Cash runways – opportunities should be able to demonstrate a cash runway of a minimum of six months before engaging with the Bank and to have two years once an investment completes. - Technology Readiness Levels (TRLs) – for innovation-led investment opportunities they should be at TRL 8 or higher. - Attracting additional investment – for every £1 we invest, there should be at least an additional £1 from private sector investors. ◆ ScotWind remains a strategic priority aligned to all our missions. We will continue to develop our pipeline of opportunities and investment proposition. Subject to budget confirmation, investment commitment(s) will be made to support critical and time-dependent infrastructure (that will be catalytic in terms of securing the wider supply chain). ◆ Support businesses in our portfolio to achieve their growth ambitions including through additional 'follow-on' finance.

Corporate Governance Snapshot continued

Key priorities for the Board FY24/25 continued

Insights, partnerships and reputation	◆ Enhance our capabilities for creating new markets, that build on our growing insights, experience, and networks. ◆ Publish and seek feedback on insights we develop from our investment experience and market engagement. ◆ Support the targeting of our investment activity, building our reputation and relationships on both our growing experience and on our analysis and insights. ◆ Use our insights and experience to work with teams across the public sector to support the creation of a policy and regulatory landscape that enables the delivery of our missions. ◆ Use our investments and insights to continue to build positive relationships with the media to ensure that the role and activities of the Bank are accurately understood across the ecosystem. ◆ To continue to build relationships and partnerships across the ecosystem that enable the delivery of our missions and our Equality Strategy.
Enabling private sector investment	◆ Continue to build on our co-investment model, extending our network beyond Scotland, by displaying a positive portfolio return, leading impact credentials and deep insights to the Scottish market to provide a compelling co-investor case. ◆ Develop approaches to advising or managing the capital of others and to start to formalize relationships with potential partners. ◆ Use our significant insights, networks and expertise in the local market as well as innovative financing structures to encourage significant private capital into ScotWind projects - both now and in the future. ◆ To ensure the structure of the Bank's legal entities is as effective and efficient as it can be for delivering investment, we will review our corporate structure.
People and culture	◆ Continue to support personal and professional development through formal and informal learning opportunities. Our focus for the year ahead will be to build on what we have, providing more clarity on career pathways to help the team plan their development needs. ◆ Improve how we attract and develop under-represented groups reflecting on recommendations from our Equality partners and our commitments under the Women in Finance Charter. ◆ In the last financial year, we developed a long-term programme of activity to reduce our gender pay gap, and we will make progress against this plan in the year ahead. ◆ Build on our flexible working culture to attract and retain industry talent. To aid this, we will provide clearer guidance for managers and teams to support flexible working.

Key priorities for the Board FY24/25 continued

Operational financial self-sustainability	In addition to the objectives for delivering direct investment and identifying an approach for managing third party capital, we will: ◆ Resolve budgetary challenges with a framework that supports the long-term strategic direction of the Bank, with flexibility across fiscal years to align with commercial investment profile and ultimately in being a perpetual fund. ◆ Invest in an appropriate mix of debt, equity and, where appropriate, fund opportunities to ensure a balanced income profile over time. ◆ Continue to build on our 'value for money' culture, considering and challenging ourselves around the cost, resource and quality requirements for our operational delivery.

Our key governance documents

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

Audit Committee Report

Committee attendance

The Committee meets at least four times a year, with meetings coordinated with external reporting timetable requirements. In FY23/24, the Committee met nine times, meeting quarterly and having additional meetings to support the Budget process, and to review the draft Annual Report and Accounts and Financial Statements.

	Held	Attended
Peter Knott (Chair)	9	9
Jason McGibbon[1]	9	7
Jonathan Taylor[2]	9	8
Gary Page[3]	9	2

1. Unable to attend two Committee meeting due to a prior commitment. 2. Unable to attend one Committee meeting due to a prior commitment. 3. Appointed February 2024.

I am pleased to introduce the Audit Committee report for the period ended 31 March 2024.

The Audit Committee has four members:

- **Peter Knott (Chair)**
- **Jason McGibbon**
- **Jonathan Taylor**
- **Gary Page (appointed 1 February 2024)**

The Board is satisfied that the Chair and the Committee members have significant and recent knowledge and experience of financial services with financial and investment experience relevant to a mission impact development bank. The appointment of Gary Page during the year has further strengthened the Committee.

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

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

- Budget submissions and forecasting and strengthened our understanding of matters related to the fiscal framework and potential consequences for the capital available for future investment.
- Worked with the Risk Management and Conflicts Committee, monitored the effectiveness of the internal control environment, considered Internal audit reports and actions relating to a broad range of key aspects of our control environment.
- Supported the integrity of the Bank's financial and non-financial disclosures.
- Assessed the effectiveness of the work of the external auditors and internal audit functions.
- Considered Group financial plans and external reporting including year-end Audit timetable and fees.
- Reviewed the Bank's performance, including the development of its balanced scorecard.
- Conducted an annual review of the Committee's effectiveness.
- Carried out a procurement process for the internal audit function.

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

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

Audit Committee Report continued

Financial reporting

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

Areas of key accounting judgement and significant estimates

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

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

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

Fair, balanced and understandable

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

Going concern

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

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

In the financial year ended 31 March 2024, income of £19.3 million was generated from the investment portfolio with operational expenditure of £16.1 million. The Bank remains reliant on Scottish Government funding for both investment and operational expenditure. The Scottish Government remains committed to providing £2 billion of capital to the Bank for investment over 10 years and specific assurances have been given to continue to fund the Bank's operational expenditure for 12 months from the signing of the financial statements.

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

Internal controls

The Committee provides oversight of the systems of internal controls over financial management and reporting, financial risks, treasury, and tax. There is an ongoing process to review and approve any material changes to relevant policies. During the year, the Committee carried out reviews and approved updates to several of those key policies. The Committee also met with the Group's tax advisors, EY. Were any instances to arise, the Committee would be notified as part of its reporting of any matters of concern raised regarding financial reporting, the integrity of financial management, or any allegations related to fraud. No such instances were notified.

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

Internal audit

During the year, the Bank carried out a procurement process for internal audit processes as the term of the appointment of Grant Thornton UK LLP was coming to an end. After a rigorous procurement process, the Committee approved BDO LLP as the outsourced provider of the Bank's internal audit function for a period of three years. Grant Thornton UK LLP have carried out the internal audit processes throughout FY23/24 and we thank them for their services. We look forward to working with BDO LLP.

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

At each quarterly meeting the Committee reviewed reports from the Internal Auditor evaluating the effectiveness of the controls and any system failings or weaknesses – and monitored progress against the Internal Audit Plan. For example, in the year, the Committee considered specific internal audit reviews on the Bank's risk management framework; the design and operation of key controls around recruitment, payroll and reward; the key controls around compliance with the freedom of Information legislation; the design and operation of key controls around Financial Crime and Anti Money Laundering; and the processes and controls around the management of the Bank's investment portfolio. In performing its review of the internal audit reviews, the Committee considered the judgements and conclusions of management. No control weaknesses were reported that could have a material impact on the Group's financial or non-financial performance. Actions and recommendations for improvement are agreed with management and effectively tracked and monitored by the Committee quarterly.

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

The Committee monitored the delivery of the FY23/24 internal audit plan and budget and received the Internal Auditor's Annual Report and Opinion providing an assessment of the control environment. In turn, this report supported the Committee's annual report to the Board on the effectiveness of the internal control framework.

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

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

Audit Committee Report continued

External audit

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

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

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

In addition, the Committee reviewed KPMG's external audit approach, including materiality, assessment of significant audit risks, being valuation of unlisted investments and the risk of management override of controls, and scope of the audit.

The Committee agreed with the audit approach and focus of work.

The Committee met with KPMG to discuss and review audit findings and the results of testing in key areas of focus. Discussion was focused on the valuation of investments, which are inherently subjective in nature and contain management assumptions. Audit findings that required addressing or resolution were resolved to the satisfaction of the Committee.

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

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

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

Full and Partial Non-Compliance with the Code Explained

- Principle 18, relating to the annual re-election of Directors for the reasons set out on page 70 of our Corporate Governance Report
- Provisions 25 and 26, as related to the approach to the appointment or reappointment of the External Auditor, which is (in our case) appointed by the Auditor General of Scotland
- Provision 34, in so far as the remuneration of Non-Executive Directors is set in accordance with the daily fee framework of the Scottish Government's Pay Policy for Senior Appointments
- Provisions 36 and 37, as relating to share awards and remuneration schemes and policies, as the Bank is required to operate within a pay and reward framework agreed with the Scottish Ministers. Share awards do not apply to the Bank.

UK Corporate Governance Code

During the year, the Committee considered our governance practices as compared to the Code, on behalf of the Board. See the box on page 86 for areas of full or partial non-compliance, which all relate to aspects of the Code that are not applicable to the Bank as an NDPB having the Scottish Ministers as our sole Shareholder.

Whistleblowing

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

Summary

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

Looking to 2024, a key focus will be ensuring an orderly transition of the internal audit service to BDO LLP.

Peter Knott
Chair of the Audit Committee

Valuations Committee Report

Committee attendance

The Committee meets at least four times a year, with meetings coordinated to support quarterly valuations cycles. In the year, the Committee met eight times.

	Held	Attended
Willie Watt (Chair)	8	8
Jason McGibbon	8	8
Jonathan Taylor	8	8
Nicholas Moon[1]	8	7

1. Unable to attend one meeting due to prior commitments.

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

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

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

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

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

The investment landscape has remained challenging with both business confidence and investor appetite negatively impacted by geopolitical risks, and dampened consumer and business demand. Against this backdrop the Committee's role in monitoring and supporting the Bank's approach to investment, and specifically portfolio management remains critical.

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

1. Reviewing the valuation policies of the Bank.
2. Ensuring the valuation methodology and practices in relation to investment assets remain appropriate.
3. Validating and recommending to the Board or the Audit Committee the valuations to be placed on investment assets for the purpose of financial reporting.
4. Reviewing the investment process and the operational arrangements for the Banks Executive decision making and the process by which it assesses investment propositions.
5. Reviewing and, where appropriate, challenging management's judgements about any unrealised gains or losses relating to the investments.
6. Working with the Risk Management and Conflicts Committee, to ensure risks inherent in the investment process and portfolio are properly considered.
7. Approving policies relating to ethical investment, investment risk and wider investment strategy.
8. Monitoring the specific financial and non-financial impact of the Bank's investments and portfolio including considering the Bank's annual Mission Report and Impact Report and recommending these to the Board for approval.
9. An annual review of the Committee's effectiveness.

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

Membership

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

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

- **Jason McGibbon**
- **Jonathan Taylor**
- **Nicholas Moon**

Nicholas is a member of the Risk Management and Conflicts Committee, and Jason and Jonathan members of the Audit Committee. This cross membership continues to support coordination between the three committees, strengthening connectivity and the flow of information. The Committee also welcomes the Chair of the Audit Committee, and external auditor, to observe scrutiny of the year end valuations. The Committee held a joint session with representatives from Audit Committee and the Risk Management and Conflicts Committee focusing on the approach to investment risk.

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

Valuations Committee Report continued

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

Portfolio performance

This year continued to navigate through significant economic challenges with ongoing geopolitical tensions and high inflationary environment driving up businesses' operating costs and impacting upon their supply chains. Against this backdrop negative investment sentiment has made fundraising more difficult for investee companies. Together these factors have weighed on the financial performance of a number of the companies in the portfolio.

A significant part of the £9.8 million unrealised loss for the year relates to adjustments reflecting underlying performance of the investee companies. Fair value movements, both positive and negative, to a lesser extent also relate to market variances over the year, which have resulted in a change to the fair value of debt investments that are valued under the International Private Equity and Venture Capital Valuation (IPEV) guidelines. These movements are largely a result of macro-economic factors rather than being a specific reflection on our individual debt investments, though we continue to monitor this closely as part of our quarterly valuation process. As a risk-taking development bank, while it is expected that not all of our investments will record a positive return, particularly at the early stage of investment, we continue to work towards a positive net return across our portfolio as a whole. It is therefore pleasing to see portfolio companies growing revenue and creating real investment and impact value which we expect to be recognised in future year's valuations.

Impact

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

The Committee has welcomed the steps being taken by the Bank to integrate leading impact investment processes in line with the Operating Principles for Impact Management (OPIM). The Bank became a signatory to OPIM during FY22/23. As part of this, the Bank is obligated to provide a Disclosure Statement to the Global Impact Investing Network (GIIN) within 12 months setting out how the Bank aligns with the Impact Principles. To ensure transparency and accountability the GIIN also requests that all signatories undertake an external verification exercise within the first two years of signing. The Bank commissioned BlueMark, a leading independent provider of impact verification services in the impact investment market to review our impact management practices against the Impact Principles. The Committee are delighted that, for all Principles, the Bank has either maintained its "Advanced" status or demonstrated improvements. BlueMark also endorsed our verification statement which has been published on our website and shared with the GIIN as required.

While a very high standard has been achieved, an action plan has been created to address any opportunities for continued improvement. The Committee will continue to oversee activity in FY24/25 as the Bank makes further progress in this important area.

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

Portfolio management

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

Target Rate of Return

The Bank aims to deliver a positive financial return on its investments over the longer term to support the Bank becoming financially self-sustaining and to ensure our investments enable the crowding in of private capital. We have now agreed a Target Rate of Return (TRR) for our investments with our shareholder. The TRR complements our mission impacts by setting out the rate of financial return we aim to deliver over time, across our investment portfolio. The TRR was set considering a broad range of factors, including our role as a development bank and a patient investor, the sectors in which we are likely to invest, and the anticipated mix of equity, debt and fund investments. The result of this is that we have initially agreed 3%-4% as an appropriate medium term TRR, to be formally tested at the end of FY25/26 as the Bank's portfolio matures, at which point it is the intention that a longer-term TRR is set.

The Committee continues to be actively involved in providing scrutiny of the methodology and analysis, on behalf of the Board.

Investment activity

At each of its meetings, the Committee received reports from members of the Executive Committee and of the investment team on the Bank's investment activity to assess progress at a portfolio level and the Bank's investment pipeline. The Committee also receives reports from Investment Risk on the portfolio and the investment pipeline. These reports support the identification of discernible trends and/or risks associated with the Bank's investment activity.

Investment origination strategy

During the year, the Committee considered, and recommended to the Board, a revised investment strategy to reflect the lower available capital in FY24/25, further focusing investment activity to where the Bank believes it can have the greatest impact and commercial returns.

Key policies

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

Willie Watt
Chair of the Valuations Committee

Risk Management and Conflicts Committee Report

Committee attendance

The Committee meets at least four times a year. In the year, the Committee met six times, including a joint session with the Valuations Committee and a joint session with the final Investment Committee.

	Held	Attended
Jacqueline Redmond (Chair)	6	6
Carolyn Jameson[1]	6	4
Nicholas Moon	6	6

1. Unable to attend two Committee meetings due to prior commitments.

I am pleased to present the Risk Management and Conflicts Committee report for the year ending 31 March 2024.

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

Its key responsibilities include:

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

Membership

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

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

Nicholas sits on the Valuations Committee and Carolyn sits on the Remuneration and Nominations Committee.

This cross membership strengthens connectivity between Committees particularly in the oversight of investment risk.

A joint session was held with the Valuations and the Audit Committee during the year focusing on the approach to investment risk. A joint meeting was also held with the Final Investment Committee during the year. Collaborative oversight between the Committee and particularly the Valuations and Audit committees will remain a focus for the year ahead.

The Chief Risk Officer and General Counsel was invited to attend Committee meetings, alongside other senior members of the Bank's team, including the Chief Executive Officer, and Executive Director for Partnerships and Engagement. The Bank's Company Secretary is Secretary to the Committee. Senior team members for Investment Risk, Operational Risk and Compliance are also standing attendees at Committee meetings.

During the year, the Committee also met with the internal auditor and held private meetings with the Chief Executive Officer and Chief Risk Officer and General Counsel, on occasion, following a scheduled Committee meeting. I also meet with the Chief Risk Officer and General Counsel and also with the Head of Compliance separately from the scheduled Committee meetings.

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

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

Oversight of risk management

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

Details of the risk management framework and processes in place to monitor risks, such as those headwinds, are available at pages 42 to 50.

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

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

During the year, the Committee continued to consider matters related to the Risk Management Framework (RMF). The RMF was reviewed and refined and Internal Audit reviewed the revised RMF during the year. The requirements relating to the Bank's Risk and Control Self-Assessment (RCSA) process were enhanced during the year. RCSAs were then undertaken for all business areas using the revised approach, which has improved the documentation of key controls across the Bank.

Reporting to the Committee across all areas has been enhanced, with notable improvements in operational risk, investment risk and compliance reporting. Work was also undertaken to refine our approach to reporting on reputational risk. These enhancements give the Executive and the Committee better visibility of the risks facing the Bank. In addition, the Bank's Key Risk Indicators were refined.

Risk Management and Conflicts Committee Report continued

Work was carried out during the year to enhance the framework of policies and procedures in the area of data protection and work will continue on this into FY24/25.

This continuous improvement activity continues. In the year ahead, the Committee will continue to monitor progress and oversee the implementation and embedding of all consequential enhancements to the RMF and continued strengthening of the control environment.

For FY24/25 this will include a process mapping project which aims to identify all key process level controls across the Bank. This will then be used as the basis for strengthened control monitoring going forward.

In the last quarter of this financial year, a fundamental review of the Bank's investment risk framework was undertaken. The investment risk policy is currently in the process of being revised and risk appetite for each of the principal investment risk types are being defined. During FY24/25, several workstreams have been planned to implement and embed enhancements in the investment risk processes, in particular the pre-investment risk assessment process, risk profiling and quantification methodology, portfolio risk review process, risk reporting process, etc.

The Investment Risk team supports the Committee in monitoring risks inherent in the investment portfolio and in the investment pipeline. In addition, the Committee, is supported by the Governance, Legal, Risk and Compliance team, in its consideration of operational risks, throughout the year. This includes the effectiveness of the internal control environment in respect of non-financial reporting. During the year, the Committee received and considered regular updates on the impact of new legislative and/or regulatory requirements on the Bank, and horizon scanning on forthcoming legal, regulatory and best practice developments that may present risks or opportunities for the Bank. In addition, the Committee had deep dive sessions on the controls around financial crime and anti-money laundering and reputational and stakeholder risks. Ensuring the Bank is able to attract and retain the right skills and that the Bank's culture is, and remains, appropriate is critical to the Bank's success. People risk, therefore, remains a key risk.

To support the Committee's discussions, it receives compliance management information and trend analysis, as well as risk reports and management information relating to the Bank's investments and broader operational risk on a quarterly basis.

Overall, while the Committee is supportive of the broader review underway of the risk management framework and will review further proposals in 2024, it remains my opinion that the Bank's People, Risk Management Framework and supporting systems have continued to be resilient, during the reporting period, in an ongoing challenging environment.

FCA application

As a key step in the Group's journey, the Committee continued to have oversight on the Bank's engagement with the FCA in relation to its subsidiary, Scottish Investments Limited. As part of this, a Compliance charter has been put in place and a revised compliance monitoring plan approved. The Committee will have oversight of progress of the compliance monitoring plan when this is implemented.

Climate risk

As Chair of the Committee, I am the designated Non-Executive Director for climate-related matters.

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

The Committee also had oversight of the Group's commitment to implement the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD) which was chosen as the Bank's climate risk and reporting framework. During the year the Committee reviewed the Bank's Carbon Management Plan (CMP), associated commitments and the TCFD report. The Committee will continue over the 2024 financial year to monitor the performance in relation to its CMP projects and commitments and enhancements to its climate-related frameworks and processes.

Key policies

In the year, the Committee carried out an annual review of the Ethical Investment Policy and considered updates to the Whistleblowing Policy. It also considered key compliance policies and documents to support the FCA Application and considered the MLRO (Money Laundering Reporting Officer's) annual report. The Committee reviewed the Investment Risk Policy and the policies around Data Protection.

Summary

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

Jacqueline Redmond
Chair of the Risk Management and Conflicts Committee

Remuneration and Nominations Committee Report

Committee attendance

The Committee meets at least four times a year, with meetings coordinated to support key times in the pay and reward cycle. In the year, the Committee met 10 times, which included six ad hoc meetings to address specific matters arising.

	Held	Attended
Tracey Ashworth-Davies (Chair)	10	10
Carolyn Jameson[1]	10	7
Candida Morley	10	10

1. Unable to attend three meetings due to prior commitments.

I am pleased to present the Directors' Report on Remuneration for the period ended 31 March 2024, which is made up of two key sections: this Committee report, and secondly, the Annual Report on Remuneration on pages 100 to 111.

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

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

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

Membership

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

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

Throughout the year, Carolyn has held the position of Non-Executive Director for workforce engagement. This appointment supports the Committee's insight into the culture of the Bank.

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

Key activities in the period

Supporting our team

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

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

The Committee continues to be keen to understand the impact of these challenges both in terms of delivery of the Bank's Business Plan objectives and the morale, well-being, and retention of our People. The ability to attract and retain a talented and skilled workforce is clearly critical to achieving our missions. The Committee has been particularly keen to listen to 'Team Voice', a group drawn from across the organisation to be the 'voice' of the workforce. It has sought to understand the factors that our team perceive as important in attracting and retaining values driven, skilled colleagues.

Whilst remuneration is clearly a key consideration, value is also placed on the Bank's culture, support for flexible working arrangements and career development with opportunities for learning and personal growth particularly high on their agenda.

The Committee has monitored People Survey results in 2023–24, with the response rate of our team at 90% with over 91% of those responding being likely to recommend the Bank as a place to work (this is an increase from 87% in May 2023). The survey continues to reflect the strong, positive, organisational culture built since launch and reinforced the need that it be continuously developed given the highly competitive market for skills needed by the Bank.

The Bank has invested time this year defining a people proposition – people 'promises' – centred around our purpose and missions and based on employee feedback. These people promises will underpin the Bank's people strategy and people plan which will remain a priority focus for the Committee to monitor.

A key priority has been work to further embed the Bank's values and make these more impactful. The Committee were pleased to see the Bank introduce and embed a behaviour framework to provide clarity on the behaviours that shape the Bank's culture. This work will continue into FY24/25. Other priorities include embedding inclusive leadership and equality and diversity, with staff training undertaken in support of this and personal development more broadly.

The Committee will also continue to pay close attention to recruitment and retention data.

Remuneration

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

- The pay out level of the FY23/24 LTIP for eligible employees based on assessing performance against the performance conditions agreed by the Bank with the Shareholder (performance period: 1 April 2023 to 31 March 2024).

Remuneration and Nominations Committee Report continued

- Setting the Performance Conditions for the FY24/25 LTIP and agreeing those with the Shareholder.
- Approving the FY23/24 MCRS award for eligible employees
- Implementing the Public Sector Pay Review effective 1 April 2023.
- Remuneration proposals for staff members.

Following detailed consideration of evidence, the Committee is of the view that the Bank has performed well against FY23/24 performance targets and delivered strong results in a challenging economic environment. Full details of the LTIP and MCRS awards can be found in the Annual Report of Remuneration. The Committee has continued to benefit from the valuable contribution of the Audit, Risk and Valuations Committees in relation to the setting of Performance Conditions and the assessment of evidence for the above performance period, working closely to bring insight on matters relevant to their respective remits. I would like to record my formal thanks to those Committees.

The Committee also approved the Bank's pay award and pay progression for FY23/24, providing an overall average increase of 4.9% for eligible employees. The Committee took into account the Scottish Government pay settlement for the same period differentiating the award for lower earners, as detailed in the Remuneration report.

Within the context of public sector ownership, our remuneration policies aim to motivate and reward individual and corporate performance, as well as attract and retain highly skilled people across the Bank. The Committee will continue in FY24/25 to focus on the Bank's remuneration policies and practices to ensure the stated aims continue to be met. The Committee looks forward to continuing to engage with the Shareholder in this regard.

People policies

The Committee considered amendments to some of the key people policies during the year.

Employee benefits

In response to employee feedback, the Bank undertook a market review of the Bank's Pension arrangements. Mattioli Woods, the Bank's pension advisors, carried out the review on the Bank's behalf. The Committee approved the recommendation to move the Bank's existing defined contribution pension arrangement with NEST to the Standard Life Group Self-Invested Personal Pension. The transfer completed in March 2024 with employees benefiting from lower fees and a greater range of funds to choose from. Also, in response to feedback from employees, the Committee approved the Bank's proposal to introduce a scheme to allow employees the ability to purchase an electric vehicle through a salary exchange arrangement, bringing greater benefit alignment to the Bank's core mission "Achieving a just transition to net zero by 2045" and wider public sector focus on sustainability and climate change.

Succession planning

Succession planning remained a key focus for the Committee during FY23/24 at a Board level. The Committee supports the Board, and the Scottish Ministers, in considering the composition and nomination processes of the Board and the Committees. The Chair of the Board, and four other Board members, served as Non-Executive Directors for the period of their initial tenure. The Committee led a process to consider and agree the Boards succession plan. The recommendation to reappoint Willie Watt as Chair of the Board for a further four years was approved by the Scottish Ministers in May 2023. The recommendation to reappoint the other four Board members for a further period was also approved by the Scottish Ministers.

Having regard to our succession planning processes, we initiated a search process, in accordance with the Public Appointments process, to identify a further independent Non-Executive Director who would also serve as a Non-Executive Director to the investment arm of our Group, Scottish Investments Limited. This recruitment process was successfully concluded with the recommendation to appoint Gary Page.

This recommendation was also approved by the Scottish Ministers and Gary was appointed in February 2024 for a four-year term.

The succession plan for the Non-Executive Directors that are reaching the end of the period of their initial tenure will continue to be a key focus for FY24/25.

In the year, the Committee also reviewed the succession plans for the members of the executive committee and other key roles within the Bank and the Bank's internal talent development framework to develop a pipeline of potential future leaders given this will continue to be a focus for the Committee in FY24/25.

Diversity, Equality and Inclusion

During the last 12 months, the Bank has detailed equality initiatives, designed to progress the Equality Outcomes set out in the Bank's Equality Strategy. This includes focus on Equality, Diversity and inclusion across all activities of the Bank.

With the aim of enhancing inclusivity of the Bank's recruitment practices, an audit by the Employer's Network for Equality and Inclusion was commissioned by the Bank in 2023. While the audit recognised the work that has already been undertaken, there are some best practice enhancements that can be made.

The Bank also continued to create important employment and mentoring opportunities working in partnership with Career Ready, Black Professionals Scotland, Saltire Scholar Programme and Women in Banking & Finance.

Gender pay gap

Whilst the Bank has achieved a good staff gender balance overall, it remains uncomfortable with the current gender pay gap which it seeks to further address. Monitoring the plan that has been developed to improve this gap has been a continued focus for the Committee over the period.

The Committee welcomed the Bank becoming a signatory to the Women in Finance Charter in the second half of 2023 which includes setting and publishing internal targets for gender diversity in Senior Management. The Bank will report their target to HM Treasury by June 2024 and will report on progress toward these targets by 30 September 2025 and thereafter annually.

Ensuring the pay of the senior executive team is linked to delivery against these gender diversity targets is also a requirement of the charter. The Bank has included this within the 24/25 Performance Conditions and each Executive Committee member will have a specific performance objective in relation to progress towards our published equality outcomes and gender diversity targets.

In the coming year the Committee will closely monitor progress of the FY24/25 Equality, Diversity and Inclusion Action plan which is designed to support and progress the Bank's Equality Strategy and improve the gender pay gap.

FY24/25

For the coming year, performance conditions reflect the following strategic themes as set out in the Business Plan.

- Demonstrating and enabling impact, including progress towards achieving the Bank's published Equality Outcomes.
- Delivering investment.
- Targeting operational financial self-sustainability.
- Enabling private sector investment and partnerships.
- Realising the potential of our People.

The Committee will also continue to pay close attention to the Bank's progress in achieving the above.

Tracey Ashworth-Davies
Chair of the Remuneration and Nominations Committee

Annual Report of Remuneration

Non-Executive Director remuneration

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

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

Non-Executive Directors do not receive any pension, benefits or long-term incentives. On 1 February 2024, Gary Page was appointed as a Non-Executive Director.

Non-Executive Director fees paid in period to 31 March 2024 (Audited)

Name	Role	No. Days Paid	Total Payment FY23/24	Total Payment FY22/23
Willie Watt	Chair of the Board, Chair of Valuations Committee	48	£60,000	£60,000
Candida Morley	Senior Independent Director, Non-Executive Director	30	£25,500	£25,500
Tracey Ashworth-Davies	Chair of the Remuneration and Nominations Committee, Non-Executive Director	30	£25,500	£25,500
Peter Knott	Chair of the Audit Committee, Non-Executive Director	30	£25,500	£25,500
Jacqueline Redmond	Chair of the Risk Management and Conflicts Committee, Non-Executive Director	30	£25,500	£25,500
Carolyn Jameson	Non-Executive Director	25	£21,250	£21,250
Jason McGibbon	Non-Executive Director	25	£21,250	£21,250
Nicholas Moon	Non-Executive Director	25	£21,250	£21,250
Jonathan Taylor	Non-Executive Director	25	£21,250	£21,250
Gary Page	Non-Executive Director	5	£4,250	N/A

Annual Report of Remuneration continued

Executive Director remuneration

Executive Directors receive remuneration in the form of an annual salary and receive 12% Employer Pension contribution. The pay and reward framework for the Bank was developed with the input of reward specialists, Korn Ferry, and underpinned using Hay job evaluation methodology. Executive Directors received public sector pay award and pay progression in line with that applied for all Bank employees, as described below.

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

The LTIP scheme incentivises long-term sustainable performance by deferring a proportion of allocations and making them subject to sustained future performance in accordance with LTIP scheme rules.

The Committee reviews and approves individual salaries for Executive Directors based on the pay and reward framework which has been agreed.

Remuneration for the period from 1 April 2023 to 31 March 2024 (Audited)

For the period 1 April to 30 April 2023, Sarah Roughead - Chief Financial Officer, acted in an interim capacity as Chief Executive Officer. Al Denholm was appointed Chief Executive Officer on 1 May 2023.

Name	Period	Annual salary	Salary paid	Employer's pension paid	Total fixed pay	LTIP	Total
Sarah Roughead Interim Chief Executive Officer	01/04/2023 to 30/04/2023	£205,000[1]					
Executive Director	01/05/2023 to 07/12/2023	£183,216	£87,447[2]	£10,052	£97,499	N/A	£97,499
Al Denholm Chief Executive Officer	01/05/2023 to 31/03/2024	£240,000	£220,000	£26,400	£246,400	£88,902[3]	£335,302
Michael Robertson Interim Chief Financial Officer	01/04/2023 to 15/10/2023	£153,700					
Chief Financial Officer	16/10/2023 to 31/03/2024	£165,000	£158,930	£19,072	£178,002	£51,289[4]	£229,291

1. Sarah Roughead received a pro-rated non-pensionable acting up allowance of £3,683 for the period 1 to 30 April 2023 (£44,200 per annum).
2. Sarah Roughead worked part time from 15/05/2023 to 07/12/2023 - her salary paid reflects a reduction in base pay to 57.14% FTE. 3. Al Denholm's LTIP amount includes payment due in 2024 (£44,451), deferred payment due 2025 (£22,226) and 2026 (£22,226) subject to sustained performance conditions. 4. Michael Robertson's LTIP amount includes payment due in 2024 (£25,644), deferred payment due 2025 (£12,822) and 2026 (£12,822) subject to sustained performance conditions.

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

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

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

Payments to past Directors (Audited)

There are no payments to former directors (2023: nil).

Payments for Loss of Office (Audited)

No payments were made for loss of office during the period (2023: nil).

Annual Report of Remuneration continued

Principles of Remuneration Policy

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

Base Salary	The Bank's pay ranges have been developed on the basis of the following principles: ◆ A 10-grade structure covering all Bank roles. ◆ Grades based on job size using Hay job evaluation methodology. ◆ Target salaries were derived from the Korn Ferry 'All Organisations Scotland' median and reviewed annually in accordance with public sector pay awards. ◆ A minimum and maximum salary set 15% either side of the target salary for each pay range ◆ Individual and job family pay ranges adopted for Executive Team and specialist Audit and Risk and Investment job families. Premia applied to these ranges are based on UK market differentials.
Performance Management	Individual objectives are directly linked to Bank Corporate Goals to allow every individual to contribute directly to delivering the Bank's missions.
Mission Contribution Reward Scheme (MCRS)	The Mission Contribution Reward Scheme allows employees the opportunity to be recognised for their contribution to the achievement of the Bank's missions. The Mission Contribution Reward Scheme is a discretionary, non-contractual scheme, open to all employees who are not eligible to participate in the Long-Term Incentive Plan (LTIP) scheme. As a prerequisite for any award to be made, the Bank must have delivered on its corporate mission aligned objectives. The Bank's Remuneration and Nominations Committee pays out a total allocation for awards subject to affordability and achievement of the Bank's mission aligned objectives. Payments will be differentiated based on individual performance and values ratings. The maximum award that any individual can receive under the scheme is capped at one month's salary.
Long Term Incentive Plan (LTIP)	The LTIP is a key component of the Bank's Total Reward approach to pay and reward. The LTIP is designed to ensure that compensation for members of the Bank's Executive Team and those in the Investment job family is directly linked to delivery of the Bank missions and objectives. The LTIP scheme encourages long-term sustainable performance by deferring a proportion of allocations and making them subject to sustained future performance in accordance with LTIP scheme rules. The key features of the LTIP are set out below: ◆ Performance conditions are 100% corporate and agreed between the Bank Board Chair and Ministers for each new LTIP performance period, as part of the annual business planning approval process. ◆ Maximum percentage pay-out opportunity defined by role. ◆ 75% of maximum set as the percentage for on-target performance. ◆ A one-year performance measurement period and a further sustained performance period of 2 years. ◆ Awards paid out in three instalments (50% at the end of the initial performance period and 25% each after a further 12 months and 24 months, subject to satisfactory sustained performance). ◆ Malus and clawback provisions apply. ◆ Granting of awards and allocations is at the discretion of the Bank's Remuneration and Nominations Committee.
Pension	12% employer pension contribution to a defined contribution pension scheme subject to the minimum colleague contribution of 1%.
Loss of office payments	The Bank does not offer any contractual terms for loss of office. The Bank reserves the right to make payment in lieu of notice where this is deemed to be in the interest of the Bank. Any termination payments would be in accordance with the Scottish Public Finance Manual.
New Executive Director Remuneration	Remuneration for any new executive director appointment is in accordance with the Bank's Pay & Reward framework and within the pay ranges determined for each role. Executive Director Remuneration is approved by the Remuneration and Nominations Committee.

Annual Report of Remuneration continued

LTIP Performance Conditions FY23/24

Performance Conditions for the performance period from 1 April 2023 through to end March 2024 were approved by the Board and Ministers. Performance Conditions set were challenging targets reflecting the high ambitions of the Bank's Board and stakeholders.

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

Eligible employees in role by 1 January 2024 in the Executive and Investment team family participated in the FY23/24 LTIP scheme.

No.	Performance Condition	Performance Indicator Target Measure
1	Demonstrating and enabling Impact (25%)	
1.1	Headline impact KPI targets, aligned and focused on the Bank's missions and origination strategy, providing long term, ambitious targets for the Bank.	Headline impact KPI targets for the Bank will be developed, agreed and be in operation by end of Q2.
1.2	Implementation of FY23/24 TCFD workplan as evidence of the Bank supporting the shift to a net zero economy in Scotland.	Bank's first TCFD report published. Net Zero Strategies or Carbon Management Plans agreed and work has commenced with 70% of existing portfolio companies and 80% of new portfolio companies.
1.3	Bank demonstrates international good practice in delivering impact via investments.	Net improvement in 7 stage PIM performance (2 stage improvement).
1.4	Progress towards achieving the Bank's published Equality Outcomes.	All actions in the 2023/24 annual Equality Action Plan delivered.
2	Investment delivery and financial sustainability (25%)	
2.1	Investment capital committed in FY23/24 to ensure future deployment plans achieved.	£223 million committed.
2.2	Net RDEL budget met and on track to meet budgetary financial self-sustainability by FY25/26.	£5.8 million budget delivered 5% savings.
2.3	Projected investment performance to the end of FY26 (31.3.27) of the portfolio (that is invested as at 31.3.24) is in line with forecast returns.	Projected investment performance to the end of FY25/26 of the portfolio (that is invested as at 31 March 2024) exceeds forecast returns and is 4-5%.
2.4	Value-add evident across portfolio.	Portfolio survey feedback overall > 75% positive.
3	Insights (20%)	
3.1	Insights, thought leadership and stakeholder engagement valued by the ecosystem.	Survey feedback overall > 75% positive.
4	Catalyst (20%)	
4.1	ScotWind Strategy defined and delivery in accordance with plan.	Plan approved by the Board and additional Scottish Government financial commitment secured for the ScotWind Project to support the delivery of Scottish Government's ambitions for ScotWind.
4.2	Third party capital strategy defined and delivered in accordance with plan.	Plan approved by the Board by 31 December 2023 and plan milestones all delivered according to agreed plan.
4.3	Crowd-in ratio of investment commitments made in year.	Bank investment as a % of total investment round (1:0.89).
5	People and culture (10%)	
5.1	Strong culture and motivated Bank team.	People Survey feedback >75% positive.

Based on careful consideration of performance against the FY23/24 LTIP performance conditions, and in accordance with the scheme rules, the Remuneration and Nominations Committee concluded that a pay-out of 80.7% (2023: 75.5%) of maximum would be awarded to eligible participants. This was based on having achieved, in aggregate, above target level of performance against the performance conditions. The Remuneration and Nominations Committee also approved the release of sustained performance payments relating to FY21/22 and FY22/23 LTIP to eligible participants having satisfied itself that the relevant conditions had been met in accordance with the LTIP scheme. The Bank's performance against FY23/24 corporate objectives is included in the Balanced Scorecard section on pages 12 to 17.

Annual Report of Remuneration continued

Mission Contribution Reward Scheme

Employees in role by 1 January 2024 with qualifying performance and values assessment were paid under the Mission Contribution Reward Scheme (MCRS) for the period 1 April 2023 to 31 March 2024. The table below summarises payments under the scheme for the FY23/24. Please note the MCRS is not open to those eligible for LTIP.

As at 31 March 2024:

Number of Eligible Employees	Average % Award	Average Payment
44	6%	£3,477

Employee remuneration

The Bank's pay ranges, split by gender of employees in position effective 31 March 2024:

	No. Employees Base Salary		No. Employees Total Compensation	
Compensation	Female	Male	Female	Male
£250,001 +	0	0	0	1
£200,001 – £250,000	0	1	1	4
£150,001 – £200,000	1	2	4	4
£100,001 – £150,000	9	12	7	11
£50,001 – £100,000	20	20	20	15
£0 – £50,000	13	1	11	1

As at 31 March 2024:

The median remuneration of the Bank's employees based on annualised, full-time equivalent remuneration of all staff including LTIP and MCRS as at 31 March 2024 was £89,999. The range of full-time equivalent employee remuneration including LTIP and MCRS was £33,157 to £328,902 at 31 March 2024 and the ratio between the median employee remuneration and the mid-point of the banded remuneration of the highest paid Director including LTIP and MCRS was 1:3.4

241 days were lost to sickness absence in the period. Staff turnover excluding consultants and secondees but including fixed term contractors in the period was 11%. Regretted turnover for the period was 11%.

In the year the Bank engaged eight temporary contractors for specific short-term projects; costs totalled £335,343 (2023: £479,107). A key focus of the Bank since launch has been to minimise the use of consultants. At 31 March 2024, three consultants were engaged by the Bank; two of whom were engaged on a full time basis for specific short-term (less than six months) projects, one of whom is engaged on an ongoing basis for one day per week. In addition, the Bank works with an inward secondee from our legal partners to provide additional support on a temporary basis.

Gender pay

The mean gender pay gap as at 31 March 2024 is 26.3% (in favour of male) and the median gender pay gap is 30.9% (in favour of male). This trajectory remains a concern for the Bank and there will be increased attention given to improving this in the coming year. Monitoring the plan that has been developed to improve this pay gap has been a continued focus for the committee over this period and will be a priority in the year ahead. Here's how we compare externally:

	Mean	Median
Bank	26.3%	30.9%
UK – financial services (excl. insurance and pensions)	25.4%	34.2%
Scotland – financial services (excl. insurance and pensions)	17.1%	26.8%
Scotland – all occupations	6.3%	8.7%

The Bank's mean and median figures reflects:

- A higher number of females in more junior positions
- A higher number of males in senior positions

These are disappointing outcomes that we are committed to eliminating. Despite the positive action that has been taken in the last 12 months, this is not where the Bank wants to be and we are committed to improving this through our actions in the coming year.

Overall, the Bank has a good gender balance with females representing 54% of the Bank wide team. However, like other financial services and investment companies there is more we must do to improve gender balance across all grades.

Eliminating the gender pay gap will take time in a small organisation such as ours with strong employee engagement and low attrition levels but we are confident that through our focused plans we will make progress to close the gap. To fully close the gender pay gap all levels within our organisation must be gender balanced, at the senior and more junior grades.

Improving our gender pay gap

Our gender pay gap plans have been incorporated in our overall Bank Equality Plan for FY24/25. Key areas of focus for addressing our gender pay gap in this year's plan include:

- A focus on flexible working for all through our job adverts, internally through our new "Balance" approach and line manager training. External evidence suggests this is a promising focus.
- More detailed, targeted sourcing strategies for each role we hire externally, striving for gender balanced shortlists.
- Creating networks and allies by establishing an internal Gender Equality Networking Group and working in partnership to deliver allies workshops, recognising the importance of active allyship in making progress. We will also establish a Scottish Women in Investment group to understand the barriers and progress change for gender balance in investment allocators.

Annual Report of Remuneration continued

- A continued focus on talent development and succession planning, advocating, mentoring, and sponsoring individuals at every stage to continue to ensure gender balanced succession plans. We work with partners in this approach, for example an external mentoring programme with Women in Banking & Finance.
- Make progress towards our published gender diversity targets.

We became a signatory to the Women in Finance Charter in early 2024. As part of our commitment to advancing gender balance at senior levels we are setting internal targets which we will publish and track our progress towards.

Our people survey results tell us that we are creating a unique culture, one where inclusion and flexibility is valued. We will continue to build on this inclusive and flexible culture through our ambitious people strategy and plans to attract and retain talent, not just our senior roles but all roles across the Bank.

As at 31 March 2024:

Employee Contract Basis	Number of Employees
Permanent	74
Fixed Term Contract	5

Our representation as at 31 March:

	Female	Male
Board	33%	67%
Executive Committee	33%	67%
All Employees	54%	46%

Percentage changes in CEO and colleague pay

Pay awards were made to eligible employees, in line with Public Sector Pay Policy, effective 1 April 2023. Key features:

- Basic pay increase of 3 per cent for those who earn up to and including £47,000
- Basic pay increase of 2 per cent for those earning more than £47,001

Eligible employees also received pay progression – progression through pay ranges specific to the Bank. Those in place prior to 1 October 2022 received an increase effective 1st April 2023 (excluding those who saw a mid-year increase). Pay progression was made on the basis of a matrix system taking into account both individual performance and relative position within the associated pay range.

Progression for those who met expectations was capped at band range target, while progression for those who exceeded or consistently exceeded expectations was capped at the band maximum.

Public Sector Pay Policy and Pay Progression for FY24/25 will be implemented effective 1 April 2024 for eligible employees.

Pay ratio of the CEO's total remuneration compared to other colleagues at 31 March 2024

The table below sets out the ratio between the CEO's total single figure of remuneration and total remuneration for all colleagues at the lower quartile, median and upper quartile.

Year	Method	Lower Quartile Pay Ratio	Median Pay Ratio	Upper Quartile Pay Ratio
2024	Option A	1 : 6	1 : 4	1 : 2
2023	Option A	1 : 5	1 : 3	1 : 2
2022	Option A	1 : 4	1 : 3	1 : 2

We elected to use the preferred method of Option A, which is based on all UK employees on a full-time equivalent basis; this is considered to produce the most statistically accurate results.

Option A has been used to calculate the lower quartile, median and upper quartile total remuneration for all colleagues excluding the CEO. The elements of remuneration used for this calculation were as follows:

- Full-time-equivalent (FTE) salary as at 31 March 2024
- Total Mission Contribution Reward Scheme awarded or total LTIP awards payable in respect of the year ended 31 March 2024
- Total employer pension contribution (calculated as the % in payment as at 31 March 2024 and applied to FTE salary)

CEO total remuneration in 2022 was calculated by reference to the combined single total figure of remuneration for the year ended 31 March 2022 for the outgoing CEO (Eilidh Mactaggart) and the incoming Interim CEO (Sarah Roughead). Both figures were pro-rated for the portion of the year for which each was in office (11 and one months, respectively). The LTIP amount however was the full-year figure for Sarah Roughead and zero for Eilidh Mactaggart. This resulted in a reduction in the total CEO remuneration reported for the FY 21/22, and a consequent decrease in the ratio of CEO total remuneration to other colleagues. In the normal course of events, we expected the CEO pay ratio to increase again for FY22/23, as reflected here. A further increase in the Lower and Median Quartile CEO pay ratios for FY23/24 has resulted from a greater range of salaried employees compared to FY22/23 (£32,600 to £240,000 compared with £35,000 to £205,000).

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

The Directors and Accountable Officer are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations. Company law requires the Directors and Accountable Officer to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare the Group and parent Company financial statements in accordance with UK adopted international accounting standards and as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM) and in accordance with the requirements of the Companies Act 2006 and directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers.

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

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable, relevant and reliable.
- State whether they have been prepared in accordance with UK adopted international accounting standards and as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM).
- Assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

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

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

Al Denholm
Chief Executive Officer
3 July 2024

Independent Auditor's Report

Independent Auditor's Report

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

Reporting on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements in the Annual Report and Accounts of Scottish National Investment Bank plc (the "Company") for the year ended 31 March 2024 under The Companies Act 2006 (Scottish public sector companies to be audited by the Auditor General for Scotland) Order 2020. The financial statements comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Taxpayers' Equity, the Consolidated Cash Flow Statement, the Company Statement of Financial Position, the Company Statement of Changes in Taxpayers' Equity, the Company Cash Flow Statement, and notes to the financial statements, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the "2023/24 FReM").

In our opinion:

- the accompanying financial statements give a true and fair view of the state of affairs of the Company and its Group as at 31 March 2024 and of the Group loss for the year then ended;
- the accompanying Group financial statements have been properly prepared in accordance with UK adopted international accounting standards as interpreted and adapted by the 2023/24 FReM;
- the accompanying parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006 as interpreted and adapted by the 2023/24 FReM; and
- the accompanying financial statements have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers and the Companies Act 2006.

Basis for opinion

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

Conclusion relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

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

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

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

Our approach to the audit

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2023), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and our findings from those procedures in order that the Company's members, as a body, may understand better the process by which we arrived at our audit opinion. These matters were addressed, and our findings are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Independent Auditor's Report continued

Key audit matter	How our scope addressed this matter
Valuation of unlisted investments As at 31 March 2024, 97% (2023: 96%) of the Group's total assets (by value) are investments where no quoted market price is available. Unlisted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines, by using measurements of value such as prices of recent orderly transactions, milestone analysis, discounted cash flows, earnings multiples, and valuing fund interests by reference to their reported net asset value. There is a significant risk over the judgements and estimates inherent in the valuation and therefore this is one of the key areas that our audit has focused on. The effect of these matters is that, as part of our risk assessment, we determined that certain unlisted investments have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The factors considered in assessing which unlisted investments were subject to significant risk included the quantum of the individual investment, performance of the investment, nature of the asset held as well as the estimation uncertainty of the methodology and inputs used. The financial statements note 20 discloses the range/ sensitivity estimated by the Group.	We performed the detailed tests below rather than seeking to rely on any of the Group's controls, because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed substantive procedures prescribed: ◆ Methodology choice: In the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines, we challenged the appropriateness of the valuation basis selected. ◆ Our valuations experience: We challenged the directors on key judgements affecting investee company valuations, such as the choice of benchmark for earnings multiples, progress against milestones, credit risk assessments and use of appropriate discount rates. We compared key underlying financial data inputs to external sources, investee company audited accounts and management information as applicable. We challenged the assumptions around sustainability of revenue or earnings based on the forecasts of the investee companies and whether these are achievable, and we obtained understanding of milestones completed during the year. Our work included consideration of events which occurred subsequent to the period end up until the date our audit report. ◆ Comparing valuations: Where a recent transaction has been used to value a holding, we obtained an understanding of the circumstances surrounding the transaction and vouched the price to supporting documentation. We also assessed whether subsequent changes or events such as market or entity specific factors would imply a change in value. ◆ Assessing transparency: We considered the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unlisted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions.

Key audit matter	How our scope addressed this matter
Recoverability of parent's debt due from group entities The carrying amount of the intragroup debtor balance represents 99% (2023: 99%) of the Company's total assets. The recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the financial statements, this is considered to be an area that will have the greatest effect on our overall parent company audit. Note: This risk is applicable to the parent only.	We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. ◆ We have assessed 100% of debtors to identify, with reference to the subsidiary company's balance sheet, whether it has a positive net asset value and therefore coverage of the debt owed, as well as assessing whether the debtor company has historically been profit-making. ◆ Assessing the subsidiary company audit: We have assessed the work performed on the subsidiary company audit, and considering the results of that work, on those net assets, including assessing the nature, valuation and liquidity of the assets and therefore the ability of the subsidiary to fund the repayment of the receivable when it becomes payable.

Our application of materiality

Materiality for the Group financial statements as a whole was set at £12,900k (2023: £7,560k), determined with reference to a benchmark of total assets, of which it represents 2.5% (2023: 2.5%). Materiality for the parent company financial statements as a whole was set at £5,810k (2023: £3,400k), which is the component materiality for the parent company determined by the Group audit engagement team. This is lower than the materiality we would otherwise have determined with reference to parent company total assets, of which it represents 1.1% (2023: 1.1%). In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 75% (2023: 85%) of materiality for the financial statements as a whole, which equates to £9,675k (2023: £6,430k) for the Group and £4,350k (2023: £2,890k) for the parent company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk. We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £645k (2023: £378k) for the Group and £291k (2023: £170k) for the parent company, in addition to other identified misstatements that warranted reporting on qualitative grounds. Of the Group's three reporting components, we subjected three to full scope audits for Group purposes. The work on all components, including the audit of the parent company, was performed by the Group team. The Group team set the component materialities, which ranged from £433k to £12,600k (2023: £356k to £7,330k), having regard to the mix of size and risk profile of the Group across the components. The scope of the audit work performed was fully substantive as we did not rely upon the Group's internal control over financial reporting.

Independent Auditor's Report continued

Responsibilities of the Accountable Officer and Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Reporting on regularity of expenditure and income

Opinion on regularity

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

Responsibilities for regularity

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

Reporting on other requirements

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

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

Other information

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

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

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

Opinion prescribed by the Auditor General for Scotland on the Strategic Report

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

Independent Auditor's Report continued

Corporate governance statement

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of our report

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

Phil Merchant

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

3 July 2024

Audited Financial Statements

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2024

	Notes	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Income			
Investment income	4	19,269	10,651
Gross operating income		**19,269**	**10,651**
Net realised loss on investment	9	(8,000)	-
Net unrealised (losses) on revaluation of investments	9	(9,797)	(17,810)
Net operating income		**1,472**	**(7,159)**
Administrative expenses	5	(16,097)	(13,001)
Operating loss		**(14,625)**	**(20,160)**
Interest payable and similar expenses		(13)	(1)
Loss before taxation		**(14,638)**	**(20,161)**
Tax (charge)/credit	8a	(400)	3,528
Loss for the year		**(15,038)**	**(16,633)**

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

Consolidated Statement of Financial Position

As at 31 March 2024

	Notes	31 March 2024 £'000	31 March 2023 £'000
Assets			
Non-current assets			
Investments	9	506,076	290,814
Property, plant and equipment	10	1,044	88
Deferred tax asset	8b	5,625	6,025
Total non-current assets		**512,745**	**296,927**
Current assets			
Trade and other receivables	11a	860	838
Cash and cash equivalents	12	6,109	4,437
Total current assets		**6,969**	**5,275**
Total assets		**519,714**	**302,202**
Liabilities			
Current liabilities			
Trade and other payables: amounts falling due within one year	13	2,485	1,983
Total current liabilities		**2,485**	**1,983**
Non-current liabilities			
Trade and other payables: amounts falling due after one year	14	1,073	311
Total non-current liabilities		**1,073**	**311**
Total liabilities		**3,558**	**2,294**
Equity			
Share capital	16	492,709	279,157
General fund	18	23,447	20,751
Total equity		**516,156**	**299,908**
Total equity and liabilities		**519,714**	**302,202**

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

The accounts of the Group, parent company registration number SC677431, were approved by the members of the Board and authorised for issue on 3 July 2024 and were signed on their behalf by:

Al Denholm
Chief Executive

Consolidated Statement of Changes in Taxpayers' Equity

Year ended 31 March 2024

	Notes	Share capital £'000	General fund £'000	Total equity £'000
Total equity at the start of the year		279,157	20,751	299,908
Loss for the year		–	(15,038)	(15,038)
Transactions with owners, recorded directly in equity				
Issue of shares	16	213,552	-	213,552
Grant in aid	17	–	17,734	17,734
Total equity at the end of the year		**492,709**	**23,447**	**516,156**

Year ended 31 March 2023

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

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

Consolidated Cash Flow Statement

For the year ended 31 March 2024

	Notes	Year Ended 31 March 2024 £'000	Year Ended 31 March 2023 £'000
Cash flows from operating activities			
Loss for the year before tax		(14,638)	(20,161)
Adjustments for:			
Depreciation, amortisation and impairment	10	136	55
Net realised loss on investments	9	8,000	-
Net unrealised fair value on investments	9	9,797	17,810
Fee income	4	(4,370)	(3,212)
Interest income	4	(3,609)	(2,896)
Capitalised interest income	4	(11,015)	(4,474)
Increase in trade and other receivables	11a	(22)	(368)
Increase in trade and other payables	13, 14	321	995
Net cash flow from operating activities		**(15,400)**	**(12,251)**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(24)	(7)
Purchase of investments	9	(225,873)	(151,873)
Repayment of debt	9	3,829	1,079
Investment fee income	4	4,370	3,212
Interest income	4	3,609	2,896
Net cash from investing activities		**(214,089)**	**(144,693)**
Cash flows from financing activities			
Issue of new shares	16	213,552	129,904
Net grant in aid received in period	17	17,734	21,265
Payments of lease liability		(125)	(24)
Net cash from financing activities		**231,161**	**151,145**
Net movement in cash and cash equivalents		1,672	(5,799)
Cash and cash equivalents at start of the year		4,437	10,236
Cash and cash equivalents at end of the year	12	**6,109**	**4,437**

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

Company Statement of Financial Position

As at 31 March 2024

	Notes	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Assets			
Non-current assets			
Investment in subsidiaries	9	–	–
Trade and other receivables	11b	513,198	296,848
Total non-current assets		**513,198**	**296,848**
Current assets			
Cash and cash equivalents	12	4,303	2,368
Total current assets		**4,303**	**2,368**
Total assets		**517,501**	**299,216**
Liabilities			
Total liabilities		**–**	**–**
Equity			
Share capital	16	492,709	279,157
General fund	18	24,792	20,059
Total equity		**517,501**	**299,216**
Total equity and liabilities		**517,501**	**299,216**

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

The accounts of The Scottish National Investment Bank plc, Company registration number SC677431 were approved by the members of the Board and authorised for issue on 3 July 2024 and were signed on their behalf by:

A. Denholm.

Al Denholm
Chief Executive

Company Statement of Changes in Taxpayers' Equity

Year ended 31 March 2024

	Notes	Share capital £'000	General fund £'000	Total equity £'000
Total equity at the start of the year		279,157	20,059	299,216
Loss for the period		–	–	–
Transactions with owners, recorded directly in equity				
Issue of shares	16	213,552	–	213,552
Grant in aid	17	–	4,733	4,733
Total equity at the end of the year		**492,709**	**24,792**	**517,501**

Year ended 31 March 2023

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

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

Company Cash Flow Statement

For the year ended 31 March 2024

	Notes	Year Ended 31 March 2024 £'000	Year Ended 31 March 2023 £'000
Cash flows from operating activities			
Loss for the period		-	-
Increase in trade and other receivables	11b	(216,350)	(137,170)
Net cash from operating activities		**(216,350)**	**(137,170)**
Net cash from investing activities		**-**	**-**
Cash flows from financing activities			
Issue of new shares	16	213,552	129,904
Grant in aid received	17	17,734	21,265
Resource funding passed to subsidiaries	17	(13,001)	(12,500)
Net cash from financing activities		**218,285**	**138,669**
Net increase / (decrease) in cash and cash equivalents		1,935	1,499
Cash and cash equivalents at start of year		2,368	869
Cash and cash equivalents at end of the year	12	**4,303**	**2,368**

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

Notes to the Financial Statements

1. Corporate Information

Scottish National Investment Bank plc (the Company) is a public limited company incorporated and domiciled in Scotland under the Companies Act 2006 whose shares are not publicly traded. In these statements the consolidated subsidiaries are interchangeably referred to as the Group and the Bank.

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

The consolidated financial statements of the Bank for the year ended 31 March 2024 comprise the financial statements of the Company and its consolidated subsidiaries.

2. Significant Accounting Policies

Basis of Preparation

The financial statements of the Group and Company have been prepared in accordance with UK-adopted international accounting standards and as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM) and in accordance with the requirements of the Companies Act 2006 and directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers.

The Company has taken advantage of section 408 of the Act and consequently the Statement of Comprehensive Income (including the profit and loss account) of the parent Company is not presented as part of these accounts. The loss of the parent Company for the financial period was £348 (2023: £335).

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

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

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

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

Going Concern

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

As part of this assessment the Directors considered:

- The £2 billion of capital committed to the Company for investment over 10 years from the Scottish Government.
- The continued commitment from Scottish Government to support the Group's operational expenses in the medium term. The strategic objectives of the Company and resource to deliver the strategic objectives and operational infrastructure to support the delivery of these objectives.

Notes to the Financial Statements

- The operational resilience of the Company's critical functions including its investment, governance, regulatory and IT systems.

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

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

Adoption of New and Revised Standards

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

Certain new accounting standards and interpretations have been published that are not yet effective and have not been adopted by the Group. These standards are not applicable or expected to have a material impact on the entity in the current or future reporting periods.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 March 2024.

Control for accounting purposes exists when the Company:

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

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

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

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

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

Income

Income represents arrangement fees, monitoring fees, interest income and administration fee income. Income is measured based on the consideration specified in a contract with the investee business or project. Income is recognised to the extent that it is probable that the economic benefits will flow to the Group and can be reliably measured. Distributions from underlying funds are recorded based on the nature of the distribution as provided by the underlying fund manager which includes realised gains on investments and investment income. Investment income and realised gains are recognised on the value date of the notice received from the underlying fund manager.

Interest Income

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

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

Fee Income

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

Monitoring Fee Income

Fees are received for providing services relating to quarterly monitoring of investment. These fees are generally of a fixed nature and the income is recognised as set out in the contract.

Administration Fee Income

Administration fee income relates to administration fees for oversight of a third party mandate. Income is recognised when it is contractually due and payable as per contractual terms.

Expenses

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

VAT

The Company received notification of being VAT registered in March 2023, with the registration applicable from 1 January 2023. Input VAT that relates to exempt supplies on purchases are not recoverable and are therefore charged to the Statement of Comprehensive Income included under the heading relevant to the type of expenditure.

Tax

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

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

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

Notes to the Financial Statements

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Any legal restrictions on the utilisation of available taxable profits are also considered, based on the tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Property, Plant and Equipment

Property, plant and equipment are shown in the Statement of Financial Position at their historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition and installation of the items.

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

Right of use property assets	Life of lease
Furniture, fixtures and fittings	over 5 years
Computer equipment	over 3 years

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

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

De-recognition and Disposal

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

Leases

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

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

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

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

In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

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

Short-term Leases

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

Financial Instruments

(i) Recognition and Initial Measurement

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

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

(ii) Classification of Financial Instruments

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

(iii) Investments

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

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

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

Notes to the Financial Statements

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Trade and Other Receivables

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

Trade and Other Payables

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

Derecognition of Financial Instruments or Liabilities

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

Impairment of Assets

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

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

Ordinary Share Capital

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

Grant in Aid

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

Notes to the Financial Statements

General Fund

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

Provisions, Contingent Liabilities and Contingent Assets

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

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

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

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

Employee Benefits

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

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

Related Party Transactions

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

3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

(i) Fair Value Measurement

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

(ii) Deferred Tax

The Group has tax losses of £25.7 million (2023: £24.1 million) available for offset against future taxable profits. Management judgement is required to determine the amount of deferred tax assets that can be recognised. This is based upon assumptions as to the future profitability of the companies in the Group and the timing of when such profits arise.

A deferred tax asset has been recognised on the basis that there is sufficient certainty based on future projections of income and profits and therefore scope for recovery of these tax losses in future.

Notes to the Financial Statements

4. Investment Income

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

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Arrangement fees income	2,595	3,212
Interest income – capitalised	11,015	4,474
Interest income – received	3,609	2,840
Monitoring fees	1,775	56
Administration fee income	275	69
Total investment income	**19,269**	**10,651**

Capitalised income for the year was £11.0m (2023: £4.5m) with £1.2m (2023: £nil) converting to equity post convertible loan note conversion.

5. Administrative Expenses

	Note	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Employee costs	6	9,378	7,851
Auditor's remuneration – audit of financial statements	7	315	260
Other administrative costs		6,404	4,890
Total administrative expenses and auditor remuneration		**16,097**	**13,001**

6. Employee Numbers and Costs

Aggregate remuneration of employees and Directors was as follows:

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Wages and salaries	6,856	5,611
Social security costs	881	886
Pension	776	645
Amounts payable under long term incentive schemes	865	709
Total employee costs	**9,378**	**7,851**

More detail on this information is included in the Directors' Remuneration Report on pages 100 to 111. The average number of Directors' and employees during the period was 76 (2023: 64) and the average number of Non-Executive Directors during the period was 9 (2023: 9).

The Company contributes to an externally administered defined contribution (DC) pension plan for all eligible employees. The Bank pays fixed contributions and will have no legal or constructive obligation to pay further amounts. The total expense in the current period was £775,921 (2023: £644,616).

7. Auditor's Remuneration

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

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Audit of group accounts	89	81
Audit of subsidiaries	176	135
KPMG LLP - auditor fee	**265**	**216**
Audit Scotland – audit support costs	50	44
Total auditor remuneration	**315**	**260**

Auditor's remuneration is stated net of VAT and represents the total fee payable by the Group for all statutory audit services. The auditor did not undertake any non-audit services in the period (2023: nil).

Notes to the Financial Statements

8. Tax

a. Tax on profit on continuing activities

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Current tax		
Current tax on income for the period	–	–
Total current tax	**–**	**–**
Deferred tax	400	(3,528)
Total deferred tax	**400**	**(3,528)**
Total tax	**400**	**(3,528)**
Reconciliation of effective tax rate:		
(Loss) before taxation	(14,638)	(20,161)
Tax using the UK corporation tax rate of 25% / 19%	(3,660)	(3,831)
Effect of:		
Expenses not deductible	–	9
Prior year adjustment	7	–
Unrealised losses not relievable / taxable	3,241	1,146
Deferred tax asset – Not recognised	812	–
Tax rate changes	–	(852)
Total tax (credit)	**400**	**(3,528)**

b. Reconciliation of deferred tax asset

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Deferred tax (asset) / liability at 1 April	(6,025)	(2,497)	–	–
Movement in the year	400	(3,528)	–	–
Other	–	–	–	–
Total deferred tax (asset)	**(5,625)**	**(6,025)**	**–**	**–**

Deferred tax primarily relates to the Group's accumulated losses. It is calculated at 25% (2023: 25%) of the available losses incurred to date. Management judgement is required to determine the amount of deferred tax assets that can be recognised. This is based upon assumptions as to the future profitability of the companies in the Group and the timing of when such profits arise. It is recognised the Group is currently loss making, however this is in line with management expectations in the initial years of developing the investment portfolio. It is expected that the tax losses will offset against the profits forecast to be made as a result of further investments made by the Bank, which in turn, will increase the income generated by the portfolio, as demonstrated by the Bank's current business plan and projections beyond the business plan period. While it is expected that the Group will continue to be loss making in the short term, it is estimated the deferred tax asset will be recovered over the next 5 years.

At 31 March 2024 there were £18.9m (2023: £5.9m) of unrealised losses for which a deferred tax asset is not recognised in the Statement in Financial Position as it is not envisaged these capital losses would be utilised in the medium term. Of this loss, £13.3m relates to losses covered by the substantial shareholder exemption and hence are permanent differences with £5.6m assessed as temporary losses. Additionally, at 31 March 2024 there were £3.1m (2023: £nil) of trading losses for which a deferred tax asset is not recognised in the Statement of Financial Position.

9. Investments

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Opening fair value	290,814	153,356	–	–
Additions	236,888	156,347	–	–
Repayments	(3,829)	(1,079)	–	–
Net unrealised fair value (losses)	(9,797)	(17,810)	–	–
Net Realised loss	(8,000)	–	–	–
Closing fair value	**506,076**	**290,814**	**–**	**–**

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

The holding period of the Group's investment portfolio is on average greater than one year. For this reason, the portfolio is classified as non-current. Additions in the year included cash investment of £225.9m (2023: £151.8m) plus £11.0m (2023: £4.5m) in capitalised interest and £1.2m (2023: £nil) of capitalised interest converting to equity.

The net unrealised loss of £9.8m (2023: loss of £17.8m) and the realised loss of £8.0m (2023: loss of £nil) includes fair value movement adjustments reflecting underlying performance of investee companies with various unrealised movements across the portfolio, in line with the maturing nature of the Bank's portfolio investments. Fair value movements to a lesser extent also relate to market variances over the year, which have resulted in a change to the fair value of debt investments that are valued under the International Private Equity and Venture Capital Valuation (IPEV) guidelines. These movements are largely a result of macro-economic factors rather than being a specific reflection on our individual debt investments, though we continue to monitor this closely as part of our quarterly valuation process. In these accounts we have also recognised our full realised loss of £8.0m on Circularity Scotland Limited as the administration process progresses to completion which includes £4.5m unrealised loss reversal from prior year.

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

Notes to the Financial Statements

10. Property, Plant and Equipment

	Computer, Equipment & Furniture	Land & Buildings	Total	Computer, Equipment & Furniture	Land & Buildings	Total
	Group 31 March 2024 £'000	Group 31 March 2024 £'000	Group 31 March 2024 £'000	Company 31 March 2024 £'000	Company 31 March 2024 £'000	Company 31 March 2024 £'000
Cost						
At start of year	175	–	175	–	–	–
Additions	24	1,070	1,094	–	–	–
Disposals	(2)	–	(2)	–	–	–
At end of year	**197**	**1,070**	**1,267**	**-**	**-**	**-**
Depreciation and impairment:						
At start of year	87	–	87	–	–	–
Depreciation charge for the year	56	80	136	–	–	–
At end of year	**143**	**80**	**223**	**-**	**-**	**-**
Net book value:						
At start of year	88	–	88	–	–	–
At end of year	**54**	**990**	**1,044**	**-**	**-**	**-**

	Computer, Equipment & Furniture	Land & Buildings	Total	Computer, Equipment & Furniture	Land & Buildings	Total
	Group 31 March 2023 £'000	Group 31 March 2023 £'000	Group 31 March 2023 £'000	Company 31 March 2023 £'000	Company 31 March 2023 £'000	Company 31 March 2023 £'000
Cost						
At start of year	168	–	168	–	–	–
Additions	7	–	7	–	–	–
Disposals	–	–	–	–	–	–
At end of year	**175**	**-**	**175**	**-**	**-**	**-**
Depreciation and impairment:						
At start of year	32	–	32	–	–	–
Depreciation charge for the year	55	–	55	–	–	–
At end of year	**87**	**-**	**87**	**-**	**-**	**-**
Net book value:						
At start of year	136	–	136	–	–	–
At end of year	**88**	**-**	**88**	**-**	**-**	**-**

Property, plant and equipment additions in the year of £24k (2023: £7k) related to capital expenditure on Computer, Equipment and Furniture. In addition, during the year a right-of-use asset was recognised relating to property leases for £1,070k (2023: £nil); the corresponding lease liability is disclosed in note 15.

Notes to the Financial Statements

11. Trade and Other Receivables

a. Current assets

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Other debtors	251	159	-	-
Prepayments	609	679	-	-
Total trade and other receivables	**860**	**838**	**-**	**-**

b. Non-current assets

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Amounts due from subsidiaries	-	-	513,198	296,848
Total non-current trade and other receivables	**-**	**-**	**513,198**	**296,848**

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

12. Cash and Cash Equivalents

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Cash and cash equivalents	6,109	4,437	4,303	2,368
Total cash and cash equivalents	**6,109**	**4,437**	**4,303**	**2,368**

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

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

	Note	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Trade and other payables		321	383	-	-
Other taxes and social security		164	195	-	-
LTIP accrual		778	559	-	-
Accruals		855	823	-	-
Deferred Revenues		80	-	-	-
Lease liability	15	287	23	-	-
Total current liabilities		**2,485**	**1,983**	**-**	**-**

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

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

	Note	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Non-current					
Other taxes and social security		47	36	-	-
LTIP accrual due within one to two years		239	185	-	-
LTIP accrual due within two to three years		90	73	-	-
Lease liability	15	697	17	-	-
Total non-current liabilities		**1,073**	**311**	**-**	**-**

Notes to the Financial Statements

15. Leases

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Right-of-use assets				
Net carrying amount at start of year	33	58	-	-
Additions to right-of-use (ROU) assets	1,070	-	-	-
Depreciation charge for the year	(126)	(25)	-	-
Balance at end of year	**977**	**33**	**-**	**-**
Amounts recognised in Comprehensive income				
Depreciation expense on ROU assets	126	25	-	-
Lease liabilities				
Amounts due for settlement within 12 months (Current liabilities)	287	23	-	-
Amounts due for settlement after 12 months (Non-current liabilities)	697	17	-	-
Total lease liabilities	**984**	**40**	**-**	**-**
Maturity analysis				
Not later than one year	296	23	-	-
Later than one year and not later than 10 years	792	17	-	-
Total lease liabilities	**1,088**	**40**	**-**	**-**

Total finance cost on leases was £13,889 for the year ended 31 March 2024 (2023: £643). The average lease term for computers is three years. The life of lease is lease specific.

The Group does not recognise right-of-use assets and lease liabilities for short-term leases where the underlying asset is of low value. The expenses for these leases for the year ended 31 March 2024 were £209,447 (2023: £373,589).

16. Share Capital

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Called up and allotted				
Brought forward	279,157	149,253	279,157	149,253
Ordinary shares of £1 each – issued in the year	213,552	129,904	213,552	129,904
Share capital at 31 March	**492,709**	**279,157**	**492,709**	**279,157**

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

17. Grant in Aid

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Grant in aid received in period	231,286	151,169	231,286	151,169
Investment drawn and converted to shares	(213,552)	(129,904)	(213,552)	(129,904)
Resource funding passed to subsidiaries	-	-	(13,001)	(12,500)
Total grant in aid	**17,734**	**21,265**	**4,733**	**8,765**

18. General Fund

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Balance at 1 April	20,751	16,119	20,059	11,294
Grant in aid received in period	17,734	21,265	17,734	21,265
Resource funding passed to subsidiaries	-	-	(13,001)	(12,500)
Retained earnings	(15,038)	(16,633)	-	-
Balance at 31 March	**23,447**	**20,751**	**24,792**	**20,059**

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

Notes to the Financial Statements

19. Financial instruments

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

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

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

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

At 31 March 2024 Carrying value	Financial assets and liabilities at fair value through profit and loss £'000	Financial assets and liabilities at amortised cost £'000	Total £'000
Assets			
Investments	506,076	–	506,076
Other debtors	–	251	251
Cash and cash equivalents	–	6,109	6,109
Total assets	**506,076**	**6,360**	**512,436**
Liabilities			
Trade and other payables excl LTIP	–	(2,451)	(2,451)
Total liabilities	**-**	**(2,451)**	**(2,451)**
Net assets	**506,076**	**3,909**	**509,985**

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

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

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

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

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

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

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy at 31 March 2024 and 31 March 2023:

31 March 2024	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Investments	–	–	506,076	506,076
Total	**-**	**-**	**506,076**	**506,076**

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

The Group's investment portfolio consists of assets carried at fair value. The Group's financial assets are all classified as Level 3 assets. Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently. As observable prices are not available for these securities, the Group has used valuation techniques in accordance with the IPEV Guidelines with reference to the most appropriate information available at the time of measurement to derive the fair value. Level 3 valuations are reviewed on a quarterly basis by the Valuations Committee which reports to the Board of Directors. The Committee considers the appropriateness of the valuation model inputs, as well as the valuation results, using various valuation methods and techniques generally recognised as standard within the industry. During the period ended 31 March 2024 the fair value of investments held at FVTPL decreased by £17.8m (2023: decreased by £17.8m). More information can be found in the Financial Performance section of the Strategic Report on pages 31 to 41 – this movement was reflected in the Consolidated Statement of Comprehensive Income.

Notes to the Financial Statements

20. Financial Risk Management

Details of the Group's risk management structure, Group's objectives and policies and processes for managing and monitoring risk are set out in the Risk Management section of the Strategic Report on pages 42 to 50.

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

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

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

- Credit risk
- Market risk
- Liquidity risk

Credit Risk

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

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

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

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

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

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

The carrying amount of financial assets in the Consolidated Statement of Financial Position represents the maximum credit exposure. The maximum exposure to credit risk as at 31 March 2024 is:

	Maximum exposure	Maximum exposure
	31 March 2024 £'000	31 March 2023 £'000
Debt investments	272,626	138,184
Other debtors	251	133
Cash and cash equivalents	6,109	4,437
Total	**278,986**	**142,754**

Liquidity Risk

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

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

Liquidity risk exposure of the Group as at 31 March 2024:

31 March 2024	Within 1 year £'000	Between 1 and 5 years £'000
Trade and other payables	(321)	-
Other liabilities excl LTIP	(1,386)	(744)
Total	**(1,707)**	**(744)**

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

Market Risk

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

Notes to the Financial Statements

Interest Rate Risk

The Group's investments comprise fixed and variable interest rate loans. The Group has no borrowings subject to interest, holds cash balances to meet payments as they fall due and only holds cash on deposit for foreseeable working capital requirements. The Group's exposure to net interest rate risk is not significant for the financial period FY23/24 and the Group does not use derivatives to hedge interest rate risk.

The impact of a 100-basis point increase / (decrease) in effective interest rate applicable to loan investments would be an approximate increase / (decrease) in interest income for the period of +/- £0.2m.

The above impact has been calculated by applying a 100-basis point sensitivity to the effective interest rate applicable to each interest income deriving investment. Investments based on a floating rate of interest only have been factored into the sensitivity calculation and note that the relationship between the basis points and interest income is linear. We assume that a fixed rate investment would not be impacted by a change in interest rate.

Interest rate sensitivity, can also affect valuation of the Bank's debt instruments through the fair value calculation. Interest rate risk is monitored to ensure that the sensitivity of the Group's returns to market interest rate movements are understood and managed within Risk Appetite. As at 31 March 2024, £227.0m (2023: £145.6m) of the Group's financial assets are subject to fixed rate and £45.7m (2023: £nil) are subject to variable rate interest arrangements.

Foreign exchange Risk

The Group primarily invests in its functional currency, pounds sterling, but does hold an international investment denominated US Dollars. The investment supports growth in sustainable energy technologies in Scotland at a level larger than our financial investment. Approximately 4.0% (2023: nil) of the Group's portfolio is in non-pounds sterling denominated investments. The currency impact included in the overall FVTPL investments fair value movement for the year ended 31 March 2024 was £0.1m (2023: £nil). There is no policy to hedge this currency risk. The sensitivity of currency risk losses from the Group's non-sterling investments is estimated by assuming a 5% movement in GBP-USD exchange rate. The impact of this would be an approximate gain/loss of +/-£1.0m (2023: £nil) over a one-year period.

Valuation Risk

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

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

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

Key Unobservable Inputs of Unquoted Equity Investments

Estimated sustainable revenue or earnings

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

Discounted cash flow

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

Net asset Value

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

Selection of comparable companies

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

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

The following table summarises the various valuation methodologies used by the Group to fair value Level 3 instruments, the inputs and the sensitivities applied and the impact of those sensitivities to the unobservable inputs. A case-by-case review of our portfolio companies informs the overall discussion on fair value and these risks are captured in the sensitivity analysis. All numbers in the table below are on an investment basis.

As at 31 March 2024	Fair value of unquoted investments	Variable input	Impact		
Valuation basis	£'000	sensitivity	£'000	£'000	% of net assets
Combined Debt and Equity (multiple basis)	52,290	+/- 10%	(1,248)	1,348	5%
Combined Debt and Equity (milestones basis)	103,662	+/- 10%	1,926	(1,772)	10%
Direct equity (milestone basis)	78,890	+/- 10%	7,888	(7,889)	10%
Debt Investments – Discounted cash flow	164,914	+/- 1%	(7,372)	7,871	4%
Funds – Net Asset Value	106,320	+/- 10%	10,632	(10,632)	10%
Total unquoted investments	**506,076**				

Notes to the Financial Statements

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

Capital Management

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

The Group considers its capital to be the total equity shown in the Statement of Changes in Taxpayers' Equity. The Group's objectives when managing capital are:

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

21. Capital Commitments

Amounts contracted for but not provided for in the accounts amounted to £108.5m (2023: £111.0m) for investment commitments.

22. Related Party Transactions

The Company has taken advantage of the exemption conferred by paragraph 25 of IAS 24 'Related party disclosures' and has not disclosed transactions with its wholly owned subsidiaries. Transactions between the Company and its subsidiaries have been eliminated on consolidation.

The Group's key management personnel comprise the members of the Board including the Chief Executive Officer and Chief Financial Officer. Key management personnel are remunerated on the basis outlined in the Annual Report of Remuneration on pages 100 to 111.

23. Related Undertakings

The principal subsidiary undertakings of the Group are shown below.

Subsidiaries Consolidated

Company and registered address	Class of share	Percent held by Scottish National Investment Bank plc	Principal activity
Scottish Investments Limited Waverley Gate, 2-4 Waterloo Place, Edinburgh, United Kingdom, EH1 3EG	Ordinary	100%	Investment
Scottish Investments Services Limited Waverley Gate, 2-4 Waterloo Place, Edinburgh, United Kingdom, EH1 3EG	Ordinary	100%	Group operational and administration services

The Group had no acquisitions in the year (2023: nil).

24. Ultimate Parent Company

The ultimate parent and controlling party and the smallest and largest group in which the results of Scottish National Investment Bank plc are included is headed by Scottish Ministers. The consolidated financial statements of Scottish Ministers may be obtained from their registered address. No other Group financial statements include the results of the Company or Group.

25. Subsequent Events

There have been no material adjusting or non-adjusting events since the reporting period that would require disclosure in these financial statements.

Scottish Government
Riaghaltas na h-Alba
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Scottish National Investment Bank

DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 hereby give the following direction.

2. The statement of accounts for the financial period ended 31 March 2021, and for subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared, and with the Companies Act 2006.

3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial period, and of the state of affairs as at the end of the financial period.

4. This direction shall be reproduced as an appendix to the statement of accounts.

On behalf of the Scottish Ministers 31 March 2021

The
Scottish
National
Investment
Bank

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

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