Green Investment Bank

Annual Report 2013

Contents

Chair's Report

Building a new organisation from scratch represents a significant challenge, especially when it will become a key component of the UK's low carbon economy. The best talent available needs to be recruited, premises found, policies established and, in our case, important investment decisions need to be made.

Furthermore, we will spend a good deal of time listening to our stakeholders in Government, industry and Non-Governmental Organisations (NGOs) to ensure we best reflect the desires of those whose courage and determination saw this bank come to life in late 2012.

It is, therefore, a matter of great pride for me, as Chair, to reflect on the UK Green Investment Bank plc's (GIB) first operational period, the progress we are making and to present our first Annual Report.

Being transparent is important to us and in this report and all of our communications, we intend to provide as much detail as we can without prejudicing our commercial position and that of the companies and projects in which we may invest. In this report we explain our purpose and our commitment to stakeholders. We also set out the investment decisions we have made and how those investments are performing.

We are investing significant capital in a range of exciting renewable energy projects, helping to lay the strong foundations of a low carbon economy. Our Executive Team, led by Chief Executive Shaun Kingsbury, is making a real mark and GIB is being used as a model for similar projects throughout the world.

We are building an enduring bank that is here for the long-term. We have appointed all of our top team and found a permanent home for our Edinburgh HQ. In the space of a few months we have gone from being a great idea to a real bank, with real people making real and important investments.

This start-up phase brings with it an unusually intense range of corporate governance demands and the Board's full report on these matters is on p. 32 to p. 51. I would like to thank all the members of the Board for their support and commitment. I would like to pay particular tribute to Sir Adrian Montague who stood down during the year after playing an integral role in bringing GIB to life.

This is only the beginning. There is an important future ahead; a future built on a low carbon economy and fuelled largely by renewable energy. It is a future that we at GIB are committed to creating as quickly as we can.

Lord Smith of Kelvin
Chair

> "...GIB is being used as a model for similar projects throughout the world."

Chief Executive's Overview

We are now five months into the job of building a new bank. It is a bank driven by a very clear and unique mission – to accelerate the UK's transition towards a greener economy. A bank that will be an enduring institution, operating independently of Government. I want to take the opportunity, in our first Annual Report, to report on our progress so far.

> "…Taken together, [the renewable energy output of our projects] in 2020 would roughly meet the electricity needs of around 2.5m homes…"

Building a more sustainable, green economy

We came into existence driven by a very clear policy intention. We were set up to help the UK achieve its demanding targets for the reduction of greenhouse gas (GHG) emissions, to increase the proportion of energy generated from renewable sources, to improve the energy efficiency of UK businesses and homes and to reduce waste sent to landfill. These targets cannot be achieved by a continuation of the status quo. They require a multi-billion pound direct investment in the country's low carbon generating assets over the next ten years. So far, we're seeing investment at only half of the required rate.

Our role is to be a catalyst; to bring in more private sector financing. We're using our initial capital of £3bn to invest in sustainable projects which need our finance, knowledge and reputation to succeed. Every pound we invest must be additional, which means that we'll only invest when a project is short of capital. Our job is to crowd-in private sector investment, not crowd it out. We are working with other private sector finance providers to form strong investment alliances and over time we plan to recycle our initial capital to achieve even more. We will, in due course, earn our own borrowing powers.

We'll measure our success against a double bottom line:

1. Our Green Impact. We've made early progress in setting out how we'll enshrine our green purpose in our investment strategy and measure the Green Impact of our investment decisions. We have purposely set out to build these measures in partnership with our stakeholders and we'll report our results transparently. These principles of being an open and engaged institution will characterise how we work.
2. Our financial returns. We are a for-profit bank. We can only be a catalyst if we can demonstrate that our investments generate returns attractive to the private sector. Success in making profits through our investments will aid the process of capital formation around the clean energy business more widely.

With these measures as the cornerstones of our investment strategy we've made a solid start. In five months of activity we've committed funds to 11 transactions. These transactions – once the projects are fully operational – are expected to reduce UK GHG emissions by an average of over 2.5 Mt CO_2e per year over their life and to generate 11.8 TWh of renewable electricity in 2020, which is around 9.5% of the UK's projected renewable electricity in that year. Taken together, their output in 2020 would roughly meet the electricity needs of around 2.5m homes and, during the life of the investments, would save emissions equivalent to taking more than a million cars off the road in the UK.

In financial terms we've committed £635m, catalysing a further £1.6bn from other private sector sources. We also supported the Department for Business, Innovation and Skills (BIS) in their £50m investment in Greencoat (see p. 27 for more information).

Our activity so far is showing that we can fulfil our green objectives and deliver financial returns on par with other commercial lenders.

Our first five months have also shown us that we will be involved in projects that some of our stakeholders will find controversial. I would expect that to be the case on an ongoing basis given the contested nature of large parts of the energy and environment debate. We will not run from these debates. We will engage with all interested parties and listen to all points of view. While we may not be able to always reach agreement, those who disagree can expect a fair hearing from us.

Building a new bank

I'd also like to take the opportunity to update you on our progress in building a new bank. Setting up a new type of financial institution is a courageous decision and it has proved to be one with broad-based support within both the policy and financial communities. One measure of the potential impact of GIB is the high level of international interest in setting up similar institutions.

Since our launch in November 2012, we've recruited 74 employees all with expertise in their respective fields. We've made an early investment of time in creating the policies that underpin our investments, particularly as they relate to green issues and risk management. We've also made sound progress on building the processes and systems that any start-up business needs and a modern bank demands.

As we do this, we've purposely made a virtue of seeking out best practice from elsewhere and canvassing the opinions of our stakeholders. We are the first bank of our kind in the world. There is no textbook and we don't have all the answers. So I'm keen that we learn from others and learn as we go. That's not just a practical way to build momentum in our mission but the most effective way to build an institution that's fit for purpose and a company of which we can all be proud.

The outlook

Our constitution and mission means that we are acutely sensitive to changes in the market place and the policy environment. Bound, as we are, by State Aid rules which limit us to co-investments on terms equivalent to other investors, we are tied to the investment appetite of others. We cannot, alone, make a market where none exists. Within that context we see a number of significant challenges in the year ahead.

2013 is a critical year for cementing the UK's reputation as an attractive location for long-term investment in green infrastructure. Electricity Market Reform (EMR) lies at the heart of that and is the most significant overhaul of energy policy for a generation. Getting the final details of EMR right is vital in providing investors with the confidence they need to commit to financing the UK's future energy infrastructure.

In the wider global market place, I would expect the year ahead to see a continuation of difficult times in the clean energy business given the challenging global economic conditions. Investment levels have fallen in the past year after a period of rapid growth. I expect now to see two counteracting forces at work. On one hand, improved technology efficiency, innovation and falling costs mean the sector will demand decreasing levels of financial support. However, working against that is what now looks to be a sustained trend of falling investment appetite within mainstream sources of finance.

Closer to home, I would expect the next year at GIB to be spent capitalising on our initial momentum. In April 2013 the Board finalised the investment strategy across GIB and within each of our priority sectors. We have articulated that strategy to the market place and are well advanced in discussions on what is a significant deal pipeline. Our ability to realise the potential of that pipeline is heavily reliant on the factors outlined above and their effect on other investors.

These are early days for GIB and I'm pleased with our initial progress and excited about our future. I'd like to formally note my thanks to all our stakeholders: NGOs, project developers, our co-investors from the private sector, and the Ministerial team and officials at both BIS and the Department of Energy and Climate Change (DECC). I must also thank my team at GIB for their support and acknowledge the invaluable guidance and counsel of our Chair, Lord Smith of Kelvin. I look forward to more of the same in our first full year of operation.

Shaun Kingsbury
Chief Executive

GIB Highlights 2012–13

Edinburgh wins HQ bid

March

Lord Smith appointed Chair

May

State Aid clearance from European Commission

25 staff transfer to GIB from UK Green Investments

Shaun Kingsbury appointed Chief Executive

October

UK Green Investments (operating within Government)

1 April 2012

April

£50m in Foresight fund*

April

£30m in Greensphere fund*

August

£50m in SDCL fund*

August

£50m in Equitix fund*

*BIS initially committed funds to these investments. The assets and future commitments were transferred to GIB in November 2012.

UK Green Investment Bank plc

November

Official launch

December

£100m in Drax

£46m in Walney

January

£30m in Wakefield

February

£47m in Gloucester

March

£50m in Aviva Energy Centres Fund

£57m in Rhyl Flats

£125m in Green Deal

31 March 2013

March 2013

By the end of the period we had recruited 74 members of staff; with 58 in place at 31 March 2013.

At close of first year over £635m capital committed

Who We Are and What We Do

1

We are dedicated to our mission, which is to accelerate the UK's transition to a greener economy and to create an enduring institution, operating independently of Government.

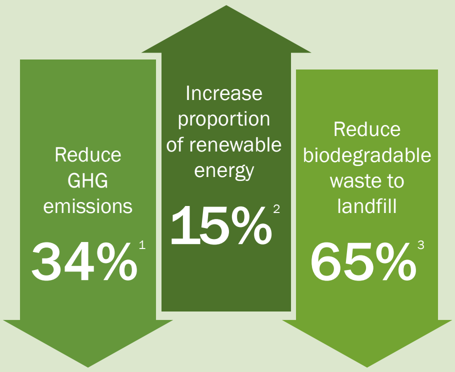
Where we begin

The UK is committed to moving towards a more sustainable, low carbon economy. This is backed up by some demanding targets:

- Reducing GHG emissions
- Increasing the proportion of energy generated from renewable sources
- Improving the energy efficiency of UK homes and businesses
- Reducing the waste sent to landfill

Hitting these targets will need a multi-billion pound investment in the UK's energy and waste management infrastructure. Currently we are seeing investment at only about half the required rate.

The UK Government's Key 2020 commitments

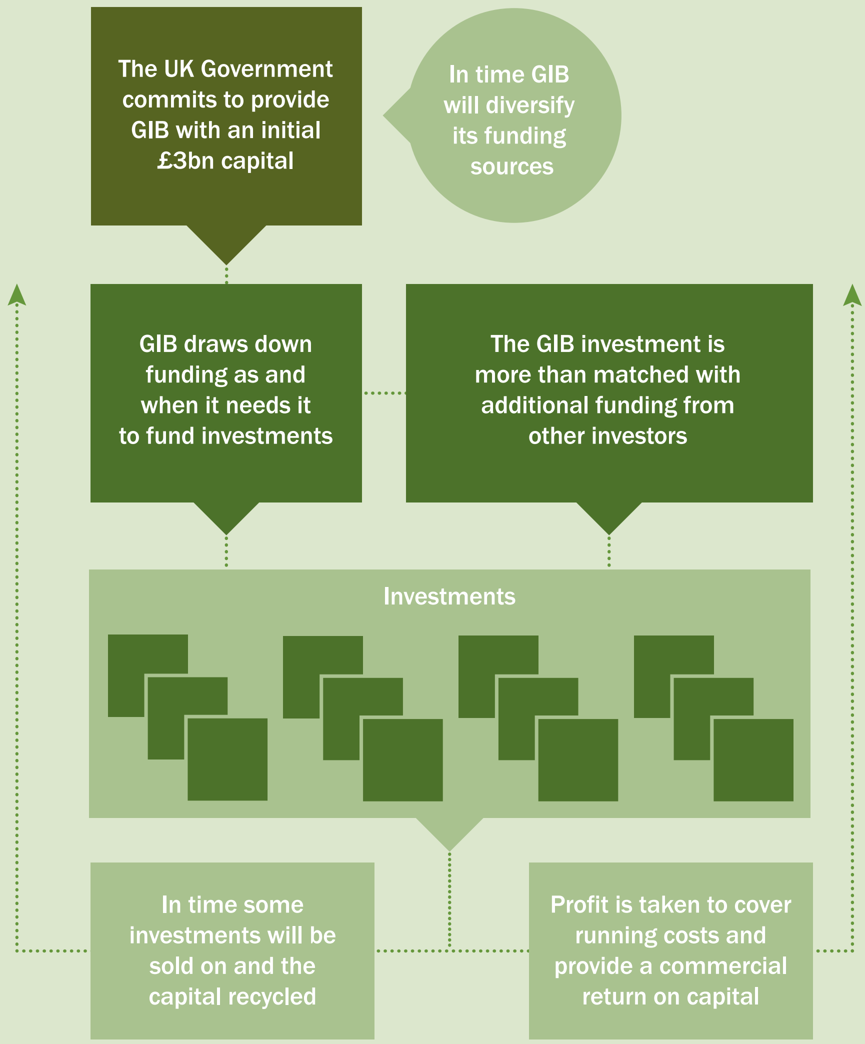


[1] vs 1990 levels [2] from 3% in 2010 [3] vs 1995 levels

Our mission and business model

We were created by the UK Government to act as a catalyst to accelerate private sector green investment.

We are the first bank of our type in the world. We have been given initial funding of £3bn and every pound that we invest will stimulate multiples of that in private sector money. Even then, our money on its own won't be enough; that's why we'll always work alongside co-investors. We can never crowd-out private sector capital, so we only invest when a project needs our capital to progress. We will recycle our capital and profits to achieve even more and we aim to earn the right to borrow in due course.



Our double bottom line

We invest to achieve double bottom line returns. Each project we support must satisfy both:

- Green Impact (against one or more of the following):
  - The reduction of GHG emissions
  - The advancement of efficiency in the use of natural resources
  - The protection or enhancement of the natural environment
  - The protection or enhancement of biodiversity
  - The promotion of environmental sustainability

and

- Financial returns:
  We operate as a for-profit, commercial organisation. We can invest in projects in the form of equity, debt and guarantees. However, we do not make soft loans or grants. We think that the best way to attract more private sector investment into the UK green economy is to demonstrate that we are making good returns.

To succeed in our mission we must achieve returns in both of these areas simultaneously. If we fail in either, we fail overall. It is only by showing that we can achieve Green Impact and generate high quality commercial returns that we can lead the way in demonstrating the existence of a sustainable, commercial market for the levels of private sector investment that the sector needs.

Our Green Impact and financial performance are outlined in greater detail in the pages that follow.

Our investment strategy

At least 80% of our investments will be targeted towards our priority sectors:

- Offshore wind (OSW)
- Waste recycling
- Waste to energy
- Non-Domestic Energy Efficiency (NDEE)

and we will also support the Green Deal.

Up to 20% of our investments will be used to fund projects in other permitted sectors such as biomass power; carbon capture and storage; marine energy; and renewable heat.

These sectors are fixed by the terms of our State Aid approval from the European Commission.

Our investment approach

We use our capital, knowledge and reputation to complete transactions that wouldn't otherwise go ahead. In our first five months we've committed funds to 11 transactions:

- The total value of the 11 investments was £2.3bn
- Within that GIB directly committed £635m, resulting in a funding ratio that sees £1 from GIB mobilising almost £3 of private sector money
- We supported transactions in all of our priority sectors: offshore wind, energy efficiency, waste recycling and energy from waste
- We completed all transactions on fully commercial terms in line with co-investors

The Green Impact of these investments is set out in the Green Impact Statements section of this report on p. 52.

Our investments

Investment	Sector	Date	GIB commitment (£m)	Total transaction (GIB + third party) (£m)	GIB investment to third-party funding ratio	GIB's average annual GHG emissions reduction (ktpa CO_2e)(3)
Foresight(1)	Waste/Biomass	Nov '12*	50	100	1:1(2)	16(4)
Greensphere(1)	Waste/Biomass	Nov '12*	30	60	1:1(2)	16(5)
SDCL(1)	NDEE	Nov '12*	50	100	1:1(2)	n/a
Equitix(1)	NDEE	Nov '12*	50	100	1:1(2)	n/a
Drax	Waste/Biomass	Dec '12	100	990	1:9	2,500
Walney	OSW	Dec '12	46	224	1:4	51
Wakefield	Waste/Biomass	Jan '13	30	122	1:3	34
Gloucester	Waste/Biomass	Feb '13	47	185	1:3	7
Green Deal	Green Deal	Mar '13	125	169	1:0.4	82
Rhyl Flats	OSW	Mar '13	57	115	1:1	27
Aviva Fund(1)	NDEE	Mar '13	50	100	1:1	8(6)
TOTAL			635	2,265	1:3	2,741

*BIS initially committed funds to these investments. The assets and future commitments were transferred to GIB in November 2012.

(1) These investments are funds managed by the named manager. Note 12 has further details.
(2) Fund investments need to be matched equally by third-party investments.
(3) This is calculated in accordance with the methodology set out in GIB's Green Impact Reporting Criteria 2012-13.
(4) This relates to the TEG anaerobic digestion/IVC plant planned for Dagenham.
(5) This relates to the Greenlight anaerobic digestion plant planned for Teesside.
(6) This relates to the energy efficiency projects at Addenbrooke's and Rosie hospitals.

Case Studies

Waste/Biomass

Drax Biomass Conversion Project

What?
Up to £100m of senior debt funding in support of the conversion of three of six generating units from coal to biomass.

Why?
Converting coal to sustainable biomass provides substantial GHG emissions savings by displacing the dirtiest fossil fuel with biomass.

Where?
Drax power station is located in North Yorkshire. It is the largest power station in Western Europe and provides approximately 7% of the UK's electricity supply.

Who?
The GIB term loan facility of up to £100m was made alongside the Prudential and M&G UK Companies Financing Fund who committed equivalent funding on the same terms.

How?
GIB's participation in the term loan facility was an integral part of Drax's £990m total project funding.

Waste/Biomass

Wakefield Waste PFI Project

What?
£30.4m of senior debt funding to Shanks Group plc in support of its 25-year PFI funded contract.

Why?
To help increase the local authority's landfill diversion rate to 90% and increase its recycling rate to at least 52%, which is above the UK's 2020 target.

Where?
An integrated waste management facility at South Kirkby, Wakefield, alongside a range of supporting infrastructure including waste transfer stations and household waste recycling centres.

Who?
GIB's investment sits alongside three commercial banks which will be used to fund the construction and operation of the project.

How?
GIB was invited to join the banking club providing the necessary additional liquidity to ensure the achievement of financial close, mobilising three times GIB's investment.

Waste/Biomass

Waste Recycling and Energy from Waste Funds

What?
GIB committed £80m to waste investments via two fund managers, Foresight (£50m) and Greensphere (£30m). Foresight and Greensphere are responsible for mobilising at least a matching amount of capital from the private sector in order to make eligible investments.

Why?
Typically projects are anticipated to reduce the tonnage of material sent to landfill, increase the amounts of material recycled and contribute to the production of renewable energy.

Where?
Two investments have been made to date:

- The Foresight Group-managed fund has invested £2m in a c. £21m 1.4MW TEG-operated AD/IVC plant in Dagenham
- The Greensphere-managed fund has also made its initial investment of £8m in a c. £16m 5.1MW AD plant in Teesside

Who?
Foresight is a leading independent alternative asset manager investing in the private equity, infrastructure and environmental sectors in the UK, US and Italy. Greensphere Capital is a specialist investment firm focused on sustainable energy and infrastructure – assets and technology.

How?
Investments will be targeted into 'small scale' projects requiring typically less than £30m of financing and involve a wide range of waste infrastructure intended to either increase recycling rates or to achieve energy efficient energy production from waste.

Green Deal

The Green Deal Finance Company

What?
The provision of £125m of senior debt funding to the Green Deal Finance Company (GDFC) for residential energy-efficiency.

Why?
It is estimated that the first tranche of funding achieved by GIB's funding in GDFC will help reduce annual GHG emissions by around 82,000 t CO_2e.

Where?
Throughout Great Britain and Northern Ireland.

Who?
The GDFC is a start-up, 'not-for-dividend' business, launched in support of DECC's Green Deal policy, which will provide long-term wholesale finance for the aggregation and refinancing of consumer Green Deal Plans.

How?
GIB's financing of the GDFC has been instrumental in facilitating DECC's major new climate change policy.

NDEE

Non Domestic Energy Efficiency Funds (NDEE)

What?
GIB committed £100m to NDEE investments via two fund managers, Equitix and Sustainable Development Capital LLP (SDCL). Both have a £50m commitment from GIB. Equitix and SDCL are responsible for mobilising at least a matching amount of capital from the private sector in order to make eligible investments.

Why?
Improved energy efficiency and decarbonisation of heat are of critical importance in order to meet the UK 2020 and 2050 carbon emission reduction targets.

Who?
Equitix is a UK specialist infrastructure fund manager, specialising in long-term investing. SDCL specialise in financial advisory on sustainable developments projects.

How?
Investments will be targeted into 'small scale' projects of less than £30m and involve a wide range of energy efficiency interventions intended to have the dual benefit of reducing carbon emissions and reducing costs for the host company.

> "...In our first five months we've committed funds to 11 transactions... The total value of [these investments] was £2.3bn."

Case Studies (cont)

NDEE

Aviva Investors REaLM Energy Centres Fund

What?
GIB committed £50m to the Aviva Investors REaLM Energy Centres Fund, a new fund managed by Aviva Investors which specialises in investments in non-domestic UK energy centres. GIB's full investment commitment of £50m will eventually mobilise a total of at least £50m private capital into this sector.

Why?
The UK public sector is a significant generator of CO_2 emissions. Focusing on this area cuts emissions and saves the public sector money. This fund provides long-term funding from institutional investors for public sector energy efficiency projects.

Where?
The fund made its first investment of £36m (£18m provided by GIB) in Cambridge University Hospitals' NHS Foundation Trust (including Addenbrooke's and Rosie hospitals) which will benefit from savings of over £20m in energy costs over the 25-year operational term of the project and expected CO_2 savings in excess of 25,000 tonnes per annum.

Who?
The fund is managed by Aviva. The initial project involves MITIE constructing and operating the project under a 25-year term contract with the Trust.

How?
Investments will involve a wide range of energy efficiency interventions in the public sector which will have a dual benefit of reducing carbon emissions and reducing costs to the public sector.

Offshore Wind

Walney Offshore Wind Farms

What?
Provision of c. £46m as part of a debt package to refinance a 24.8% stake in two offshore wind farms.

Why?
Offshore wind is of critical importance in replacing ageing power plants in the UK, as well as reducing reliance on imported gas and meeting GHG emissions and renewable energy targets.

Where?
Two operational offshore wind farm projects located 14km off the north west coast of England.

Who?
This debt package is to refinance the OPW 24.8% stake acquisition of Walney on a 70:30 debt:equity basis. Walney was developed, constructed and is currently operated by DONG Energy Power, which also owns 50.1% of the project. The remaining stake is held by SSE (25.1%).

How?
GIB was demonstratively 'additional' on the transaction as its participation was necessary to ensure that the financing was fully subscribed.

Offshore Wind

Rhyl Flats Wind Farm

What?
A c. £57.5m direct equity investment in offshore wind through the acquisition of a 24.95% stake in a 90MW wind farm from RWE AG (RWE).

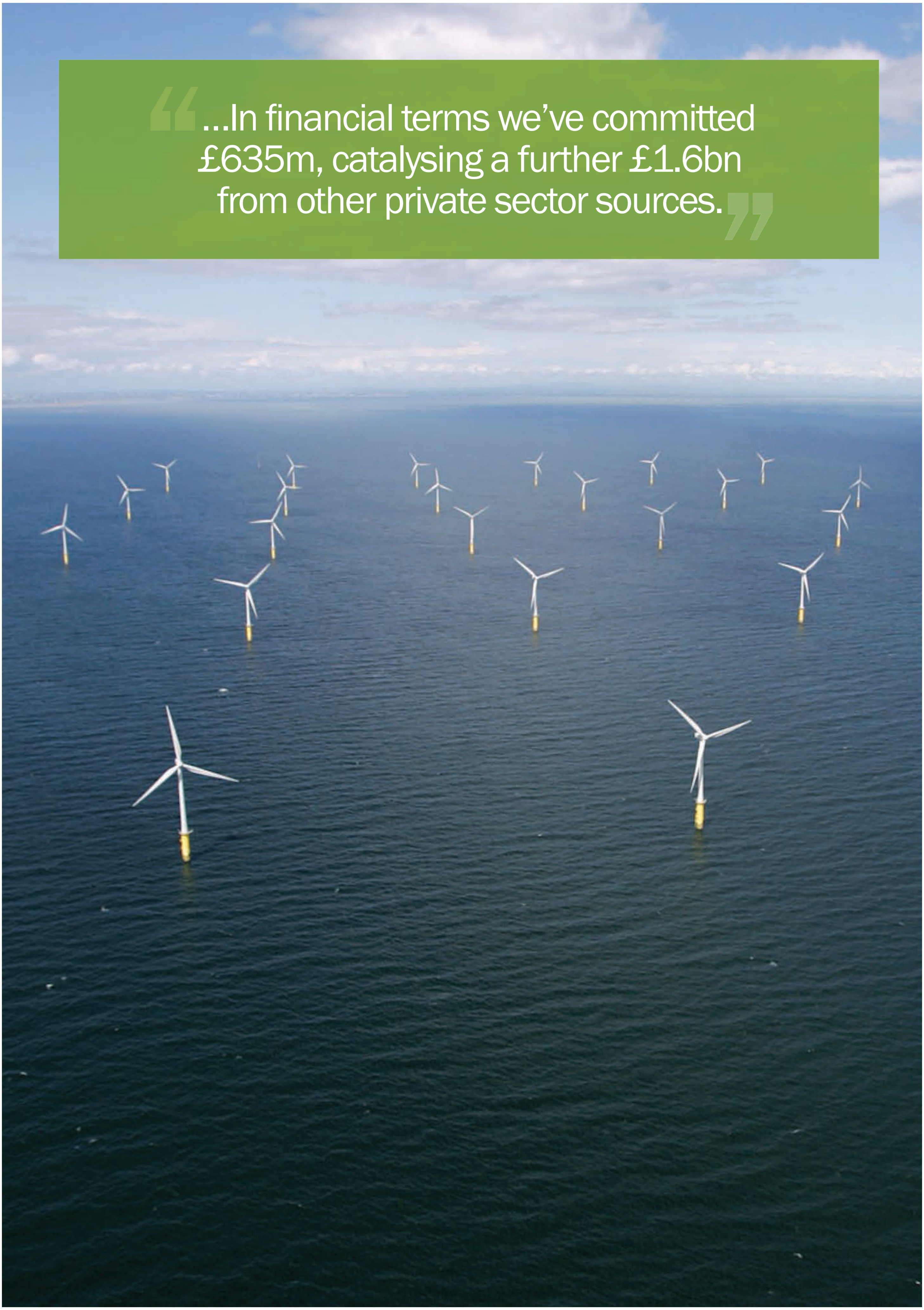
Why?
Offshore wind could deliver c. 20–50% of total UK electricity generation by 2050 supporting the reduction of carbon emissions targets of 80%.

Where?
Rhyl Flats wind farm located 8km off the coast of North Wales.

Who?
GIB acquired its stake alongside Greencoat UK Wind PLC which also acquired a 24.95% interest from RWE, following its successful flotation on the London Stock Exchange.

How?
GIB's investment allows the release of capital back to the original developers, to be invested in new renewable projects in the UK.

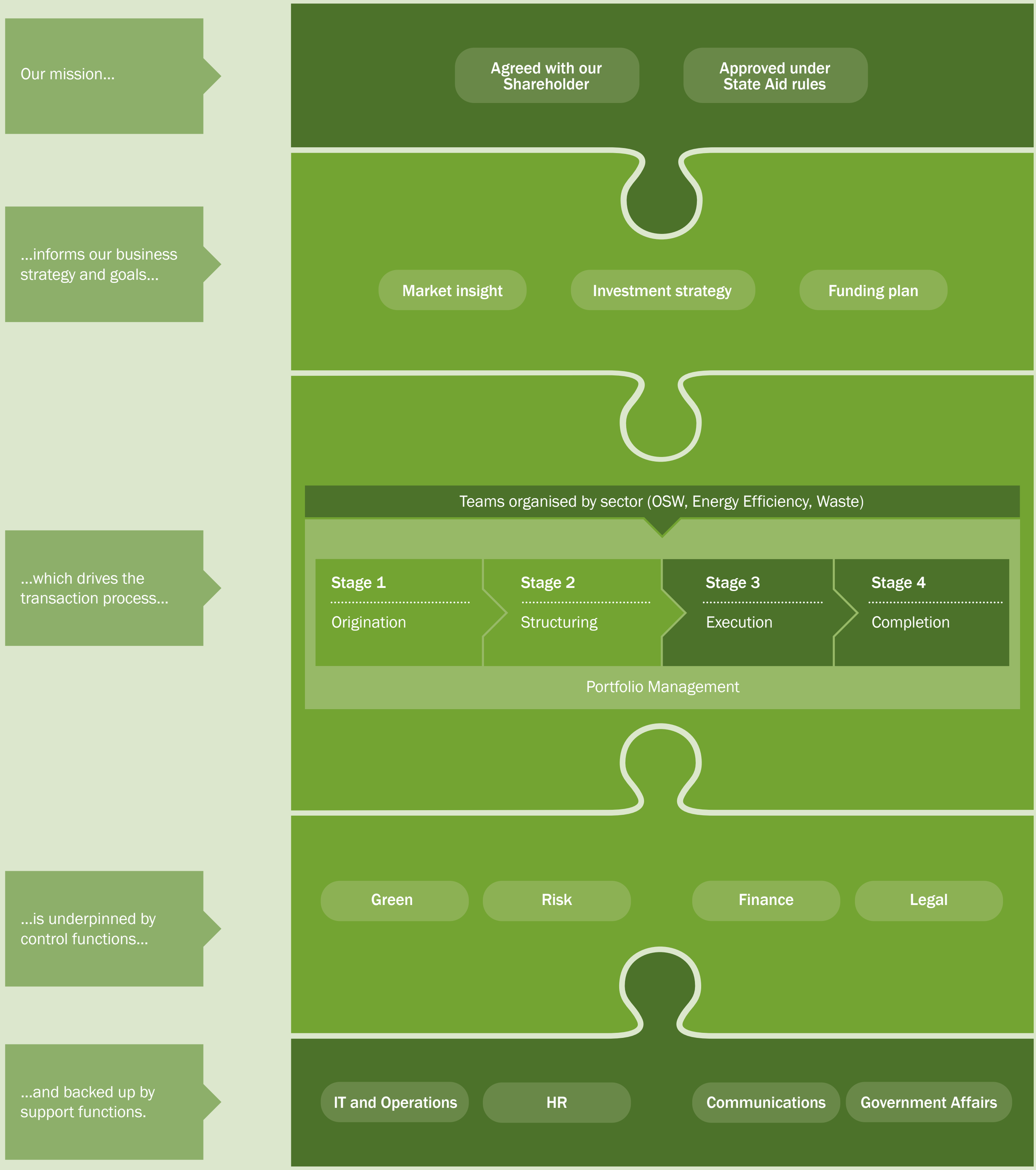
"...In financial terms we've committed £635m, catalysing a further £1.6bn from other private sector sources."



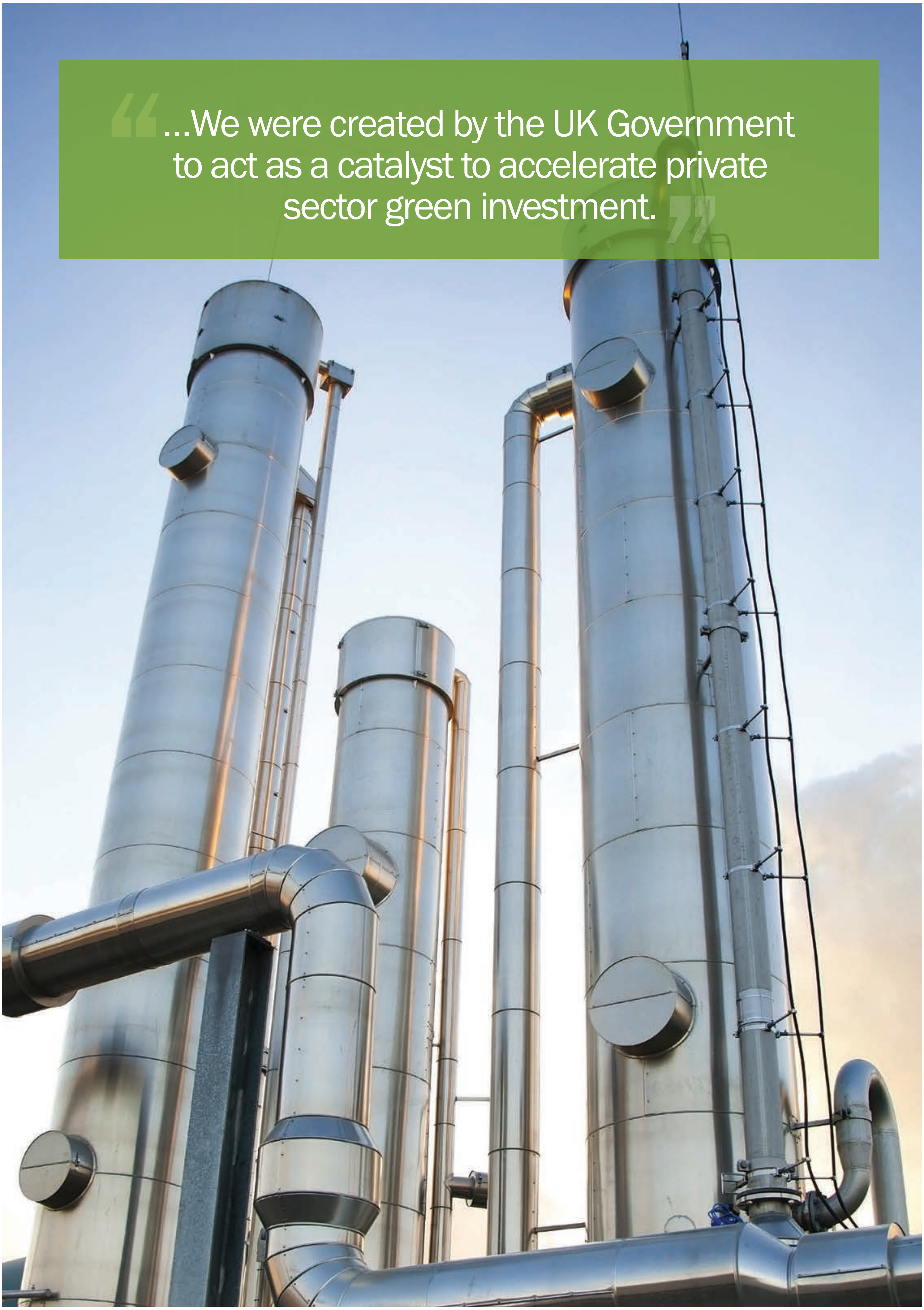
How the Team Works

We're building a new bank that will become an enduring institution, operating independently of Government. We have recruited 74 staff with 58 in place at 31 March 2013 and expect that number to be around 100 by the end of 2013.

How the team works



“…We were created by the UK Government to act as a catalyst to accelerate private sector green investment.”



Board of Directors

Lord Smith of Kelvin, Chair
Chair, Valuation Committee, Nomination Committee and Chair's Committee

Lord Smith has a strong financial services background and a wealth of experience gleaned from a wide range of positions. Currently Chair of SSE, which is the second largest producer of energy in the UK and has the largest renewables portfolio in Britain, he has a comprehensive knowledge of energy trends. He is also Chair of The Weir Group plc and Non Executive Director of Standard Bank Group Ltd. He has held positions on various private and public boards including the Financial Services Authority and Financial Reporting Council (FRC) and a number of key positions within the banking industry. He chaired the group set up by the FRC in 2003 to clarify the role of audit committees.

Professor Dame Julia King DBE, Non Executive Director
Member of Remuneration Committee and Green Committee

Professor Dame Julia King is the Vice-Chancellor of Aston University and a Fellow of the Royal Academy of Engineering. She has had a career in academia and industry, including senior engineering and manufacturing roles at Rolls-Royce plc in marine, energy and aerospace. Julia is a member of the Board of Universities UK, a Non Executive Director at BIS and a member of the Committee on Climate Change. She was appointed as the UK's Low Carbon Business Ambassador in November 2010.

Shaun Kingsbury, Chief Executive
Member of Green Committee and Valuation Committee

Shaun Kingsbury is the Chief Executive of GIB. Prior to joining GIB, he served as an Investment Partner at Hudson Clean Energy Partners, a leading US clean energy private equity firm where he was responsible for its European activities. He is a long-time renewable energy investor and advisor having been a founding partner of Pulsar Energy Capital and an advisor to 3i on a number of renewable energy transaction opportunities in Europe including the €170m acquisition of GES by 3i where he served on the board prior to his appointment as Chief Executive of GIB. Shaun previously worked at Shell in Europe, the US and Asia and for Centrica's retail power business in the US. Prior to joining GIB, he also founded and chaired the Low Carbon Finance Group, a group of the leading investors in the clean energy space.

Fred Maroudas, Non Executive Director
*Member of Investment Committee**

Fred Maroudas is Finance Director for Heathrow Airport and is a specialist in financing the UK's core infrastructure. As Director of Treasury at Heathrow (formerly BAA) and previously at Network Rail he has been responsible for raising close to £40bn from banks and capital markets to fund their respective investment programmes. He was previously responsible for financing at HM Treasury Taskforce and Partnerships UK. He is Deputy Chair of Local Partnerships and sits on the investment committee for a number of pension schemes.

*This is not a committee of the Board.

Sir Adrian Montague, Senior Independent Director and Deputy Chair*
Member of Chair's Committee and Audit and Risk Committee

Sir Adrian Montague has a long and highly respected track record in the City. He is Chair of a number of companies including 3i and Anglian Water Group. He previously chaired the Advisory Group which was set up to advise Secretary of State Vince Cable on the creation of GIB. He has previously been Chair of Friends Provident Group plc, British Energy Group plc, Deputy Chair of Network Rail as well as Founder Director and Deputy Chair at Partnerships UK plc. He is also a Non Executive Director of Aviva plc.

*Resigned on 30 April 2013.

Tom Murley, Non Executive Director
*Member of Investment Committee**

Tom Murley leads the renewable energy team at HgCapital and is responsible for HgCapital Renewable Power Partners' funds. Tom joined HgCapital in 2004 and has more than 20 years' experience in providing equity finance to the US and European conventional and renewable power sectors, including over €2bn of renewable energy projects. He is active in the industry, serving on several industry boards, including chairing the cleantech committee of the British Venture Capital and Private Equity Association.

*This is not a committee of the Board.

David Nish, Non Executive Director
Chair of Audit and Risk Committee, Member of Valuation Committee

David Nish has been Chief Executive at Standard Life since January 2010. He is also Deputy Chair of the Association of British Insurers, a member of the UK Strategy Committee of TheCityUK and of the Financial Services Advisory Board of the Scottish Government. He was formerly a partner with Price Waterhouse, Finance Director of Scottish Power plc and a Non Executive Director of Northern Foods plc, Thus plc and the Royal Scottish National Orchestra.

Anthony Odgers, Shareholder Representative Director
*Member of Chair's Committee, Member of Remuneration Committee, Nomination Committee and Investment Committee**

Anthony Odgers heads the Portfolio Unit of BIS's Shareholder Executive. He has over 20 years' banking experience having joined Morgan Grenfell in 1989, and then was subsequently at Lehman Brothers (1999–2007) and Deutsche Bank (2007–2010). His experience includes project finance, corporate finance, restructuring advisory and general management. At the Shareholder Executive, Anthony has overall responsibility for the businesses in the Shareholder Executive portfolio.

*This is not a committee of the Board.

Professor Isobel Sharp CBE, Non Executive Director
Chair of Remuneration Committee, Interim Member of the Audit and Risk Committee and Member of Valuation Committee from 3 May 2013, Member of Nomination Committee and Chair's Committee from 15 May 2013

Professor Isobel Sharp advises Deloitte LLP on corporate reporting, governance and public policy matters, having retired as senior technical partner in May 2012. She is a Visiting Professor and member of the International Advisory Board at the University of Edinburgh Business School. Isobel has served on the UK's Accounting Standards Board and the Financial Reporting Review Panel and was President of The Institute of Chartered Accountants of Scotland for 2007–08.

Tessa Tennant, Non Executive Director
Chair of Green Committee and Member of Audit and Risk Committee

Tessa Tennant has devoted her career to innovation in financial services for sustainability. She co-founded the UK's first green equity investment fund in 1988, now called the Jupiter Ecology Fund. She co-founded The Ice Organisation, creator of the environmental rewards programme myice.com, and is now its Non Executive President. Tessa has co-founded numerous initiatives, including asria.org in Hong Kong and The Carbon Disclosure Project, cdproject.net. She has served on fund, company and not-for-profit boards.

Executive Team

Shaun Kingsbury, Chief Executive

Shaun Kingsbury is the Chief Executive of GIB. Prior to joining GIB, he served as an Investment Partner at Hudson Clean Energy Partners, a leading US clean energy private equity firm where he was responsible for its European activities. He is a long-time renewable energy investor and advisor having been a founding partner of Pulsar Energy Capital and an advisor to 3i on a number of renewable energy transaction opportunities in Europe including the €170m acquisition of GES by 3i where he served on the board to his appointment as Chief Executive of GIB. Shaun previously worked at Shell in Europe, the US and Asia and for Centrica's retail power business in the US. Prior to joining GIB, he also founded and chaired the Low Carbon Finance Group, a group of the leading investors in the clean energy space.

Jeremy Burke, Finance Director*

Jeremy Burke is a Chartered Accountant and has worked in the private sector and public sector in Melbourne, New York and London. Most recently Jeremy has been leading on strategic financial planning for BIS and before that worked at the Department for Education on family policy, including the Family Justice Review. Prior to entering the civil service Jeremy worked with environmental investors in the UK, was a divisional Financial Controller for an ASX-listed financial services group in Australia and qualified at Pitcher Partners in Melbourne, Australia. Jeremy is the Chair of school governors at Grange Primary in Southwark and was previously involved with the Alternative Technology Association in Melbourne.

*Operated as Interim Finance Director throughout the period. Appointed Finance Director on 1 February 2013.

Rob Cormie, Group Operations Director

Rob Cormie was a founding partner of Edinburgh Advisers LLP, a renewable energy advisory firm. He has a long track record of advising and lending in the energy sector and more specifically the wind and waste sectors. Previous roles include being a Board Member of Quayle Munro plc, where he built a significant renewable energy advisory business; a partner of KPMG where he led the energy corporate finance team; and further senior roles at CIBC World Markets, the Canadian Investment Bank; and Commerzbank AG.

Oliver Griffiths, Head of Government Affairs and Policy

Having qualified and practised as a corporate lawyer at Freshfields Bruckhaus Deringer, Oliver Griffiths entered the UK civil service in 2002 to work in energy policy. During his civil service career Oliver spent three years at the British Embassy in Washington DC before joining the Shareholder Executive in 2009, where he led the team managing the Government's 100% shareholding in Post Office Limited.

Peter Knott, Chief Risk Officer

Peter Knott has a strong background in financial institutions. He qualified as a chartered accountant with Deloitte & Touche in 1988 before joining Jardine Fleming where he worked in Hong Kong and Tokyo in the securities and fund management businesses. He later moved to New York as the Chief Financial Officer for JPMorgan Chase's global investment banking coverage and mergers and acquisitions groups. More recently, he worked for Standard Chartered, where he held roles including Group Treasurer, Consumer Banking Group Chief Risk Officer and Group Head of Operational Risk. Peter is responsible for ensuring that GIB establishes and maintains an effective risk management framework, supporting the Board's strategy and risk appetite.

Anthony Marsh, Chair of Investment Committee

Tony Marsh began his banking career in 1983 and between 1994 and 2000 was responsible for Deutsche Bank's power project finance activities in Europe, the Middle East and Africa. Thereafter, for seven years he was responsible for the EBRD's activities in the power and gas distribution sector. Prior to joining GIB, Tony worked for ContourGlobal, a power development company, being Chief Executive of its CHP business.

Ian Nolan, Chief Investment Officer

Ian Nolan is an economist by academic training and qualified as an accountant with Arthur Andersen in London before making his career in private equity at 3i, from 1987 to 2011. Beginning in Manchester, Ian successively had responsibility for 3i's regional and then London activities before being appointed as 3i's first Chief Investment Officer in 2009.

Edward Northam, Head of Investment Banking*

Edward Northam has been involved in the global renewable energy industry for more than 15 years, with a particular focus on energy from waste products. In his early career Edward acted as a legal advisor to public and private organisations engaged in the power sector, before working in industry in various project and corporate development and fundraising roles. More recently he was co-founder and Chief Executive Officer of an Australian-based clean energy investment fund.

*Appointed 29 April 2013.

Christopher Saunders, Interim Legal Counsel

Christopher Saunders is a solicitor who, before joining GIB, was a partner for 22 years at Slaughter and May in London, where he had a broadly-based legal practice encompassing corporate and structured finance, infrastructure projects and public sector work, both in the UK and internationally.

Our Double Bottom Line

2

GIB was able to invest from 29 October 2012, with an initial £3bn in capital provided by the UK Government. Our mission is to accelerate the UK's transition to a greener economy and create an enduring institution, operating independently of government. Our mandated requirement is to support green projects and generate commercial returns. This is the 'double bottom line' which guides us in making our investment decisions.

Our Green Impact mandate focuses all our investment activities on projects which contribute to one or more of the UK Government's environmental and sustainability targets.

This is a broader agenda than just reducing carbon emissions, important though that is. It can include landfill diversion or materials recycling, for example.

We also have a more traditional financial bottom line, which is to say that we are a 'for-profit' bank.

Achieving profitability is not an alternative to delivering a Green Impact, nor does it conflict with our green imperative. In fact, we will only achieve our ambitious sustainability aims if we are commercially successful and are seen to be profitable.

This is because our capital on its own is simply not enough to solve the investment needs of the UK's transition to a greener economy.

The investment needed is vast and our task is to act as a catalyst to encourage more private sector lenders and investors to support the projects we believe will have a significant positive impact on the low carbon economy.

In this section of our first Annual Report, we outline our performance in terms of Green Impact, provide some insight into our priority sectors, as well as giving details of our investments to date and our financial performance. Given our relative infancy, we also set out the long-term performance objectives against which we expect to be judged in the years to come.

> "...Achieving profitability is not an alternative to delivering a Green Impact, nor does it conflict with our green imperative."

"...The investment needed is vast and our task is to act as a catalyst to encourage more private sector lenders and investors to support the projects we believe will have a significant positive impact on the low carbon economy."

Green Performance

Consistent with our 'double bottom line', GIB reports both Green Impact returns on investment as well as financial returns. The investments made in the first five months of operations are expected to make a material contribution to the UK's environmental targets, with anticipated lifetime reductions of GHG emissions approximately equivalent to Scotland's target 2020 annual carbon footprint and the current portfolio anticipated to contribute to about 9.5% of the UK's renewable electricity in 2020.

GIB's five Green Purposes

The reduction of GHG emissions.	The advancement of efficiency in the use of natural resources.	The protection or enhancement of the natural environment.	The protection or enhancement of biodiversity.	The promotion of environmental sustainability.

GIB has a 'double bottom line' and must achieve significant Green Impact and financial returns. Green Impact is defined as the environmental returns on investment as measured against one or more of GIB's Green Purposes. In addition to the direct environmental impact of GIB's investments, we also consider our impact on the wider green economy, including the potential to mobilise additional investment into green infrastructure over time.

GIB is also committed to being a responsible investor. This means ensuring that our investments take account of wider environmental, social (including health and safety) and governance (ESG) related impacts.

GIB's Green Impact on the environment

So far as possible, GIB seeks to quantify the Green Impact of our investments. This is work in progress and the range of metrics is expected to develop with the growth of the investment portfolio. GIB also monitors the potential environmental harm caused by our investments and will report on this in due course, including the controlled emissions arising from combustion plants permitted under Pollution Prevention and Control Regulations in the UK and the water consumption of large power plants.

GIB's green performance is reported in each of three ways:

- The historic performance of GIB's portfolio of investments in the past year. This is similar to the 'Environmental Profit and Loss' of GIB
- The lifetime savings of GIB's portfolio of investments at the year end, including both the cumulative historic Green Impact over prior years and the future anticipated lifetime Green Impact. This is similar to the 'Environmental Balance Sheet' of GIB's investments
- The anticipated average annual future performance of GIB's current portfolio of investments over the period 2018–22 (the UK's third Carbon Budget). This includes both committed and deployed capital as at the year end. Each of the historic and anticipated future performance of GIB's portfolio of investments can be divided by the value of investment to give the Green Impact return on investment, which is an indicator of the efficiency of investment from an environmental perspective. Details of the above data for the period ending 31 March 2013 are set out in the Green Impact Statements section of this report starting on p. 52. A summary of this information is given on the following pages.

The metrics outlined below are Key Performance Indicators, developed so far, for measuring and assessing the performance of GIB in meeting our Green Purposes.

GIB Green Purpose	Metric
The reduction of GHG emissions	• GHG emissions avoided (t CO_2e) • Renewable electricity generated (TWh)
The advancement of efficiency in the use of natural resources	• Materials consumption avoided through materials recycling (t)
The protection or enhancement of the natural environment	• Waste-to-landfill avoided (t)

Green performance summary

Total GHG emission reduction of portfolio for 2012–13:	Estimated lifetime GHG emissions reduction of portfolio:
22,498 t CO_2e	43 Mt CO_2e
Equivalent to: 9,500 cars off the road for a year.	Equivalent to: Scotland's target 2020 net annual carbon footprint.

Anticipated contribution of portfolio to UK's 2020 renewable energy target:	Estimated annual waste-to-landfill avoided by portfolio in 2020:
12 TWh	326,000 t
Equivalent to: 9.5% of UK's projected renewable electricity in 2020.	Equivalent to: annual waste of around 300,000 homes.

Green Purpose 1:
The reduction of GHG emissions.
In the 2012–13 reporting period only two GIB assets – both offshore wind farms – were operational and generating GHG savings and each for only limited periods of time during which GIB was an investor, namely Walney (103 days) and Rhyl Flats (three days). These assets generated together ~67,000 MWh of electricity attributable to GIB's investments, equivalent to the needs of approximately 15,000 homes. This gives a GHG saving arising from this renewable power generation of 22,498 t CO_2e, equivalent to taking approximately 9,500 cars off the road for a year. This GHG saving has been independently assured by PricewaterhouseCoopers (PwC) (see Independent Assurance Report on p. 57 of this Annual Report). The lifetime savings of GIB's portfolio of investment as at the end of the period, including both the cumulative historic Green Impact and the future anticipated lifetime Green Impact, is ~43 Mt CO_2e.

To put this in context, that is equivalent to the target net annual emissions for Scotland in 2020[1]. GIB anticipates that the future average annual GHG emissions reduction performance of our current portfolio of investments over the period 2018–22, including both committed and deployed capital, will be 1.6 Mt CO_2e. This is equivalent to ~3% of the UK's annual target reduction in GHG emissions during the UK's third Carbon Budget (2018–22)[2].

This estimated reduction in GHG emissions in 2020 is based on investment of £635m, giving an average return on investment of ~2.4 kg CO_2e /£GIB invested. A significant part of this reduction in GHG emissions will be achieved via the projected production by GIB's portfolio of assets of ~12 TWh of electricity per annum in 2020, which is equivalent to approximately 9.5% of the UK's projected renewable electricity production in 2020[3]. The Board takes seriously its statutory duty to ensure that its activities in making, facilitating or encouraging investments in each year and in any previous financial years would (taken as a whole) be likely to contribute to a reduction in global GHG emissions. The Board believes that the above data demonstrates that these requirements have been met by its activities over the period to 31 March 2013.

Green Purpose 2:
The advancement of efficiency in the use of natural resources.
No waste infrastructure plants within the GIB portfolio are yet operating and so there is no historic materials consumption avoided through materials recycling. GIB has committed to four waste infrastructure projects: the Wakefield waste pre-treatment facility; the Gloucester energy-from-waste facility, and two anaerobic digestion plants via fund managers, TEG AD/IVC plant in Dagenham and Greenlight AD plant in Teesside. It is estimated that these projects will achieve lifetime materials consumption avoided through recycling of approximately 5.3m tonnes of material and, in the year 2020, 213,000 tonnes of material. Further details of the estimated breakdown of types of materials to be recycled are set out in the Green Impact Statements on p. 52 of this report.

Green Purpose 3:
The protection or enhancement of the natural environment.
Again, due to the focus on new construction assets in GIB's waste infrastructure portfolio, there has been no historic waste-to-landfill avoided by GIB's portfolio so far. However, the four waste plant mentioned above are expected together to achieve lifetime waste-to-landfill avoided of approximately 8.1m tonnes waste and to avoid waste-to-landfill of approximately 326,000 tonnes waste in 2020, including approximately 235,000 tonnes of biodegradable waste. This is equivalent to ~2.9% of the UK's estimated 2012 biodegradable waste-to-landfill.

[1] Scotland's net emissions in 2010 were 54.7 Mt CO_2e and are projected to be 41 Mt CO_2e in 2020 – see Reducing Emissions in Scotland: 2013 Progress Report, Committee on Climate Change p. 13). This compares a lifetime saving with an annual amount to give a sense of scale only.

[2] The national carbon budget for 2013–17 is 2,782 t CO_2e and for 2018–22 is 2,544 t CO_2e. Therefore the reduction target over the five-year period between 2018–22 is 238 Mt CO_2e or 47.6 Mt CO_2e per year.

[3] The UK Renewable Energy Roadmap 2011 sets out ranges of ambition by electricity-related technology, the average of which suggests a central projection of approximately 125 TWh electricity by 2020.

Green Performance (cont)

GIB's Green Impact on the economy

A central part of GIB's strategy is to generate positive 'demonstration' effects by which it can encourage additional long-term investment into the Green Economy. As part of the Green Impact appraisal process, each investment is appraised not only for the potential direct environmental benefits arising, but also for the potential demonstration effect by which further capital may be attracted to the market and help increase the availability and reduce the cost of capital for green infrastructure. The case studies of investments to date set out on p. 10 give more details of the nature and circumstances of the range of GIB's investments. Over time, the aim is that these investments demonstrate the potential for further investment in green infrastructure.

GIB's commitment as a responsible investor

GIB is seeking to become a market leader in responsible investment. Effective, integrated assessment and management of all material ESG matters, help to achieve improved environmental performance as well as wider societal benefits and can also improve financial returns especially over the long-term. This integrated approach is, therefore, entirely consistent with achieving GIB's 'double bottom line' objective. As part of this commitment, the Board has approved the adoption of the Equator Principles in respect of large project-financed investments (greater than $10m value equivalent) and to become a signatory to the UN-backed Principles for Responsible Investment (PRI). The Board resolved to adopt the Equator Principles after 31 March 2013 and accordingly reporting in respect of the Equator Principles will not become mandatory until 2014. However, GIB believes that three of our current portfolio of investments, with a value of approximately £123m, would have required reporting under the Equator Principles and each would have been classified 'B'. In future, GIB will also comply with reporting on our performance against the PRI.

GIB's own sustainability

Given our mission, GIB is committed to achieving environmental benefits by measuring and reducing our own impact on the environment, as far as possible. GIB's total GHG footprint for the 2012–13 reporting period is measured from the commencement of our own operations from November 2012. Over this period, GIB's total GHG footprint was 202 t CO_2e. This breaks down as 27.3 t CO_2e of Scope 2 GHG emissions (attributable to directly consumed electricity in the London office) and 174.2 t CO_2e of Scope 3 emissions (attributable to electricity, heating and cooling service charges as part of leased office space, the emissions of which are not within the control of GIB, and corporate travel). GIB does not have any material Scope 1 (direct) emissions. Key features of GIB's management of its environmental impact are as follows:

- Office management: (i) select premises with strong environmental credentials where possible and then seek to improve performance; (ii) ensure sustainable management of GIB's waste so far as practicable; (iii) limit use of paper and always seek to recycle used paper
- Travel management: (i) seek to follow the model of engage and educate staff, then avoid, then reduce, then offset travel-related emissions; (ii) invest in high standards of communication technology to help avoid travel (e.g. video conferencing between the London and Edinburgh offices and for communication with clients); (iii) assist in choosing lower impact forms of transport (both corporate travel and staff travel to and from the office) and encourage more environmentally friendly forms of travel (for example by offering good quality shower facilities for cyclists etc.); (iv) double offset travel emissions via both a Gold Standard international carbon offset and a Scottish-based tree planting scheme
- Procurement: incorporate environmental criteria in the selection and contracting of key suppliers and, where possible, purchase sustainable supplies such as recycled paper.

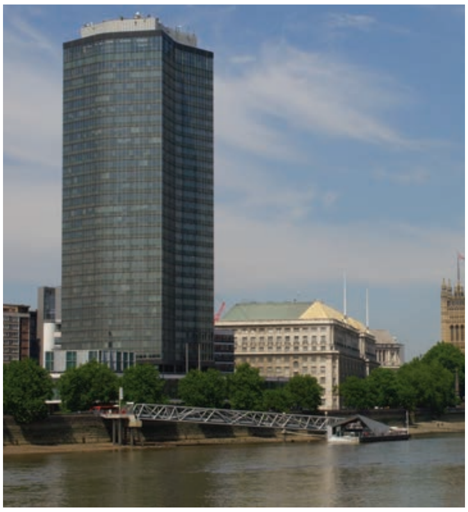
Given that GIB is still growing rapidly, both in terms of capital deployed and staff, we will monitor various GHG intensity ratios for the business, some of which are set out on p. 25, as well as the absolute levels of our GHG footprint.

> "...the Board has approved the adoption of the Equator Principles in respect of large project-financed investments... and to become a signatory to the UN-backed Principles for Responsible Investment..."

GIB's corporate greenhouse gas footprint

Dimension	GHG (t CO_2e)*	Intensity metric
Facilities:		
Millbank Tower, London	122.7	416 kg $CO_2e/m^2/yr$
Exchange Place 2, Edinburgh (serviced accommodation)	4.9	197 kg $CO_2e/m^2/yr$
Transport		
Flights	67.1	1,456 kg CO_2e/employee
Rail	4.8	105 kg CO_2e/employee
Car/taxi	1.8	40 kg CO_2e/employee
Other public transport	0.1	2 kg CO_2e/employee
Total	**201.4**	4,371 kg CO_2e/employee

*The GHG footprint data contained in column 1 of this table is calculated in accordance with the GIB Corporate GHG Emissions Reporting Criteria 2012–13, a copy of which is available on the GIB website at www.greeninvestmentbank.com/our-green-impact/



Atria One (Edinburgh headquarters)

GIB is currently occupying temporary serviced offices in Edinburgh at Exchange Place 2. However, GIB has announced that it is taking a lease of 12,000 square feet of property on the 7th floor of the Atria One property in Edinburgh and aims to move into this property in the summer of 2013.

Atria One is accredited as BREEAM Excellent and is one of the most environmentally friendly offices in Edinburgh. GIB has since set out to build on this foundation with a state-of-the-art sustainability fit-out, which should meet the BREEAM Excellent rating for offices on completion.

Millbank Tower (London transaction hub)

In line with Government policy, GIB took possession of a suitably sized and located property already available within the Government estate, namely the lease of the 13th floor of Millbank Tower. GIB has sought to achieve the best possible environmental improvements through our recent office refit. This achieved the SKA Gold standard and key features of the refit included: (i) low energy lighting throughout; (ii) use of recycled materials wherever possible, including carpet made with recycled fibres; (iii) solenoid valves on water taps; and (iv) the installation of smart meters for our electricity supply, enabling accurate readings of electricity consumption.

Investment and Financial Performance

Our mission and objective is not merely to commit our own capital, but to mobilise external capital into investment in sustainable and commercial green infrastructure projects. It is, therefore, pleasing to report that the £635m of commitments made with GIB capital contributed to the successful closing of financing totalling £2.3bn. Our 'mobilisation ratio' (defined as total value of third-party capital:total value of GIB commitments made) was therefore 3:1.

Our first period saw us become an active participant and establish our presence in the market; commit significant capital funding to projects; and establish a robust operational and financial framework for GIB to become an enduring institution.

Our results reflect the fact that we have been trading only for a short period. As our investment funds are deployed in greater volume we will become a profitable institution, focused on delivering on our double bottom line.

The Board monitors capital committed, capital invested, third-party capital mobilisation, income generation and recognition and net profit/loss before tax as Key Performance Indicators.

Total capital commitments

£635.4m

Total capital invested

£121.5m

Total investments completed

11

Total income generated

£8.1m*

Total income recognised

£2m

Net loss before tax

£6.2m

*During the period, a total of £8.1m of income was generated, but only £2m was recognised under our accounting policies.

Our business model

GIB invests capital to meet our double bottom line criteria: each investment must be both green and profitable. From these investments we generate returns depending on the nature of the investment.

From our debt investments we generate fee income (including upfront commitment fees and undrawn facility fees) and margin interest when our funds are deployed. From our equity investments, which we make either directly or via a fund manager, we will receive dividends once the businesses are operational and able to pay these to shareholders.

We have been established as a 'for-profit' entity and we are building an enduring institution. To this end we ensure each project and our portfolio as a whole, will enable us to earn risk-appropriate returns.

Our income drivers

As an investment business focusing on generating appropriate risk-adjusted returns on our capital investment our financial performance is dependent on a number of significant items:

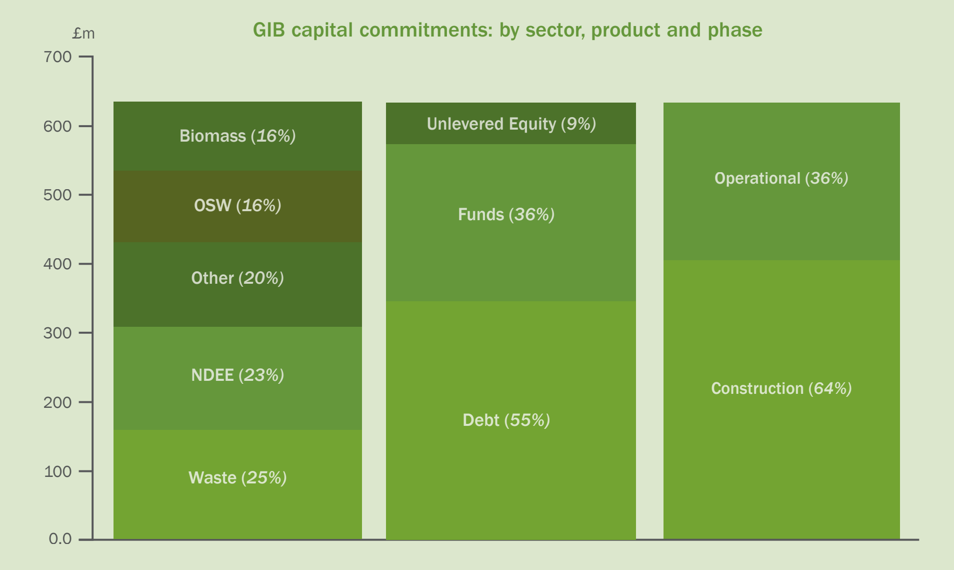
- The amount of capital we have committed and the time period over which that funding is deployed
- The underlying operational performance of our investments and their ability to make either interest and debt repayments or dividends in the case of equity investments
- Over time the ability to exit investments successfully and make a capital profit

2012–13 investment performance

During the period we made investment commitments in each of our priority sectors, as well as in bio-energy.

In **offshore wind,** which is our largest sector, we invested in line with our published strategy, which initially is to encourage the development of liquidity in a functional, secondary market for already constructed assets.

By allowing existing investors (both financial and industrial) to recycle their capital in this way, we help accelerate investment in new projects. At this stage in the development of the UK's offshore wind industry (and in line with most infrastructure markets) financial investor appetite is largely limited to such 'brownfield' investment. We are firmly of the view that attracting a substantial pool of external financial capital into the existing asset class in this way is a necessary pre-condition and key enabler for the successful financing, in due course, of the major new build projects comprising Round 3 of the UK's offshore wind programme. Two investment commitments were made in offshore wind in the period.



1. In the Walney transaction, we participated in a bank financing of the minority equity stake in the project sold by Dong Energy, thereby releasing capital back to Dong to contribute to its substantial commitments to the UK offshore wind sector.

2. Our second commitment, made in parallel with the Greencoat transaction described below, was the direct purchase from RWE AG of a 24.95% stake in Rhyl Flats Wind Farm Ltd. As with the Walney transaction this will allow RWE AG to redeploy funding from the sale in further UK offshore wind developments. The stake may, in due course, become part of a larger investment vehicle designed to catalyse further institutional investment into the UK offshore wind sector.

Further information is included in the case studies starting on p. 10.

An additional transaction was made by our Shareholder BIS. GIB provided expertise to allow BIS to make a £50m cornerstone equity position in the successful £260m IPO of Greencoat UK Wind plc. Greencoat was established to attract capital, both institutional and private, into a publicly listed investment vehicle which will be a long-term holder of minority stakes in a mixture of onshore and offshore wind projects. The size of the BIS stake is smaller than the fund's weighting of offshore wind assets, thereby ensuring that, effectively, the investment catalysed private capital into offshore wind investments.

Whilst in the current financial climate, the financing of the UK's ambitious offshore wind programme remains challenging, we are pleased that institutional interest in investing in the sector has really begun to develop and we hope to be successful in catalysing significant further development in the current year, as well as beginning to tackle the challenge in mobilising capital into the construction phase of projects.

In **waste recycling and energy from waste ("waste")**, we made two debt commitments through the Wakefield and Gloucester transactions to assist the financing of the long-term infrastructure investment designed to process household waste, including facilities to recycle, treat waste and generate sustainable power.

The financing market for long-term projects of this nature has been badly hit by the impact of the global financial crisis. Specifically, there remains very sharply reduced appetite from banks for the long-term 'project financing' of such term assets, as a consequence of the change in their own long-term funding costs and the regulatory environment regarding the way in which they manage risk on their own balance sheets.

We, therefore, anticipate being needed to support a number of further such financing in the coming years.

Investment and Financial Performance (cont)

At the other end of the market, in terms of scale of project, our predecessor team, UK Green Investments, within BIS, ran a competitive process to choose two managers to deploy capital into smaller (<£30m total transaction size) investment projects in the waste sector. Both established funds – managed by Greensphere Capital LLP (£30m mandate) and Foresight Group LLP (£50m mandate) – have made their first commitments from these allocations. Greensphere's first investment is into Greenlight AD Power's anaerobic digestion facility in Teesside. Foresight's first investment is into TEG (Biogas) London Limited's Anaerobic Digestion/In-vessel Composting plant in Dagenham. The fund assets and commitments were transferred from BIS to GIB in November 2012.

In **non-domestic energy efficiency,** we made commitments to three funds to deploy funding into this sector:

- A £50m commitment to work alongside institutional investors through the Aviva Investors REaLM Energy Centres Fund. The fund committed £18m to a £36m project to construct an energy centre for the Cambridge University Hospitals' NHS Foundation Trust and has the potential to fund a significant number of similar, albeit smaller, fund projects
- In the same model used to select external managers for smaller waste deals, BIS awarded two mandates of £50m each to Equitix Investment Management Limited and to SDCL EE Co (UK) LLP (part of the Sustainable Development Capital LLP (SDCL) group). The fund assets and commitments were transferred from BIS to GIB in November 2012.

We supported the Government's **Green Deal** by signing a £125m debt commitment to the GDFC. This finance will enable GDFC to finance anticipated initial demand for Green Deal Plans.

In **bio-energy,** we committed £100m of long-term debt funding to Drax plc's £990m project to convert three of its six generation units from coal to biomass firing. On 28 March 2013 our commitment was reduced to £50m as Drax refinanced half of our commitment by successfully raising further private sector funds.

In order to achieve our mission and deliver on our mandate, investment focus will remain on the priority sectors and on UK projects which are both green and commercial and where our capital, knowledge and reputation make the difference that enables a project to be financed successfully.

2012–13 funds flow

As a start-up organisation we have received funding from our Shareholder for investment and operational purposes. As we earn revenue on our investments, the necessity for operational funding contributions will disappear and we will be self-financing.

We use the funding we receive on capital investments and operational costs and the table below shows the 2012–13 position.

2012–13 funds flow

Funding obtained from:		Funding utilised on:	
Funds from Shareholder	**£m**	**Capital Investment**	**£m**
Shares issued	145.9	Loans and receivables	56.7
Capital contribution	4.6	Available-for-sale assets	6.7
		Investments in associates	57.5
	150.5		120.9
Funds from operations		**Operational expenditure**	
Upfront commitment fee income	4.3	Fixed assets	0.9
Undrawn facility fee and interest income	0.6	Investment and operational costs	5.8
	4.9		6.7
Total	**155.4**	**Total**	**127.6**

Overall result

The Company was incorporated on 15 May 2012 and initial operations focused on recruiting the required staff, finding appropriate premises in Edinburgh (where our headquarters are situated) and London (where the majority of our transaction staff are located). On 29 October 2012 GIB was given its full delegated authority from BIS, following the finalisation of necessary State Aid requirements.

As would be expected, in this stage of our operations, the first period of financial results shows a loss as our capital has not yet been fully invested and is, therefore, not generating sufficient returns to cover our investment and operational costs. For the period to 31 March 2013 the GIB Group recorded a net loss pre-tax of £6.2m and a net loss post tax of £5m.

Consolidated Income Statement for the period ended 31 March 2013

	£'000
Investment income	1,992
Direct investment costs	(1,603)
Net investment income	389
Operational expenses	(6,601)
Loss before tax from continuing operations	(6,212)
Income tax benefit	1,205
Loss for the period from continuing operations	(5,007)

"...As we earn revenue on our investments, the necessity for operational funding contributions will disappear and we will be self-financing."

Investment and Financial Performance (cont)

Income Statement
Income

GIB income in the period was £2m comprising fee income of £1.3m and interest income from loans and receivables of £0.7m.

Revenue by source

GIB income: generated, deferred and recognised.

During the period, a total of £8.1m of income was generated, but only £2m was recognised under our accounting policies. The remainder is being accounted for as deferred income or an adjustment to the Effective Interest Rate of Loans and Receivables. Further details on our accounting policies are at Note 3.

Operating costs
Operating costs totalled £8.2m for the period and comprise the costs associated with building the Company and in closing the deals outlined previously. The main driver of operating costs, as is expected in a company where success is driven by the quality of its people, is staff and Board costs of £4.2m, which includes the provision of £0.5m in performance related pay, which is detailed in the Remuneration Committee Report on p. 40.

The other significant costs during the period were direct investment costs of £1.6m, professional fees of £1.4m reflecting the need to recruit staff, develop policies, build the organisation and premises costs of £0.4m.

Tax
In the period, the Group has recognised a tax asset of £1.2m, as a result of the tax losses generated from operations during the period. In doing so, the Directors have taken the view that the Group expects to make future profits sufficient to benefit from the deferred tax asset.

Balance sheet
Our assets
A significant portion of the investments we committed to in 2012–13 are either construction assets or investment allocations to fund managers for future deployment. As the underlying investments require capital the Group will provide it. This means there is, at times, a delay between our investment commitment and capital being drawn.

During the period to 2012–13 we deployed £121.5m in capital, against which £2.2m in upfront fees was offset. As at 31 March 2013, the Group has £119.3m of investment assets, net of deferred fees, on its balance sheet.

The split of these investments reflects that the Group has made investments across a range of product types in its initial period:

• Loans and other receivables	£54.5m
• Available-for-sale assets	£6.6m
• Investment in associate	£58.2m

Our funding
The funding for these investments has been provided by the UK Government, who is the Group's only Shareholder through the Secretary of State for Business, Innovation and Skills. As at 31 March 2013, UK Government held shares totalling £145.9m in the Company, comprising the entire share capital of the Company.

In addition, the Company received £4.6m in operational funding from UK Government which is recognised as a capital contribution from our Shareholder.

The Group also received £4.9m in operational income. This allowed the Company to fund operational costs late in the period, minimising the amount of operational funding required from the Government.

Of the total £155.4m received, the Company used £120.9m to invest in portfolio assets and £6.7m to cover fixed asset purchases and operational expenditure. The remainder is held as cash allowing the Company to maintain an appropriate liquidity position.

Cash flow
As detailed above, the Group had cash inflows of £155.4m during the period and cash outflows of £127.6m, resulting in a closing cash at bank balance at 31 March 2013 totalling £27.8m. These funds are held within the Government Banking Service, ensuring the Group has adequate liquid funds available to meet its investment and operational commitments.*

Critical accounting policies
The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The material accounting policies are set out in Note 3 to the Financial Statements.

In the process of applying the Group's accounting policies, management has applied certain judgements, assumptions and estimates. These estimates and assumptions are based on information available at the time and other factors considered relevant to ensure the Group complies with Accounting Standards and presents Financial Statements that are true and fair.

Those with the most significant effect on the amounts recognised in the Financial Statements are set out below.

Revenue recognition
The income of the business is generated by fee, interest and dividend income. The revenue recognition policy of the Group can have a significant impact on the timing of the recognition of this income. Specifically the judgements and estimates included are:

- Upfront fees: these are integral to the loan facility and are initially deferred then recognised over the expected length of the loan, as part of the effective interest rate. Any changes to the agreed term will impact the rate at which the upfront fee is recognised in future periods and early termination of the loan would see any remaining balance of deferred revenue taken to income at the point of termination

- Non-utilisation fees/undrawn facility fees: the Group provides loan facilities to borrowers to enable them to complete construction projects. In return for providing this, the Group receives a fee on the undrawn portion of the facility (with interest received on the drawn portion), calculated in arrears. The Group recognises these fees as they accrue over the commitment period

Assessment of impairment
IFRS require companies to carry out impairment testing on any assets which show indications of impairment. In carrying out this assessment, management has exercised judgement in considering future cash flows as well as other information in accordance with the accounting policy to determine the true and fair value of an asset.

Tax
The Group has recognised deferred tax assets in the Financial Statements and in doing so has made judgements and estimates on the potential future profits of the Group in assessing whether it is likely that the Group will generate sufficient future profits in order to utilise the tax assets. These judgements and estimates will be assessed on a regular basis and the recognition of any tax assets amended accordingly.

*£0.2m of these funds are held outside the Government Banking Service by Consolidated Entities.

Corporate Governance

3

The creation of a new bank, funded by public money, demands the highest standards of corporate governance. It is not enough that we operate with best practice; we must also show that we do this through a commitment to transparency across all our operations.

Corporate governance statement

The constitution of GIB consists of its Articles of Association and a Shareholder Relationship Framework Document (the "Constitution"). The Shareholder Relationship Framework Document provides that GIB shall operate a corporate governance framework which accords with the best practice corporate governance and in compliance with the provisions of the UK Corporate Governance Code 2010 (the "Code") as it applies to small quoted companies (other than in respect of Section E (Relations with Shareholders)) or specify and explain any non-compliance in its Annual Report. Accordingly, this section outlines our governance structure and demonstrates how our arrangements align with the guidelines and principles set out by our Constitution and the Code.

GIB is not subject to the FCA Listing Rules or Disclosure and Transparency Rules as we are not listed, nor an FCA regulated entity. However, GIB may become FCA regulated over time.

The Code acts as a guide to a number of key components of effective Board practice. It is based on the underlying principles of all good governance: accountability, transparency, probity and focus on the sustainable success of an entity over the longer term. GIB considers these values to be important to the success of our operations.

Role and responsibilities of the Board

The names of the current Directors and their relevant experience and brief biographical information are set out on p. 16.

The Board is collectively responsible for the long-term success of the Company and in particular to its sole Shareholder to set the strategy to maximise value for the Shareholder. The Board has a schedule of matters reserved to it for its decision. This schedule is reviewed regularly and includes approving, overseeing and challenging:

- Strategic direction
- Significant investments
- Dividend policy
- Financial Statements
- Annual budget
- Changes to the management and control structure
- Risk management, strategy and the system of internal control
- Major Group policies
- Terms of Reference of Board Committees
- Board and Board Committee appointments

All of the Directors bring their own independent judgement to the major matters affecting the Company and each of the Non Executive Directors is considered by the Company to be independent, with the exception of Anthony Odgers who is the Shareholder Representative on the Board. None of the other Non Executive Directors has any material business or other relationship with the Company or its management.

Composition of the Board

The Board and its committees have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. The Constitution provides that the Board is to consist of no fewer than eight Directors and that the Chair and Independent Non Executive Directors are to constitute a majority of the Board.

Roles of the Chair and the Chief Executive

There is a clear division of responsibility between the Chair and the Chief Executive.

The Chair:

- Leads the Board and is responsible for its operation and governance
- Encourages open debate and constructive discussion which leads to consensus decisions
- Speaks on behalf of the Board and represents the Board to the Shareholder

The Chief Executive, as delegated by the Board:

- Leads the Executive Team in the day-to-day running of the Company
- Makes and executes operational decisions
- Implements the strategy agreed by the Board
- Represents the Company to external stakeholders, including customers, suppliers, regulatory and governmental authorities and the community

Non Executive Directors

The Non Executive Directors assist the Executive Director by scrutinising the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance. They are responsible for determining appropriate levels of remuneration of the Executive Directors and have a prime role in appointing and, where necessary, removing Executive Directors and in succession planning. Their views are essential in overseeing the performance of the Company and ensuring the integrity of the financial information, controls and risk management processes.

The Senior Independent Director:

- Works alongside the Chair
- Is available as an intermediary to other Directors

Board information and development

All Directors will be provided with updates on corporate governance developments, legislative and regulatory changes and relevant industry and technical information.

The Board is supplied in a timely manner with the appropriate information to enable it to discharge its duties and any further back-up papers and information are readily available to all Directors on request to the Company Secretary. The Chair ensures that Non Executive Directors are properly briefed on any issues arising at Board meetings and Non Executive Directors have access to the Chair at any time.

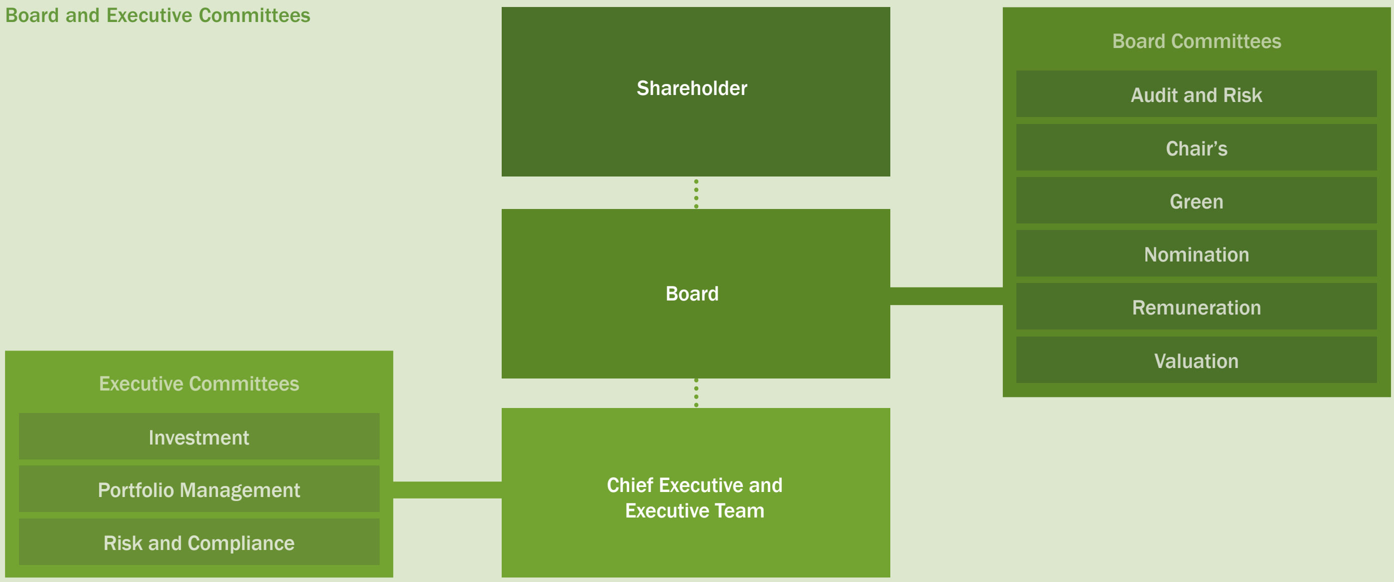
Performance evaluation of the Board, its Committees and individual Directors will take place in the forthcoming financial year.

Independent advice

There is an agreed procedure for Directors to take independent professional advice, where appropriate, on any matter at the Company's expense. The Company Secretary is responsible for ensuring that Board procedures are followed and all Directors have direct access to the advice and services of the Company Secretary.

The Chief Executive has a contract of service with six months' notice, whilst Non Executive appointments are for a period of three years. Details of the service contract and remuneration of the Chief Executive are set out in the Remuneration Committee Report on p. 40.

Board and Executive Committees



Director election

At the 2013 AGM all of the current Directors, who were appointed in 2012, with the exception of Sir Adrian Montague (who resigned on 30 April 2013), will retire and offer themselves for election. Thereafter, all Directors will hold office subject to annual re-election.

Outside appointments

The Board believes that it is beneficial to both the Company and the individual for Executive Directors of the Board to accept a Non Executive Directorship. The Board's policy is to limit this to one Non Executive Directorship, with the Director retaining the fees.

Directors' conflicts of interests

Each Director has a duty under the Companies Act 2006 (the "2006 Act") to avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The Company has adopted a formal procedure for the disclosure, review, authorisation and management of Directors' conflicts of interest and potential conflicts of interest in accordance with these provisions.

The procedure requires Directors to formally notify the Chair or the Company Secretary as soon as they become aware of any actual or potential conflict of interest with their duties to the Company, or of any material change in existing or potential conflicts that may have been authorised by the Board. The Board monitors and reviews potential conflicts of interest on a regular basis.

A register is maintained of all such disclosures and the terms of any such authorisation.

Directors' indemnities

The Company has granted indemnities to each of its Directors in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities as Directors to the extent permitted by the 2006 Act and the Company's Articles of Association.

In addition, Directors and Officers of the Company are covered by Directors' and Officers' liability insurance.

Board Committees

Where appropriate, matters are delegated to Board Committees, all of which have written terms of reference which are available on the Company's website. The Company Secretary acts as Secretary to each of the Committees.

Chair's Committee
The members of the Committee during the period were Lord Smith (Chair), Sir Adrian Montague and Anthony Odgers. Professor Isobel Sharp became a member of the Committee on 15 May 2013. The Committee is authorised by the Board to deal with any matter reserved to the Board which needs to be addressed prior to the next Board Meeting and which, in the opinion of the Chair, is not a matter which requires to be determined by the full Board. The minutes of each meeting are circulated to the Board.

Nomination Committee
The members of the Committee during the period were Lord Smith, who chaired the Committee, Sir Adrian Montague and Anthony Odgers. Professor Isobel Sharp became a member of the Committee on 15 May 2013.

The Committee meets at least twice a year and at other times when necessary, and during the period met three times.

The Committee uses external search consultants to assist it in its work and has used Odgers Berndtson. All appointments to the Board are based on the diversity of contribution, experience and required skills, irrespective of gender. There are three female members of the Board which represents 30% of the total. Female membership of the Board Committees is as follows:

- Audit and Risk 33%
- Chair's 25% (from 15 May 2013)
- Green 66%
- Nomination 25% (from 15 May 2013)
- Remuneration 66%
- Valuation 20%

The Committee's key roles are to:

- Identify candidates for Executive and Non Executive Board positions
- Regularly evaluate the structure, size and composition of the Board including skills, knowledge, diversity and experience
- Review recommendations from the Chief Executive for senior management positions reporting directly to him

During the period the Committee considered the following appointments:

- The Chief Executive
- Six Non Executive Directors

How the Board Works

Remuneration Committee
The Chair of the Committee is Professor Isobel Sharp. The other members of the Committee are Professor Dame Julia King and Anthony Odgers. The Committee consists of Non Executive Directors, who are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement, and the Shareholder Representative Director. Their diverse backgrounds and experience bring a balance to Committee discussions.

The responsibilities of the Committee are as follows:

- Determine the conditions of employment, including levels of salary and pension arrangements for Executive Directors and Senior Executives
- Approve the design of any Long Term Incentive Plan (LTIP) including performance measures and targets
- Ensure that all Government regulations and policies on remuneration are adhered to
- Recommend to the Board the remuneration of the Chair of the Board

During the period the Committee considered the following matters:

- Executive remuneration
- LTIP design for the current year
- Green Impact on remuneration

The minutes of each meeting are circulated to the Board.

Audit and Risk Committee
The Chair of the Committee is David Nish. During the period other members of the Committee were Sir Adrian Montague and Tessa Tennant. Professor Isobel Sharp became an Interim Member of the Committee on 3 May 2013 pending the appointment of a new Senior Independent Director. In addition, the Chair, Chief Executive, Finance Director, Chief Risk Officer, Head of Internal Audit and external auditors are invited to attend each meeting. The Head of Internal Audit and external auditors also have access to the Chair of the Committee outside formal Committee Meetings.

The Board is satisfied that David Nish has recent and relevant financial experience.

The Committee has the ability to call on Group employees to assist in its work and also has access to independent advice.

The Board has delegated to the Committee responsibility for overseeing the financial reporting and internal risk management control functions and for making recommendations to the Board in relation to the appointment of the Group's external auditors.

The Committee is charged with responsibility to the Board for satisfying itself, on behalf of the Board as a whole, that the financial affairs of the Group are conducted with openness, integrity and accountability and in accordance with such existing statutory and regulatory provisions and codes as are applicable to the Group and to report on these matters to the Board.

Its duties include the following:

- Consider the appointment, resignation or dismissal of the auditors and the level of audit fee
- Review the Financial Statements before submission to the Board for approval
- Discuss any problems and reservations arising from the annual audit and any matters the auditors may wish to raise
- Discuss with the auditors the Group's system of internal financial controls and any recommendations for improvement
- Oversee the implementation of systems for financial control and risk management
- Review the internal audit programme and its implementation
- Receive and review internal audit reports
- Review treasury policy

The Committee maintains a formal calendar of items for consideration at its meetings and within the annual audit cycle.

In the course of the period, the Committee discussed the following matters:

- Internal audit scope and approach
- Accounting policies
- Findings of internal audit report
- Risk process
- Risk and compliance policies
- Annual Report plan
- Tax
- Audit strategy for year end 2012–13 audit

The minutes of the meeting are circulated to the Board.

Valuation Committee
The Chair of the Committee is Lord Smith. The other members are Shaun Kingsbury, David Nish, Professor Isobel Sharp and Jeremy Burke.

The Committee is authorised by the Board to:

- Review the valuation policies of the Company from time to time and recommend any changes to the Audit and Risk Committee and the Board
- Determine and recommend to the Board, valuations to be placed on the investment assets of the Company
- Consider and make recommendations to the Audit and Risk Committee and the Board in relation to all other matters relating to valuations for the purpose of the accounts of the Company

This Committee did not meet during the period to 31 March 2013, but met twice prior to the Financial Statements being approved.

The minutes of each meeting are circulated to the Board.

Green Committee
The members of the Committee during the period were Tessa Tennant (Chair), Professor Dame Julia King and Shaun Kingsbury. Other Non Executive Directors can attend any meetings and provide information to the meetings.

The duties of the Committee include the following:

- Review of GIB's mission and green objectives and ensure that these are fully integrated into the policies and practices of all GIB's activities
- Consider the best mechanisms for reviewing and implementing effective policies and procedures
- Development of a responsible investment policy, in line with market best practice and covering such matters as ESG requirements relating to GIB's investments
- Guide the development of a framework and broad policy by which GIB will achieve sustainable and responsible management practices concerning its own activities
- Advise on the development of metrics and information management to measure the performance of GIB as a responsible investor and corporate citizen, with special focus on the Green Impact of its investments

The minutes of each meeting are circulated to the Board.

Investment Committee
This Committee does not report directly to the Board, but reports to the Chief Executive. However, investments in excess of £50m require Board approval and over £300m Shareholder approval. The other executive members are the Finance Director, Chief Risk Officer, Chief Investment Officer, Head of Investment Banking and General Counsel. The Non Executive Members are Anthony Odgers, Fred Maroudas and Tom Murley.

The role of the Committee is to advise the Chief Executive in respect of his exercising the decision-making authority delegated to him by the Board. The exercise of this authority by him, however, is subject to there being "no objection" noted by the Chief Risk Officer and to the endorsement of at least one of the nominated Non Executive Board Members.

Its duties include the following:

- Ensuring that a pipeline of potential loans/investments is presented to the Board and/or the Chair's Committee in advance of any consideration of such loan/investment at a meeting of the Investment Committee
- Examining the economic context in each geography and sector in which customers invest and agreeing market focus with the relevant teams
- Proposing detailed investment strategies and mandates for investment teams to the Company
- Ensuring a consistent quality of decision making processes within business lines

Attendance at meetings

During the period, the Directors attended the following number of meetings of the Board and its main Committees:

	Board	Audit and Risk	Chair's	Green	Remuneration	Nomination	Valuation*
Total Number of Meetings	**9**	**2**	**1**	**2**	**3**	**3**	**0**
Chair							
Lord Smith of Kelvin	9	-	1	-	-	3	
Non Executive Directors							
Sir Adrian Montague	7	0	1	-	-	3	
Professor Dame Julia King	2/3	-	-	2	3	-	
Fred Maroudas	3/3	-	-	-	-	-	
Tom Murley	3/3	-	-	-	-	-	
David Nish	3/3	2	-	-	-	-	
Anthony Odgers	9	-	1	-	3	3	
Professor Isobel Sharp	3/3	-	-	-	3	-	
Tessa Tennant	3/3	2	-	2	-	-	
Executive Director							
Shaun Kingsbury	3/3	-	-	2	-	-	

*This Committee met after the year end.

Transparency Statement

A fundamental pillar of any modern, successful organisation is transparency. If we are to be truly accountable to the Government as our Shareholder and to taxpayers, whose money we are charged with investing wisely, then we must be clear to all about our purpose and our performance in what we do and how we go about it.

To that end, in this report and on our website, we detail a number of important disclosures.

We will publish a summary of our Board meetings within two months of each meeting; we will also provide a full list of our investments when those are completed and in the public domain.

All remuneration and benefits received by the Chair, Chief Executive, Non Executive Directors and the Executive Team are outlined clearly in this Annual Report and on our website. We have also published a short explanation of how our long-term incentives are calculated and awarded and have created a hospitality and expenses register for GIB Directors and staff.

In addition to these measures, we have signed up to the Government's proposal to share Board remuneration proposals with our Shareholder, namely the Shareholder Executive.

We are also committed to publishing all material policies on our website, and you will find all of this information and more at www.greeninvestmentbank.com

We hope that these positive, practical steps help to build trust in GIB. We are groundbreaking in our conception and we want to remain so in our operation.

Combining these initiatives together with our commitment to engage with the industry, NGOs and others with an interest in our future, we are confident that GIB will be seen as an open, honest and transparent organisation, with a keen sense of public duty and accountability.

We will publish a summary of our Board meetings within two months of each meeting.

All remuneration and benefits received by the Chair, Chief Executive, Non Executive Directors and the Executive Team are outlined clearly in this Annual Report and on our website.

We have signed up to the Government's proposal to share Board remuneration proposals with our Shareholder, namely the Shareholder Executive.

We are also committed to publishing all material policies on our website.

Lord Smith of Kelvin
Chair

Shaun Kingsbury
Chief Executive


…We hope that these positive, practical steps help to build trust in GIB.

Green Committee Report

The Green Committee of the Board was formed to give focused input to the establishment of GIB's green mission and objectives within its core policies and processes. Following an initial programme of work of approximately one year, most of the Green Committee's responsibilities are anticipated to become the focus of mainstream Board review.

Agenda

The Green Committee was established in January 2013 to guide workstreams on green policy and processes already underway. The initial focus of the Committee has been to advise on the development of GIB's investment policies to secure the achievement of Green Impact whilst ensuring GIB acts as a responsible investor.

In addition, the Green Committee reviewed and recommended that GIB should become a signatory to the UN-backed Principles for Responsible Investment and adopt the Equator Principles concerning responsible investment processes and standards for the financing of large-scale projects (>$10m value). Both sets of principles were approved by the Board in April 2013.

The Green Committee has also reviewed GIB's Corporate Environmental Policy which is designed to enhance the sustainability of day-to-day operations.

These policies are in the final stages of review and implementation testing and will be published later this year.

Transparency

The Green Committee is committed to ensuring that, once finalised, all the GIB's green and responsible investment policies, together with its corporate environmental policy, are published and available on its website.

In addition, GIB is committed to ensuring that core elements of its green performance are independently assured by a trusted independent third party. This year, PwC has been appointed as independent third-party assurance provider and has assured the GHG emissions reductions achieved by GIB's portfolio of investments in 2012–13, the statement of GIB's own GHG footprint and that the lifetime GHG emissions reduction data of GIB's portfolio of investments is calculated in accordance with the methodology set out in the Green Impact Reporting Criteria 2012–13 (see Independent Assurance Report on p. 57). The intention is to continue this assurance going forward.

Green Committee membership

The membership of the Committee comprises two independent Non Executive Directors, Tessa Tennant and Professor Dame Julia King, who together bring a wealth of experience of environmental issues and responsible investment issues. The Chief Executive, Shaun Kingsbury, is also a member of the Committee, helping to ensure that its work gains rapid traction within the business, given its relevance to most core activities at GIB.

Given the operational nature of some of the discussions, several members of the GIB Executive Team have also been invited to attend meetings of the Green Committee, including the Chair of the Investment Committee, the Chief Risk Officer, the Group Operations Director and the Head of Sustainability and Green Impact.

Terms of Reference of the Committee

The Terms of Reference of the Green Committee include reviewing and advising on policies and processes to ensure GIB achieves its green mission and objectives, acts as a responsible investor and adheres to best practice in the management of its own environmental impacts. The full terms of reference are published on GIB's website.

Green investment policies

The Green Committee reviewed and recommended the Board adopt, in principle, three key policies relating to GIB investments:

- The green and responsible investment policy
- The green and responsible investment guidelines
- The technical guidelines on the quantification and reporting of green impacts

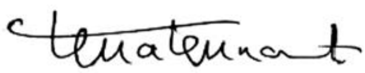
These policies are currently in the process of final review and implementation testing.

In addition, the Green Committee reviewed and recommended for adoption the GIB's first Corporate Environmental Policy governing sustainable management of GIB's own operations.

Agenda of Green Committee for 2013–14

Now that the Board has approved in principle the framework for GIB's green policies and guidelines, the Green Committee is focused on:

- Reviewing how the policies and guidelines will be effectively implemented in the investment process, including the definition of green-related key performance indicators applicable to each investment portfolio and GIB's own operations. This data will be reviewed by the Board both quarterly and annually and summaries will be published externally, as approved by the Board
- Gaining independent expert input from a range of perspectives and staying abreast of latest scientific and market developments
- Reviewing how all GIB's activities and organisational culture are geared towards optimising the organisation's Green Impact.



Tessa Tennant
Chair of Green Committee

Remuneration Committee Report

I am pleased to present the Remuneration Committee Report for the period 15 May 2012 to 31 March 2013.

As a newly created company, our aim in setting remuneration policy is to set rewards at a sufficient level to attract, motivate and retain executives with the skills and attributes required to deliver GIB's business goals whilst mindful of its unique position and mission and the requirements of our Shareholder. It is especially important, where public money is involved, that our investments are selected and managed by a team of sufficient expertise and quality. We are committed to ensuring that our performance related reward programmes are open, operate fairly and encourage the right behaviour. With this in mind, we set out the structure and rationale behind the GIB remuneration policy in this report.

Transparency

As stated previously in this Annual Report, we aim to be an open, honest and transparent organisation. To that end, we have committed to outline clearly all remuneration and benefits received by the Chair, Chief Executive, Non Executive Directors and the Executive Team. These items are disclosed in this report.

In June 2012, BIS announced a number of remuneration reforms designed to restore a stronger link between pay and performance and promote better engagement between companies and shareholders. While this legislation will not come into force until October 2013, in this first GIB Remuneration Committee Report, we have, where possible, adopted best practice by meeting the disclosure recommendations set out in the reforms.

Professor Isobel Sharp
Chair of Remuneration Committee

Governance

This report outlines the remuneration arrangements for Directors and other senior employees. It has been prepared in compliance with section D of the UK Corporate Governance Code. In forming remuneration policy the Committee has given full consideration to the best practice provisions set out in the Code. Those sections of the report that have been audited by the National Audit Office have been identified as such.

Remuneration Committee

The Remuneration Committee was established at the Board meeting on 6 November 2012. Prior to its establishment, the Board of Directors of GIB met to determine the appropriate remuneration for incoming executives. The Board comprised Lord Smith, Sir Adrian Montague and Anthony Odgers at that time.

The membership of the Committee comprises Professor Isobel Sharp (Chair), Professor Dame Julia King and Anthony Odgers representing a variety of backgrounds and experience designed to promote balance and diversity within the Committee and to facilitate liaison with the Shareholder. Informal consultation among the Committee members, and also with other Non Executive Directors, takes place outside the scheduled meetings as necessary.

In addition, the Chair and the Chief Executive accepted invitations to attend meetings in 2012–13.

The Company Secretary acts as Secretary to the Committee.

Terms of Reference of the Committee

The full Terms of Reference are published on the GIB website. These include the specific requirements established by its Shareholder.

Remuneration Committee agenda 2012–13

Month	Agenda items
December	• Proposed organisation structure • Performance related pay • Alignment of performance period with statutory accounting period • Agreement on clawback that any decrease in the business element would apply collectively
January	• Terms of Reference approved • Structure of LTIP for main Board Directors and other executives agreed
March	• Timetable for 2012–13 LTIP awards sign-off agreed • 2013–14 first quarter agenda set

Advisors and support

Prior to the establishment of the Remuneration Committee, the Board received advice from PwC on the development of the LTIP and Odgers Berndtson on market comparable remuneration. The Committee recognises the need to obtain independent advice given that both Odgers Berndtson and PwC provide additional services to the Company. The Committee is satisfied that any potential conflicts are managed appropriately by the Company and each of Odgers Berndtson and PwC. The additional service provided by PwC is in relation to assurance on matters relating to Green Impact and accounting policy considerations and Odgers Berndtson to Director and Senior Executive appointments.

Remuneration Policy

Principles of GIB Executive Remuneration Policy
The Remuneration Policy has been established based on the following principles:

- Attract, retain and motivate Directors, executives and staff of the required calibre to deliver successfully GIB's business goals
- Adopt a competitive and transparent approach to total remuneration which meets the expectations of our broad range of stakeholders and in particular the requirements, established on the formation of GIB, of our Shareholder

Summary of Remuneration Policy
The Chief Executive and Executive Team's earnings consist of base salary plus benefits (permanent health insurance, private medical cover and life assurance); a defined contribution pension scheme; and a performance related discretionary LTIP with a cash award deferred for two years.

The performance related element of the reward is subject to an adjustment provision by the Remuneration Committee should certain Pay-Out Performance Criteria (PPC) not be met. This adjustment provision emphasises the focus on rewards being made only for genuine, enduring success.

Staff reporting to the Executive Team may be eligible for an Annual Incentive Plan, depending on their role.

Remuneration objectives and policies

Element	Objective	Policy
Salary	To provide a base salary to attract and retain talented leaders.	Base salaries are reviewed annually by reference to roles and responsibilities and, in roles below Board level, comparable roles in the private sector. Average total remuneration should be in line with lower quartile compensation. The Committee also takes account of the economic environment and employment conditions.
Pension and other benefits	To provide a competitive package to attract and retain talented leaders.	The contribution by GIB of 10% of base salary to a defined contribution scheme is subject to a minimum personal contribution of 3%. A small number of individuals, however, who are not paying into a UK pension scheme, receive a separate payment equal to the amount all other employees receive contractually as a Company pension contribution. Other benefits provided are private medical cover, permanent health insurance and life assurance.
Annual Incentive Plan	Intended to reflect the achievement of agreed business objectives and positive contribution to the performance of GIB.	A discretionary performance incentive of up to 20% of base salary is available for specific members of staff. This performance incentive is subject to personal performance, the performance of the business and other relevant considerations with personal objectives comprising 50–70% and business objectives 30–50% depending on role. This performance incentive is subject to the approval of the Remuneration Committee and is payable in Q1 of the year following the measurement year. Performance incentives are not paid if the employee is no longer employed by GIB or is working a period of notice on the date that the incentive payments are made.
Long Term Incentive Plan	To reward performance and to encourage loyalty and long-term accountability in members of the Executive Team.	Executive Directors and members of the Executive Team of GIB are eligible to participate in the Long Term Incentive Plan (LTIP). The incentive is an annual cash award of up to 50% of base salary, which is deferred for two years after award date. The amount awarded is calculated for executive members of the Board with a weighting of 80% based on the business performance in that year and 20% on personal performance. For the remainder of the Executive Team the weighting is 70% business performance and 30% personal performance. The Remuneration Committee defines business performance in advance of any award and measures this after the end of each year, with appropriate input from other Board Committees. Performance incentives are not paid if the employee is no longer employed by GIB or is working a period of notice on the date that the incentive payments are made.

Remuneration Committee Report (cont)

Current incentive plans

GIB has in place two mutually exclusive incentive plans, which are designed to reward performance and align behaviour to business strategy. These plans are paid wholly in cash, reflecting the fact that GIB is 100% owned by Government and cannot issue any shares to executives or staff.

Annual Incentive Plan

The purpose of the Annual Incentive Plan is to reward selected members of GIB for their performance during the year based on an assessment of both business and personal objectives. Any awards under this scheme are paid in June of each year following completion of the annual audit and Board approval of the Financial Statements. Performance is considered in the context of targets set for the financial year. The maximum annual incentive payable is 20% of base salary. The annual incentive is paid wholly in cash. Those participating in the Annual Incentive Plan are not eligible for the LTIP.

Long Term Incentive Plan

The purpose of the LTIP is to reward Executive Board Members and the Executive Team for delivering performance criteria and to encourage loyalty and long-term accountability amongst participants. All awards made under this scheme are discretionary and are conditional upon approval by the Board on the recommendation of the Remuneration Committee. Those participating in the LTIP are not eligible for the Annual Incentive Plan. The LTIP is in two parts. One part deals with members of the Executive Team. The second deals with executive members of the Board (only the Chief Executive to date), whose awards are also subject to formal approval by the Shareholder.

Adjustment period

Any awards under the LTIP are subject to a two-year adjustment period, which commences on 1 April following the year being assessed (the 'Vintage Year'). At the end of the adjustment period the Remuneration Committee will assess the performance of the business against the applicable PPC. The PPC may include the following where applicable:

- Loan Book – there should be no material write downs or impairment of loans during the adjustment period related to the year in which the award was made
- Equity – there should be no material write downs or impairment of equity positions during the adjustment period related to the year in which the award was made
- The Company should be on target with respect to its budget and business plan including management of costs
- The investments made during the relevant Vintage Year have satisfied the green objectives as set out in each Investment Committee or Board final investment paper
- The performance of the investments made in the relevant Vintage Year over the adjustment period
- Emerging risks which have either come to light or had an adverse impact during the adjustment period
- Any other financial/business considerations which the Remuneration Committee may consider in its absolute discretion to be relevant

Once business performance has been assessed the Remuneration Committee may adjust downwards the business element of the award. Following adjustment of the business element, the Remuneration Committee will determine any final award, which will then require Board approval. Only the business performance element of the award will be subject to assessment during the adjustment period.

Performance assessment

Performance of the business for the 2012–13 period has been measured against the following five objectives approved by the Committee as aligning with GIB's objectives during this period. These objectives were intended to be stretching and designed to promote the long-term success of GIB:

1. Agree detailed investment strategies for the key sectors, namely: offshore wind, waste/bioenergy, non-domestic energy efficiency and the Green Deal and seek to commit £775m in capital by 31 March 2013.

2. Identify, assess and agree the green principles that underline all of GIB's investments and the way its staff and business behave with regard to sustainability, Green Impact and corporate responsibility. Seek advice from third-party specialist advisors to ensure the principles adopted are at a level commensurate with GIB's role and responsibilities.

3. Develop a risk identification, assessment and mitigation strategy to ensure that the risk profile of all investments is appropriate. This will include a detailed and rigorous investment process combined with a culture of openness, diligence, teamwork and compliance with all procedures and the highest ethical standards.

4. Develop an operational and financial function to support GIB's growth plans. Manage total costs (direct and operational) against current budget and put in place measures to manage financial risk within the business.

5. Deliver a commercial return on investment for all committed capital in the period and seek to mobilise an additional third-party capital on at least a 1:2 basis.

The Board awarded the Company a score of 76% for its performance against the business objectives reflecting the considerable activities and achievements in GIB's first months of operation. The Board awarded Shaun Kingsbury a score of 80% against his personal objectives. Taking these two awards together, this equates to a payment for the five-month period November 2012 to end March 2013 of £52,000 which will be paid in 2015 subject to Shareholder approval and the terms, conditions and provisions of the LTIP.

For other members of the Executive Team, a total of £196,414 was awarded and again will be paid in 2015 subject to the terms, conditions and provisions of the LTIP.

Executive Director remuneration structure

Service contracts

It is GIB's policy that Executive Directors should have service contracts with the Company which, following the first six months' employment, can be terminated on six months' notice given by either party. If the Company terminates the Executive Director's appointment without giving the required period of notice the Company may elect to pay the Executive Director all or part of their salary in lieu of notice. If the Company exercises this option there will not be any entitlement to benefits or payment in lieu of benefits in respect of the notice period.

The current Executive Director's service contract contains the following key items:

- Notice period – three months by either Company or Director during first six months employment; six months' notice by either party thereafter
- Termination payment – no provision for compensation on early termination other than that payment may be given in lieu of notice
- Remuneration – salary, pension, benefits and participation in LTIP
- Non competition – during employment and for six months after leaving
- Contract date – contract dated 29 October 2012

Outside appointments

Executive Directors of the Board are able to accept a Non Executive appointment outside GIB with the consent of the Chair as such appointments can broaden the Director's experience and bring a new perspective to the business. Any fees received are retained by the Director.

In 2012–13 Shaun Kingsbury was a Non Executive Director with Envision Energy Ltd and is entitled to receive an annual fee of £75,000.

Board of Directors and Executive Team remuneration

The following table sets out the remuneration received by the Board of Directors and Executive Team during the period, including a single total figure.
The table and accompanying notes are subject to audit.
An Annual Equivalent figure has been disclosed to provide a view of annual remuneration had the Company been operational for a full year.

Board of Directors remuneration

	Actual remuneration for the 2012–13 period					Annual equivalent
	Fee	Pension	Benefits	Incentive plan	Total	Fees
	£	£	£	£	£	£
Chair and Non-Executive Directors						
Lord Smith	102,258	-	-	-	102,258	120,000
Professor Dame Julia King	10,417	-	-	-	10,417	25,000
Fred Maroudas	10,417	-	-	-	10,417	25,000
Sir Adrian Montague	63,911	-	-	-	63,911	75,000
Tom Murley	10,417	-	-	-	10,417	25,000
David Nish	12,500	-	-	-	12,500	30,000
Anthony Odgers	-	-	-	-	-	-
Professor Isobel Sharp	12,500	-	-	-	12,500	30,000
Tessa Tennant	11,250	-	-	-	11,250	30,000
	Actual remuneration for the 2012–13 period					Annual equivalent
	Salary	Pension	Benefits	Incentive plan	Total	Salary**
	£	£	£	£	£	£
Executive Directors						
Shaun Kingsbury	139,167	13,917	286	52,000*	205,370	325,000

Sir Adrian Montague resigned from the Board effective 30 April 2013.
Anthony Odgers is the Shareholder representative and employed by BIS.
Shaun Kingsbury's LTIP award remains subject to Shareholder approval in July 2013.
Mark Russell was a Shareholder Director of the Company from 15 May 2012 to 28 May 2012 and received no compensation.

Executive Team remuneration

	Actual remuneration for the 2012–13 period					Annual equivalent
	Salary	Pension	Benefits	Incentive plan	Total	Salary**
	£	£	£	£	£	£
Shaun Kingsbury	139,167	13,917	286	52,000*	205,370	325,000
Jeremy Burke	36,921	2,083	152	20,104	59,260	125,000
Rob Cormie	102,244	10,224	191	44,229	156,888	275,000
Oliver Griffiths	19,205	1,921	11	7,656	28,793	140,000
Peter Knott	90,962	9,096	313	35,383	135,754	275,000
Anthony Marsh	113,083	11,308	368	40,792	165,551	275,000
Ian Nolan	161,290	12,629	327	48,250	222,496	300,000
Edward Northam	91,250	8,195	264	15,300	115,009	275,000
Christopher Saunders	74,359	-	-	-	74,359	200,000

Shaun Kingsbury is a Board member and member of the Executive Team. His remuneration is shown in both tables.
Pension benefit includes any cash allowances made in lieu of pension for Ian Nolan and Edward Northam. Benefits include private health insurance.
Members of the Executive Team joined at different times in the 2012–13 period. Edward Northam joined the Executive Team from 29 April 2013.
In the 2012–13 period he was eligible for the Annual Incentive Plan. All other Executive Team members were part of the LTIP.
LTIP award is subject to a two-year adjustment period, as outlined previously in the Remuneration Committee Report.
*This is payable in 2015 subject to Shareholder approval (for the Chief Executive only) and to the terms, conditions and provisions of the LTIP (for all other eligible executives).
**Up to a further 50% of the annual equivalent salary may be earned under the LTIP.

Remuneration Committee Report (cont)

Public sector remuneration disclosures

Public sector reporting bodies are required to disclose the relationship between the remuneration of the highest paid Director in their organisation and the median remuneration of the organisation's workforce. An annualised figure has been used to better reflect contractual remuneration.

The annual salary of the highest paid Director in GIB is £325,000. This is 3.1 times the median salary of the GIB workforce, which is £105,000. Including potential performance related pay, the maximum potential total remuneration is £487,500 for the highest paid Director and £126,000 for the median, giving a multiple of 3.9 times.

No employees receive a salary in excess of the highest paid Director. Annual salaries range from £25,000 to £325,000.

2013–14 focus

The focus for the 2013–14 Remuneration Committee will include:

- Overall review of remuneration structure and its application
- Review and sign-off of 2013–14 objectives
- Review and sign-off of scoring metrics for the measurement of Business Performance
- Chief Executive LTIP award proposal submission to the Shareholder

The Committee is currently working on the objectives and metrics for the performance awards for 2013–14. These will be refined from those in 2012–13 which were designed to cover activities and achievements associated with the first five months of GIB's operations. While some of this start-up activity will continue in 2013–14, the focus is expected to be on rewarding performance, consistent with GIB's double bottom line of Green Impact and financial return.

Share ownership

GIB is wholly owned by BIS. No shares are held by other parties, including Directors or executives.

Professor Isobel Sharp
Chair of Remuneration Committee

Signed and approved for and on behalf of the Board 6 June 2013

Non Executive Directors

The Non Executive Directors are engaged under letters of appointment and are appointed for fixed terms of three years. The appointment letters provide for no entitlement to compensation or other benefits on ceasing to be a Director. Travel and other expenses necessarily incurred in the course of their duties are reimbursed.

	Contract date		Term	Notice period
Lord Smith	25.05.12	-	36mths	6mths
Sir Adrian Montague	25.05.12	Retired 30.04.13	36mths	6mths
Tessa Tennant	29.10.12	-	36mths	6mths
Professor Isobel Sharp	29.10.12	-	36mths	6mths
David Nish	29.10.12	-	36mths	6mths
Tom Murley	29.10.12	-	36mths	6mths
Professor Dame Julia King	29.10.12	-	36mths	6mths
Fred Maroudas	29.10.12	-	36mths	6mths
Anthony Odgers*	Appointed by Shareholder	-	36mths	6mths

*Shareholder Representative

Fees are paid to the Chair and Non Executive Directors at the following annual rates:

Role	Fee £'000s
Chair	120
Senior Independent Director and Deputy Chair*	75
Board Member	25
Supplement for Chair of Audit and Risk Committee	5
Supplement for Chair of Remuneration Committee	5
Supplement for Chair of Green Committee	5

*The fee reflects the joint position of Senior Independent Director and Deputy Chair. The Senior Independent Director position will carry a fee of £40,000.

The Shareholder Director, appointed by the Department for Business, Innovation and Skills, receives no remuneration from GIB in respect of his role as a Director.

“…our aim in setting remuneration policy is to set rewards at a sufficient level to attract, motivate and retain executives with the skills and attributes required to deliver GIB’s business goals whilst mindful of its unique position and mission and the requirements of our Shareholder.”

Audit and Risk Committee Report

The Audit and Risk Committee supports the Board in the effective discharge of its responsibilities for financial reporting, risk management and internal control, together with ensuring that our conduct is open, principled and accountable.

The Audit and Risk Committee is governed by the principles of the UK Corporate Governance Code (2010). We have reflected these principles and the guidance on audit committee activities in the Committee's Terms of Reference, which are published on our website.

During the period, the Board established the Committee with David Nish as Chair and two other independent Non Executive Directors, Sir Adrian Montague and Tessa Tennant. The Board is satisfied that the Committee has been established with an appropriate level of competency in business, risk management, financial, and audit matters.

Subsequent to the year end, Sir Adrian resigned from the Board and, as a consequence, relinquished his position on the Committee. In his place, Professor Isobel Sharp was appointed a member of the Committee, on an interim basis.

Lord Smith and Shaun Kingsbury regularly attend Committee meetings and the Finance Director, Chief Risk Officer and recently appointed Head of Internal Audit as well as the external auditors are invited to attend and report at meetings on a regular basis.

Since the year end, the Committee has met privately and separately with the external auditors and will do so in the 2013–14 year with the Head of Internal Audit.

The Committee is authorised by the Board to have unrestricted access to any information it requires from any employee. Furthermore, the Committee is authorised to seek independent professional advice at GIB's expense where it considers this necessary. These external advisors may be invited to present findings to the Committee.

Role

The Board has delegated to the Committee responsibility for overseeing financial reporting and the structure of the risk management and internal control framework and for making recommendations to the Board in relation to the appointment of the Company's external auditors.

The Committee is charged with satisfying itself, on behalf of the Board, that the financial affairs of the Company are conducted with openness, integrity and accountability and, in accordance with such existing statutory and regulatory provisions and codes as are applicable to the Company, to report on these matters to the Board.

The Committee's role is to evaluate and make recommendations to the Board on:

- The accounting policies and financial reporting of the Company
- The adequacy and effectiveness of the Company's internal controls
- The achievement of balance between Green Impact and financial return (the 'double bottom line')
- The performance of the internal and external audit functions
- Whistleblowing and anti-bribery, fraud and financial crime procedures

Activities 2012–13

GIB was incorporated in May 2012 and became fully operational on 29 October 2012. The first external audit of Financial Statements is for the period ended 31 March 2013.

The Committee meets according to the requirements of the Company's financial calendar. There were two meetings of the Committee in the financial year 2012–13. The table on p. 35 identifies the attendance record of individual Directors at the Committee meetings held during the year.

The key activities and discussions held by the Committee during the year were:

a) **Terms of Reference**
The Committee drafted its Terms of Reference for ratification by the Board. These will be monitored regularly and reviewed annually.

b) **Financial Performance and Reporting**
Reflecting the start-up nature of GIB the Committee focused on the establishment of financial reporting, including in particular the accounting policies required to ensure the Company complies with Accounting Standards and presents accounts that are true and fair.

The detailed evaluation includes:

- Audit strategy for year end 2012–13 audit

- Methods used to account for significant or unusual transactions where different approaches are possible

- Review of tax policy, as agreed with the Shareholder

- Extent to which the balance between Green Impact and financial return has been achieved ('double bottom line')

- Extent to which the Company has complied with the financial reporting requirements of the Shareholder Executive and BIS Finance

Where appropriate, these items included direct engagement with the external auditor.

Subsequent to year end, the Committee reviewed the 2012–13 Annual Report and Financial Statements and recommended to the Board that these should be approved.

Green investment principles

In the full coming year of operation, the Committee will support the Board in reviewing the effectiveness of the controls we have in place to ensure we adhere to our mission to accelerate the UK's transition to a greener economy and to create an enduring institution, operating independently of Government. This assessment will include ensuring that we invest in line with our constitutional, framework and legal obligations, including to invest only in UK projects which are both green and commercial, where our capital is additional to available private sector finance.

Internal control

The Committee reviewed the developing internal control framework of GIB. This included assessment and approval of the following:

- Approach to governance risk and control framework
- Policies
- Findings of an internal audit review on governance

The Committee is satisfied that timely and appropriate steps are being taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to its attention.

In the coming financial year, the Committee will ensure compliance with the principles and provisions of the Code through full implementation of Internal Control: Revised Guidance for Directors on the Combined Code (2005).

Internal and external audit performance

The Committee has reviewed and monitored the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements.

Internal audit performance will be assessed in the coming year. This function was established in-house in early 2013.

Provision of non-audit services

The appointed external auditor has not provided any non-audit services during the financial year and our view is that the external auditor is objective and independent.

The Committee has approved a policy on the engagement of the external auditor to supply non-audit services. This sets out the formal standards which specify the types of non-audit services which are pre-approved, those which require specific approval of the Committee, and those from which the external auditor is excluded.

Whistleblowing and financial crime

The Code requires us to review the arrangements by which staff may, in confidence, raise concerns about any improprieties in matters of financial reporting or other matters and this responsibility is reflected in the Committee's Terms of Reference.

Effectiveness and performance of the Audit and Risk Committee

GIB has been operational since October 2012. During the coming financial year, the Committee will assess its performance against The Guidance on Audit Committees (2012) published by the Financial Reporting Council.

Taxation

The Directors recognise our obligations around taxation matters and the Group has in place an agreed Tax Policy with the Shareholder.

We are taxed as a corporate entity and in coming years, once we are profitable, we expect to make corporation tax payments on our net income.

During the period we have ensured that all investments are reviewed for tax compliance, including structuring and domicile issues. We have also complied with the recommendations from the 'Review of the tax arrangements of public sector appointees'.

David Nish
Chair of Audit and Risk Committee

Signed and approved for and on behalf of the Board 6 June 2013

Risk Management and Internal Control

The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. We maintain sound risk management and internal control systems. GIB is committed to identifying and managing exposure of the full spectrum of risks faced across our operations. We promote awareness of the relationship between value and risk through our governance model.

The Governance, Risk and Control Framework

During the short time that we have been operational, the Board believes that substantial progress has been made in developing a robust and transparent Governance, Risk and Control Framework. Our intention is to embed and enforce a rigorous framework which uses quality risk information to drive our strategic direction.

The design of our Governance, Risk and Control Framework seeks to manage rather than eliminate the risk of failure to achieve business objectives. The framework can only provide reasonable and not absolute assurance against material misstatement or loss.

GIB is working towards establishing an ongoing programme for systematically identifying, assessing, accepting, monitoring, reporting on and evaluating the principal risks we face. These primary risk areas include investment, operational, liquidity and reputational risks. We also evaluate and measure Green Impact to ensure that we invest and operate responsibly, sustainably and in line with our Framework Document and Articles of Association.

The programme incorporates both a top-down element, through the approval of our risk appetite by the Board, and a bottom-up element, which collates risk information via control self-assessment from business units and control functions. These perspectives will combine to form the Governance, Risk and Control Framework.

> "...GIB is working towards establishing an ongoing programme for systematically assessing...the principal risks we face."

The Three Lines of Defence model

GIB recognises and uses the principle of the 'Three Lines of Defence' model to safeguard the Governance, Risk and Control Framework.

1st

Our business units and control functions have ownership, responsibility and accountability for identifying risk and implementing, assessing, controlling and monitoring effective mitigating controls. These activities are recorded through our risk and control matrix.

2nd

Financial control, risk management and compliance facilitate and monitor the effectiveness of the risk and control matrix. These functions assist risk owners in reporting relevant risk management information to our governing Board and committees.

3rd

The internal audit function provides independent verification of controls and objective assurance on the governance framework. This function adheres to a strict code of ethics that addresses the principles of objectivity, competence, confidentiality and integrity. This function additionally creates value for our organisation by being a catalyst for improvement and evolving the effectiveness of our organisation.

External audit sits outside of our organisational structure but has a key role in our Governance, Risk and Control Framework. Our external auditors, through their professional competence, provide independent and objective assurance on our financial performance and controls to our Shareholder, the Board and senior management. Our internal audit function will work collaboratively with external auditors to provide a cohesive evaluation of our governance and financial controls.

Risk appetite

The risk model designed by GIB ensures that our three lines of defence will identify our primary risk areas and document these in the Risk and Control Matrix and Risk Register. Our primary risk areas are illustrated below. Limits for these risk areas will be set out in our Risk Appetite Statement, which will be approved by the Board and reviewed annually at a minimum.

Risk appetite is defined as the level of risk that GIB is prepared to sustain whilst pursuing business strategy. It provides us with clear limits to quantify how much risk we will tolerate to attain appropriate and sought after returns. It is the heart of how we do business and how we wish to be perceived.

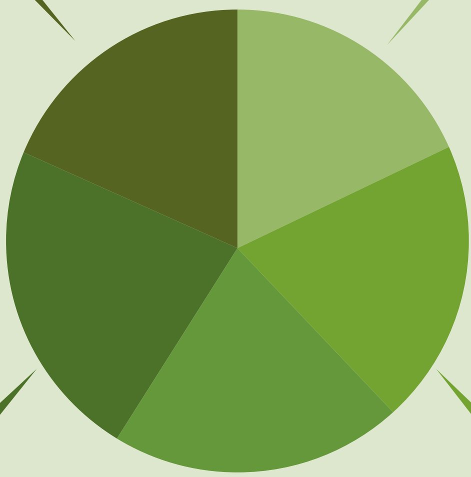
GIB has clearly articulated statements of risk appetite for each of our primary risks. Risk appetite is established in every tier of our business through our strategy and our Governance, Risk and Control Framework.

Investment Risk

GIB aims to take appropriate investment risk. This is defined as adequate compensation for risks taken and commensurate with its mandate to accelerate private sector investment into renewable energy projects. Investments will be in line with the principles of sound finance in order to achieve an aggregate pre-tax return in excess of that which is required by our Shareholder.

Green Risk

GIB has clear mandated objectives to achieve green and sustainable benefits and to invest responsibly. Green risk limits, including requirements for investments by sector such as minimum savings in GHG emissions, are set to achieve these objectives and GIB only has appetite to remain within these limits.



Operational Risk

GIB aims to operate a strong internal control framework but acknowledges that process failures will occur. However, GIB has no appetite to accept risks that would jeopardise the enduring nature of the institution or that would breach relevant legislation or regulation.

Liquidity Risk

GIB has a very limited appetite for liquidity risk. Liquidity should be sufficient to pay all liabilities as they fall due. We seek to ensure appropriate funding and liquidity to fulfil our strategic objectives and to ensure that financial resources are sufficient to protect against economic insolvency.

Reputational Risk

GIB has limited appetite for accepting risks that will damage our reputation. We acknowledge the risk of reputational impact in the execution of our strategy and look to ensure mitigants are in place to minimise any exposure; we will not, however, take any risk which is deemed to have a reasonable likelihood of incurring significant reputational damage.

The design of our Governance, Risk and Control Framework ensures that business units, the first line of defence, will be responsible for assessing, monitoring and reporting on risk. This is through the ongoing Control Self-Assessment process.

The risk function, the second line of defence, seeks to support this process and offers guidance and oversight as well as impartial monitoring of the effectiveness of the risk management approach, including the quality of the management information reporting on risk. The risk function is responsible for ensuring that GIB's risk management process is effective.

The internal audit function, the third line of defence, seeks to ensure independent verification of the risk management approach. The function will evaluate control effectiveness.

Risk Management and Internal Control (cont)

Key risks

The Governance, Risk and Control Framework is structured so that our primary risks are properly identified, controlled and reported.

Investment risk
Investment risk is the risk of loss due to inappropriate investment decisions or a failure in the investment and portfolio management process.

GIB aims to take appropriate investment risk that is commensurate with our mandate to accelerate private sector investment into renewable energy projects. Investments will be in line with the principles of sound finance and demonstrate appropriate Green Impact.

The setting of appropriate concentration and exposure limits is an essential element of GIB's credit risk appetite. GIB's mandate is to invest 80% of our capital in our priority sectors in the UK and the concentration risk will inevitably be higher than banks and other institutions with a more diversified portfolio.

Investment risk is inherent given our operations and, therefore, we have constructed a robust control process to keep us within our risk appetite. We have a five-stage origination and transaction approval process for new investment proposals.

> "...Investment risk is inherent given our operations and, therefore, we have constructed a robust control process to keep us within our risk appetite."

This is a sequential process, running from origination, structuring, execution and completion to portfolio management. Through these steps, proposed investments must be assessed by our control functions, Risk, Green, Finance and Legal and potential or perceived conflicts of interest must be identified. To proceed through the investment pipeline, proposed investments must be approved by the Investment Committee.

Thereafter, approved investments are monitored through the Portfolio Management Committee using detailed management information. Any significant issues identified are reported to the Board.

The Board is responsible for setting our investment risk appetite. Risk limits have been set to mitigate potential sector exposure concentrations, as well as exposure to individual counter parties or technologies.

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

GIB has a limited appetite for liquidity risk. Liquidity should be sufficient to pay all liabilities as they fall due and we seek to ensure appropriate funding and liquidity to fulfil our strategic objectives and ensure that financial resources are sufficient to protect against economic insolvency.

Liquidity risk is managed through holding adequate cash to meet liabilities and managing funding from our Shareholder on a monthly basis.

Reputational risk
Reputational risk is the risk of damage to GIB's reputation as a result of stakeholders forming a negative view of GIB's actions.

GIB has limited appetite for accepting risks that will damage our reputation. We acknowledge the risk of reputational impact in the execution of our strategy and look to ensure mitigants are in place to minimise that exposure. We will not, however, take any risk which is deemed to have a reasonable likelihood of incurring significant reputational damage.

We control this risk through ensuring that all employees understand their responsibility for our reputation. These responsibilities form part of GIB's Code of Conduct and are further engrained through the performance assessment process.

At the business level, the Risk and Compliance Committee provides oversight on reputational risk and monitors material risks. The Investment Committee and Portfolio Management Committee both provide additional business level oversight of reputational risk on our investments.

Green risk
Green risk is the risk that transactions represent an unacceptably low level of green or sustainability benefits or reflect irresponsible investing.

GIB has clear mandated objectives to achieve green and sustainable benefits and to invest responsibly. Green risk limits are set to achieve these objectives and GIB only has appetite to remain within these limits.

Our exposure to green risk is actively monitored in all of our executive level committees. The Board has ultimate responsibility for ensuring that Green Impact is in line with our risk appetite.

Operational risk
Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events.

GIB aims to operate a strong internal control framework but acknowledges that process failures will occur. However, GIB has no appetite to accept risks that would jeopardise the enduring nature of the institution or that would breach relevant legislation or regulation.

Operational risk exposures are managed through the consistent approach of risk identification, assessment, control and monitoring. These processes will be integrated and applied consistently by our first line of defence to mitigate the risk of operational losses. We seek to build an effective, sustainable and scalable methodology for managing operational risk.

As the second line of defence, the risk function is responsible for setting and maintaining the standards for operational risk management. Internal audit acts as the third line of defence, offering objective verification of our risk management methodology and implementation.

The Risk and Compliance Committee is an executive level governance body, chaired by the Chief Risk Officer, which will be in operation in the coming financial year. The Committee will oversee the management of operational risks across the business and support the Board level Audit and Risk Committee.

Directors' Statement of Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law, the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Company Financial Statements in accordance with UK Accounting Standards and applicable law.

In preparing those Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether they have been prepared in accordance with IFRS as adopted by the European Union
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group Financial Statements comply with the 2006 Act and Article 4 of the IAS Regulations. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, as at the date of this report, confirms to the best of their knowledge that:

- The Financial Statements give a true and fair view of the assets, liabilities, financial position and loss of the Group
- The Directors' Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

Going concern

The Directors have a reasonable expectation that the Group has adequate resources to continue to operate for the foreseeable future. The Financial Statements are, therefore, prepared on a going concern basis. In forming this view the Directors have reviewed the Group's budgets, plans and cash flow forecasts, including market downturn sensitivities.

Audit and accounts

The Board appointed the Comptroller and Auditor General to be its external auditor for the 2012–13 financial period at its Board meeting on 17 September 2012. Details of auditor remuneration are shown in Note 7 to the Financial Statements.

So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that ought to have been taken to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Alan Mitchelson
Company Secretary

Shaun Kingsbury
Director and Accounting Officer

Signed and approved for and on behalf of the Board 6 June 2013

Green Impact Statements

Green Purpose 1: The Reduction of GHG Emissions

GIB's key metric for the reduction of GHG emissions is tonnes carbon dioxide equivalent (t CO_2e).

Consolidated statement of GHG emissions reduction of GIB's portfolio for the period ended 31 March 2013

	Notes	31.03.2013
		tCO_2e '000
GHG emissions reduction of portfolio, by sector	2	
Offshore wind		22
Total		22

Consolidated statement of estimated lifetime GHG emissions reduction of GIB's portfolio as at 31 March 2013

	Notes	31.03.2013
		tCO_2e '000
Cumulative historic net GHG emissions reduction of GIB's portfolio, by sector		
Offshore wind		22
Net GHG emissions savings of portfolio		22
Future estimated lifetime GHG emissions reduction of GIB portfolio, by sector	3	
Offshore wind		1,566
Waste		1,754
Non-domestic energy efficiency		200
Domestic energy efficiency via Green Deal		1,691
Biomass		37,505
Net future GHG emissions reduction of GIB		42,716
Total		42,738

Consolidated statement of estimated future average annual GHG emissions reduction over the period 2018–22 of GIB's portfolio as at 31 March 2013

	Notes	31.03.2013
		tCO_2e '000
Additions of committed or deployed investments in year	4	
Offshore wind		95
Waste		73
Non-domestic energy efficiency		15
Domestic energy efficiency via Green Deal		82
Biomass		1,287
Total		1,552

Green Purpose 2: The Advancement of Efficiency in the Use of Natural Resource

GIB's current key metric for the advancement of efficiency in the use of natural resources is the amount of materials consumption avoided through the recycling of materials, measured in tonnes material.

As at 31 March 2013, all waste infrastructure assets within the GIB portfolio were still to be constructed and, therefore, there were no benefits realised in the 2012–13 period.

Consolidated statement of estimated lifetime materials consumption avoided through materials recycled by GIB's portfolio as at 31 March 2013

	Notes	31.03.2013
	5	t material
Compost		430,894
Digestate (PAS 110)		2,176,832
Compost-like output		1,146,204
Plastics – mixed		186,311
Ferrous metals		159,011
Non-ferrous metals		38,703
Paper/card		11,690
Glass		56,981
Mineral aggregates		727,880
Waste Electrical and Electronic Equipment (WEEE)		26,403
Other		301,496
Total		5,262,405

Consolidated statement of estimated future annual materials consumption avoided through materials recycling in year 2020 of GIB's portfolio as at 31 March 2013

	Notes	31.03.2013
	6	t material
Compost		16,291
Digestate (PAS 110)		87,073
Compost-like output		47,963
Plastics – mixed		7,820
Ferrous metals		6,571
Non-ferrous metals		1,603
Paper/card		41
Glass		2,423
Mineral aggregates		29,255
Waste Electrical and Electronic Equipment (WEEE)		1,121
Other		12,730
Total		212,891

Green Purpose 3: The Protection of the Natural Environment

GIB's current metric for the protection of the natural environment is the waste material avoided from landfill, measured in tonnes material.

As at 31 March 2013, all waste infrastructure assets within the GIB portfolio were still to be constructed and, therefore, there were no benefits realised in the 2012–13 period.

Consolidated statement of estimated lifetime waste to landfill avoided by GIB's portfolio as at 31 March 2013

	Notes	31.03.2013
	7	t material
Biodegradable waste		5,776,506
Non-biodegradable waste		2,289,697
Total		8,066,203

Consolidated statement of estimated future annual waste to landfill avoided in year 2020 by GIB's portfolio as at 31 March 2013

	Notes	31.03.2013
	8	t material
Biodegradable waste		235,309
Non-biodegradable waste		91,035
Total		326,344

Notes to the Green Impact Statements

1 – GIB's Green Impact methodology

GIB's reporting metrics for Green Impact are set out in respect of three of the GIB's Green Purposes and indicate some of the principal environmental benefits arising from its portfolio of investments. These benefits are determined by comparing the environmental impact of each investment to the most likely alternative scenario had the investment not taken place (the estimated 'baseline' or 'counterfactual'). The resulting difference in environmental outcome between the investment and the counterfactual is the environmental benefit or Green Impact. This estimation necessarily involves making certain assumptions concerning each of a) the choice of the alternative scenario; and b) how to quantify particular environmental impacts. Once the Green Impact of an investment is estimated a further methodology is then applied to allocate this to GIB's investment.

Given the pre-requisite for each of GIB's investments to meet the test of 'additionality', GIB attributes to each investment all the Green Impact relating to the total finance that is mobilised by GIB's investment (i.e. both other investors and GIB's own investment). Based on this principle, generally if GIB invests in a new construction asset, all of the Green Impact of that asset is attributable to GIB's investment. If GIB invests to refinance an existing operating asset, only the share of the Green Impact of the asset that is equivalent to the value of the whole refinancing as a proportion of the asset's full enterprise value is attributed to GIB. GIB applies this same approach in respect of both direct investments made by GIB and those investments made indirectly, via fund managers. However, GIB does not allocate any Green Impact benefit in respect of capital committed to fund managers but which has yet to be committed or drawn down and invested in projects.

This methodology can be used both retrospectively, in respect of reported operating data for an operating facility, or by way of estimation of future performance (over the lifetime of an asset, or at a point in the future e.g. the year 2020). Future performance is estimated based on a reasonably conservative set of projections concerning asset performance over time in respect of assets to which GIB has either committed or deployed capital. Unless otherwise advised, it is assumed that projects to which investment is committed are built out in the time frame projected at the time of investment. Delays, for example due to either construction delays or delay of planning permission, will impact on the delivery of these estimates and will require future adjustment to be made at the time when known. Similarly the termination of a project will also require a future adjustment to be made.

GHG emissions associated with the embedded energy of constructing green infrastructure projects are generally not considered to be material, and, therefore, generally not included within GHG emissions reduction calculations, unless there is evidence to suggest these are likely to affect GHG emissions reduction calculations by more than 5%. However, GHG emissions associated with the lifecycle process of preparing biomass feedstock (for example in the manufacture of biofuels or biomass for power) will always need to be considered.

Further details of GIB's methodology for calculating Green Impact are set out in the GIB's Green Impact Reporting Criteria 2012–13, a copy of which is published on GIB's website at www.greeninvestmentbank.com/our-green-impact/

In summary, whilst all the figures attributed in this report to Green Impacts have been made in good faith, they are not susceptible to exact and certain measurement. In each case they are estimates based on assumptions and projections and necessarily require the application of reasonable interpretation and professional judgment. There is, accordingly, no guarantee that any of the anticipated outcomes will be realised.

2 – The GHG emissions reduction of GIB's portfolio

For 2012–13, the only investments in GIB which were operational and achieved GHG savings were the two wind farms of Walney and Rhyl Flats, which were operating following GIB's investment for 103 days and three days respectively until the period ended 31 March 2013. These assets generated together 67,044 MWh of electricity attributable to GIB's investments.

This electricity generated is converted into a GHG saving by applying the appropriate grid emission factor, in accordance with the sector-specific notes for offshore wind in GIB's Green Impact Reporting Criteria 2012–13. For further details, see GIB's Green Impact Reporting Criteria 2012–13, a copy of which is published at www.greeninvestmentbank/our-green-impact/

3 – Future estimated lifetime GHG emissions reduction of GIB's portfolio

Future estimated lifetime GHG savings are estimated for each investment to which GIB capital is either committed or deployed. GIB holds investments (either committed or deployed) in respect of each of the sectors for which data is shown.

For each project in which GIB invests, in line with the sector-specific notes in GIB's Green Impact Reporting Criteria 2012–13, an estimate is made of the anticipated future operating parameters (e.g. feedstock consumed, energy generated or required) of the project over each year of its anticipated operating life. This is then converted into GHG emissions using the relevant emission factors. The anticipated lifetime project GHG emissions are then compared to the estimated GHG emissions associated with the project baseline over the same period, as calculated in accordance with the relevant sector-specific notes in GIB's Green Impact Reporting Criteria 2012–13.

The resulting difference between the project GHG emissions and its associated baseline gives the project's GHG saving over the project's operating life. An appropriate allocation of this saving is then allocated to GIB using the methodology set out in GIB's Green Impact Reporting Criteria 2012–13, a copy of which is published at www.greeninvestmentbank/our-green-impact/

4 – Future anticipated average annual GHG emissions reduction in the period 2018–22 for GIB's portfolio

This represents a snapshot of the anticipated average annual GHG emissions reduction over the period 2018–22 of GIB's current portfolio. This includes committed and deployed investments as at 31 March 2013. It is calculated using the same methodology outlined above for future estimated lifetime savings, focusing on the period 2018–22.

5 – Future estimated lifetime materials consumption avoided through materials recycling by GIB's portfolio

The lifetime materials consumption avoided through materials recycling by the portfolio is calculated by estimating the weight of materials by key waste category which are anticipated to be captured for recycling or recycled through the combination of GIB's four current waste infrastructure projects: Wakefield waste pre-treatment facility; Gloucester energy from waste facility; and the two anaerobic digestion plants to which capital has been deployed by each of GIB's fund managers, namely Greenlight AD plant in Teesside (committed to by Greensphere) and TEG AD plant in Dagenham (committed to by Foresight).

6 – Future estimated materials consumption avoided in the year 2020 through recycling by GIB's portfolio

This represents a snapshot of the anticipated materials consumption avoided by GIB's current portfolio of committed or deployed investments in the calendar year 2020. It is calculated using the same methodology outlined above for future estimated lifetime savings, focusing on the year 2020.

7 – Future estimated lifetime waste-to-landfill avoided by GIB's portfolio

Landfill can be avoided in a number of ways, including by capturing recycling materials or by recovering energy from waste. In respect of the same four waste facilities identified in Note 5 above, a conservative estimate has been made of the mass by key waste category which is avoided from landfill over the estimated asset life of each of the plants. This is split between biodegradable and non-biodegradable waste as national targets concern the reduction of municipal biodegradable waste-to-landfill, due to the more significant environmental impact this causes, including GHG emissions occurring at most landfill sites from the anaerobic breakdown of biodegradable waste to methane.

8 – Future estimated waste-to-landfill avoided in the year 2020 by GIB's portfolio

This reports the estimated avoided waste-to-landfill of the investments in GIB's current portfolio, focusing on the calendar year 2020, the year in which there is a national target to reduce biodegradable municipal waste to landfill by 65% below 1995 levels.

Independent Assurance Report

Report to the Directors of UK Green Investment Bank PLC

The Directors of UK Green Investment Bank plc ("GIB") engaged us to provide limited assurance in respect of the information described below and set out in GIB's Annual Report and Accounts (the "Report") for the period 29 October 2012 to 31 March 2013.

What we are assuring

1. Selected Data

The data specified below forms the Selected Data:

- The GHG (tCO_2e) data for the period 29 October 2012 to 31 March 2013 (including Facilities and Transport emissions) as set out on p. 25 of the Report; and
- The GHG emissions savings achieved by GIB investments during the period 29 October 2012 to 31 March 2013 as set out in the Consolidated Statement of GHG emissions reduction of GIB's portfolio on p. 53 of the Report.

2. Application of lifetime GHG emissions methodology

The Directors' declaration as set out on p. 9 and p. 56 of the Report regarding the application of GIB's lifetime emissions GHG methodology, using GIB's Green Impact Reporting Criteria 2012–13 as set out at www.greeninvestmentbank.com/our-green-impact/[1], to generate, aggregate and report 'GIB's average annual GHG emissions reduction' on p. 9, the 'estimated lifetime GHG emissions reduction' of GIB's portfolio' on p. 53 and the 'estimated future average annual GHG emissions reduction' over the period 2018–22 of GIB's portfolio' on p. 53 (the "Methodology") as at 31 March 2013.

The scope of our work was restricted to the Selected Data and to the Directors' declaration as to the application of the Methodology and does not extend to information in respect of earlier periods, to 'GIB's average annual GHG emissions reduction', the 'estimated lifetime GHG emissions reduction of GIB's portfolio' and the 'estimated future average annual GHG emissions reduction over the period 2018–22 of GIB's portfolio' data itself, or to any other information in the Report.

How the information is assessed ("Reporting Criteria")

We assessed the Selected Data and the Directors' declaration regarding the application of the Methodology as follows:

1. In respect of the Selected Data:
- the GIB Corporate GHG Emissions Reporting Criteria; and
- the Green Impact Reporting Criteria 2012–13
2. In respect of application of the Methodology:
- The Green Impact Reporting Criteria 2012–13

(collectively "the Reporting Criteria") which are published on the abovementioned website and set out how the Selected Data is prepared and reported and how the Methodology is applied.

Professional standards applied[2] and level of assurance[3]

We have applied ISAE 3000 (limited level of assurance) and we have complied with the ICAEW Code of Ethics.

Understanding reporting and measurement Methodologies

There are no globally recognised and established practices for evaluating and measuring the Selected Data or for developing a Methodology. The range of different, but acceptable, techniques can result in materially different reporting outcomes that may affect comparability with other organisations.

The Reporting Criteria used as the basis of GIB's reporting should therefore be read in conjunction with the Selected Data, and to understand the basis on which the Methodology was developed by GIB in order to calculate 'GIB's average annual GHG emissions reduction', the 'estimated lifetime GHG emissions reduction of GIB's portfolio' and the 'estimated future average annual GHG emissions reduction over the period 2018–22 of GIB's portfolio' and associated statements reported in the Report.

Work done

1. Selected Data

Considering the risk of material misstatement of the Selected Data, we:

- Made enquiries of GIB's management;
- Evaluated the design of the key structures, systems, processes and controls for managing, recording and reporting the Selected Data. This included analysing two sites and two investments and visiting one site, selected on the basis of their inherent risk and materiality to the Group, to understand the key processes and controls for reporting site performance data, but did not extend to testing that the controls operated as intended for the period under review;
- Performed limited substantive testing on a selective basis of the Selected Data of two sites and two investments to check that data had been appropriately measured, recorded, collated and reported; and
- Assessed the disclosure and presentation of the Selected Data.

2. Application of lifetime GHG emissions methodology

Considering the Directors' declaration regarding the application of GIB's methodology for calculating 'GIB's average annual GHG emissions reduction', the 'estimated lifetime GHG emissions reduction of GIB's portfolio' and the 'estimated future average annual GHG emissions reduction' over the period 2018–22 of GIB's portfolio' as at 31 March 2013 we:

- Conducted interviews with management and other personnel to understand the processes in place to apply the methodology during the period;
- Walked through the processes to confirm our understanding of the processes in place to apply the Methodology; and
- Tested, on a selective basis, the application of the Methodology.

GIB's responsibilities

The Directors of GIB are responsible for:

- Designing, implementing and maintaining internal controls over the reported emissions data that is free from material misstatement, whether due to fraud or error;
- Establishing objective Reporting Criteria for preparing the Selected Data;
- Measuring GIB's performance based on the Reporting Criteria;
- The development of appropriate, balanced lifetime GHG emissions methodology and its application; and
- The content of the Report.

Our responsibilities

We are responsible for:

- Planning and performing the engagement to obtain limited assurance about whether the Selected Data is free from material misstatement, whether due to fraud or error; and whether the Directors' declaration regarding the application of the Methodology is fairly stated;
- Forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- Reporting our conclusion to the Directors of GIB.

Our conclusions

As a result of our procedures in relation to the Selected Data, nothing has come to our attention to indicate that for the period 29 October 2012 to 31 March 2013 the Selected Data has not been prepared in all material respects in accordance with the Reporting Criteria.

As a result of our procedures in relation to the Methodology, nothing has come to our attention to indicate that the Directors' declaration regarding the application of the Methodology as at 31 March 2013 is not fairly stated.

This report, including our conclusions, has been prepared solely for the Directors of GIB as a body in accordance with the agreement between us, to assist the Directors in reporting GIB's GHG emissions performance of its activities and GHG emissions saving of its investments. We permit this report to be disclosed in the Report to enable the Directors to show how they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body and GIB for our work or this report except where terms are expressly agreed between us in writing.

PricewaterhouseCoopers LLP
Chartered Accountants, London, 6 June 2013

(1) The maintenance and integrity of GIB's website is the responsibility of the Directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information or Reporting Criteria when presented on GIB's website.

(2) We have complied with International Standard on Assurance Engagements 3000 – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board (IAASB), and with the applicable independence and competency requirements of the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics. To comply with those standards, our work was carried out by an independent and multi-disciplinary team of sustainability and assurance specialists.

(3) Assurance, defined by the IAASB, gives the user confidence about the subject matter assessed against the reporting criteria.
Reasonable assurance gives more confidence than limited assurance, as a limited assurance engagement is substantially less in scope in relation to both the assessment of risks of material misstatement and the procedures performed in response to the assessed risks.

Financial Statements

Independent Auditor's Report

Report to the Shareholders of UK Green Investment Bank PLC

I have audited the Financial Statements of UK Green Investment Bank plc for the period ended 31 March 2013 which comprise the Consolidated and Company Statement of Financial Position, the Consolidated Income Statement, the Consolidated Statement of Cash Flows, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the related Notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as regards the parent company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the remuneration report that is described in that report as having been audited.

Respective responsibilities of the Directors and the Auditor

As explained more fully in the Directors' Statement of Responsibilities, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition I read all the financial and non-financial information in the Directors' Report and the Green Impact Statements sections of the Annual Report to identify material inconsistencies with the audited Financial Statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the Financial Statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the Financial Statements conform to the authorities which govern them.

Opinion on Financial Statements

In my opinion:

- The Financial Statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 March 2013 and of the Group's loss for the period then ended; and
- The Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- The Financial Statements have been prepared in accordance with the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the Financial Statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the Financial Statements conform to the authorities which govern them.

Opinion on other matters

In my opinion:

- The information given in the Directors' Report for the financial period for which the Financial Statements are prepared is consistent with the Financial Statements; and
- The part of the Directors' remuneration report described as having been audited, has been prepared in accordance with the requirements of the Companies Act 2006.

Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

- Adequate accounting records have not been kept by the parent company; or
- The Consolidated Financial Statements are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit.

Bryan Ingleby
Senior Statutory Auditor

6 June 2013

For and on behalf of the Comptroller and Auditor General (Statutory Auditor)
National Audit Office
157–197 Buckingham Palace Road
London SW1W 9SP

Consolidated Income Statement

For the period ended 31 March 2013

	Notes	Group 31.03.2013
		£'000
Investment income		
Fee income	5(iii)	1,293
Interest income	5(iii)	699
Gross investment income		1,992
Direct investment costs	6	(1,603)
Net investment income		389
Operating expenses		
Employee and Board compensation	6	(4,160)
Professional fees	6	(1,366)
General and administrative expenses	6	(526)
Premises costs	6	(433)
Depreciation and amortisation	10, 11	(116)
Total operational expenses		(6,601)
Loss before tax from continuing operations		(6,212)
Tax benefit	8	1,205
Loss for the period from continuing operations		(5,007)
Loss attributable to:		
Owners of the Company		(5,003)
Non-controlling interests		(4)
		(5,007)

Consolidated Statement of Comprehensive Income

For the period ended 31 March 2013

	Notes	Group 31.03.2013
		£'000
Loss for the period		(5,007)
Net gains on available-for-sale financial assets		–
Income tax relating to components of other comprehensive income		–
Other comprehensive income for the period, net of tax		–
Total comprehensive income for the period		(5,007)

Consolidated Statement of Financial Position

At 31 March 2013

	Notes	Group 31.03.2013
		£'000
ASSETS		
Non-current assets		
Property, plant and equipment	10	1,268
Intangible assets	11	81
Loan and receivables	13	54,486
Available-for-sale assets	13	6,655
Investment in associate	13	58,156
Deferred tax	8	1,205
Total non-current assets		121,851
Current assets		
Cash and cash equivalents	14	27,785
Interest and fee receivable	5(iv)	3,197
Prepayments and other receivables		181
Total current assets		31,163
Total assets		153,014
LIABILITIES		
Non-current liabilities		
Deferred income	5(ii)	3,860
Provisions	16	283
Third-party interests in consolidated funds		70
Total non-current liabilities		4,213
Current liabilities		
Deferred income	5(ii)	63
Creditors, accruals, and other liabilities	17	3,295
Total current liabilities		3,358
Total liabilities		7,571
EQUITY		
Issued capital	18	145,850
Capital contribution reserve	19	4,600
Retained earnings	20	(5,007)
Total equity		145,443
Total equity and liabilities		153,014

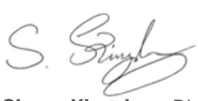
Approved by the Board of Directors on 6 June 2013

Shaun Kingsbury Director and Accounting Officer

Company Statement of Financial Position

At 31 March 2013

	Notes	UK GIB plc 31.03.2013
		£'000
ASSETS		
Non-current assets		
Property, plant and equipment	10	1,268
Intangible assets	11	81
Investment in controlled entities	12	65,182
Loans and receivables	13	54,486
Deferred tax	8	1,205
Total non-current assets		122,222
Current assets		
Cash and cash equivalents	14	27,611
Interest and fee receivable	5(iv)	3,197
Prepayments and other receivables		126
Total current assets		30,934
Total assets		153,156
LIABILITIES		
Non-current liabilities		
Deferred income	5(ii)	3,860
Provisions	16	283
Total non-current liabilities		4,143
Current liabilities		
Deferred income	5(ii)	63
Creditors, accruals and other liabilities	17	3,149
Total current liabilities		3,212
Total liabilities		7,355
EQUITY		
Issued capital	18	145,850
Capital contribution reserve	19	4,600
Retained earnings	20	(4,649)
Total equity		145,801
Total equity and liabilities		153,156



Approved by the Board of Directors on 6 June 2013

Shaun Kingsbury Director and Accounting Officer

UK Green Investment Bank plc SC424067

Consolidated Statement of Cash Flow

For the period ended 31 March 2013

	Group 31.03.2013
	£'000
Cash flows from operating activities	
Upfront fee received	4,246
Non-utilisation fee received	608
Interest received	42
Cash generated from operations	4,896
Cash paid to suppliers and employees	(5,775)
Net cash used for operating activities	(879)
Cash flows from investing activities	
Acquisition of loan and receivable assets	(56,696)
Acquisition of available-for-sale financial assets	(6,655)
Investments in associates	(57,535)
Acquisition of property, plant and equipment	(900)
Net cash used in investing activities	(121,786)
Cash flows from financing activities	
Issue of new shares	145,850
Capital contribution from Shareholder	4,600
Net cash from financing activities	150,450
Net increase in cash and cash equivalents	27,785
Cash and cash equivalents at 15 May 2012	–
Cash and cash equivalents at 31 March 2013	27,785

Consolidated Statement of Changes in Equity

For the period ended 31 March 2013

	Notes	Issued capital	Retained earnings	Capital contribution reserve	Total
		£'000	£'000	£'000	£'000
Balance at 15 May 2012		–	–	–	–
Loss for the period		–	(5,007)	–	(5,007)
Other comprehensive income for the period, net of tax		–	–	–	–
Total comprehensive income for the period		–	(5,007)	–	(5,007)
Issue of ordinary shares	18	145,850	–	–	145,850
Capital contribution	19	–	–	4,600	4,600
Balance at 31 March 2013		145,850	(5,007)	4,600	145,443

Notes to the Financial Statements

For the period ended 31 March 2013

1. Authorisation of Financial Statements

The Consolidated Financial Statements of UK Green Investment Bank plc (the "Company") and its controlled entities (together, the "Group") for the period 15 May 2012 to 31 March 2013 ("2012–13") were approved and authorised for issue in accordance with a resolution of the Directors on 6 June 2013. As this is the first period of operations there is no comparative information presented.

The UK Green Investment Bank plc is a public limited liability company incorporated and registered in Scotland. It is unlisted and wholly owned by the Secretary of State for the Department for Business, Innovation and Skills.

2. Principal activities

The Company has been established to accelerate the UK's transition to a greener economy and to create an enduring institution, operating independently of Government.

The operations and principal activities of the Company are set out in detail previously in this report and consist of financial investments to designated green sectors.

3. Accounting policies

Basis of preparation
These Financial Statements are presented in pounds sterling and all values are rounded to the nearest thousand pound (£'000) except when otherwise indicated.

The Consolidated Financial Statements of UK Green Investment Bank plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006 applicable to Companies reporting under IFRS.

These Financial Statements comply with the 2012–13 Government Financial Reporting Manual (FReM) issued by HM Treasury in that they include disclosure that goes beyond the Companies Act 2006. The accounting policies contained in the FReM apply IFRS as adapted or interpreted for the public sector context.

Where IFRS permit a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Group for the purpose of giving a true and fair view has been selected.

These Financial Statements have been prepared under the historical cost convention modified to account for the revaluation of available-for-sale financial assets, and financial assets and liabilities at fair value through profit or loss.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement and related notes and has applied this exemption. The loss after tax of the Company during the period to 31 March 2013 was £4.6m.

Use of estimates and judgements
In the process of applying the Group's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the Financial Statements. Changes in the assumptions underlying the estimates could result in a significant impact to the Financial Statements. The most critical of these accounting judgement and estimation areas are noted below:

Revenue recognition
The income of the business is generated by fee, interest and dividend income. The revenue recognition policy of the Group can have a significant impact on the timing of the recognition of this income. Specifically the judgements and estimates included are:

- Upfront fees: these are integral to the loan facility and are initially deferred then recognised over the expected length of the loan, as part of the effective interest rate. Any changes to the agreed term will impact the rate at which the upfront fee is recognised in future periods and early termination of the loan would see any remaining balance of deferred revenue taken to income at the point of termination

- Non-utilisation fees/undrawn facility fees: the Group provides loan facilities to borrowers to enable them to complete construction projects. In return for providing this the Group receives a fee on the undrawn portion of the facility (with interest received on the drawn portion), calculated in arrears. The Group recognises these fees as they accrue over the commitment period

Assessment of impairment
IFRS require companies to carry out impairment testing on any assets which show indications of impairment. In carrying out this assessment, management have exercised judgement in considering future cash flows as well as other information in accordance with the accounting policy to determine the true and fair value of an asset.

Tax
The Group has recognised deferred tax assets in the Financial Statements and in doing so has made judgements and estimates on the potential future profits of the Group in assessing whether it is likely that the Group will generate sufficient future profits in order to utilise the tax assets. These judgements and estimates will be assessed on a regular basis and the recognition of any tax assets amended accordingly.

Going concern
The Directors have a reasonable expectation that the Group has adequate resources to continue to operate for the foreseeable future. The Financial Statements are, therefore, prepared on a going concern basis.

In forming this view, the Directors have reviewed the Group's budgets, plans and cash flow forecasts. In addition, the Directors have considered the potential impact of credit risk and liquidity risk detailed in Note 24 as well as the support being provided by GIB's sole Shareholder, the Secretary for State for the Department for Business, Innovation and Skills.

The Directors have considered the implicit support from UK Government, as well as the potential for further funding from the current Shareholder or external sources in future years.

Basis of consolidation
The Group encompasses the Company and its consolidated entities. The Consolidated Financial Statements of the Group comprise the Financial Statements of the parent entity and all consolidated entities, including certain special purpose entities, using consistent accounting policies.

Consolidated entities are those entities (being companies or other corporate vehicles such as Limited Partnerships) in which the Group directly or indirectly holds the majority of the voting rights and/or where it could determine their financial and business policies and is able to exercise control over them in order to benefit from their activities.

In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The Group consolidates any entity if the Group controls them from an economic perspective, in accordance with SIC-12. The Group considers the conditions of SIC-12 in addition to the criteria in IAS 27 and evaluates a range of factors, including whether:

(a) Activities of the entity are being conducted on the Group's behalf according to its specific business needs so that the Group obtains the benefits from the entities operations; or

(b) The Group has the decision-making power to obtain the majority of the benefits of the activities of the entity, or the Group has delegated these decision-making powers by setting up an 'autopilot' mechanism; or

(c) The Group has the rights to obtain the majority of the benefits of the activities of the entity and therefore may be exposed to risks incident to the activities of the entity; or

(d) The Group retains the majority of the residual or ownership risks related to the entity or its assets in order to obtain the benefits from its activities.

Whenever there is a change in the substance of the relationship between the Group and an entity, the Company performs a re-assessment of consolidation.

Inter-entity transactions, balances, income and expenses on transactions between Group entities are eliminated.

Where the Group consolidates an investment vehicle, such as a limited partnership, the interests of parties other than the Group in such vehicles are classified as liabilities. These are recognised in the third-party interest in consolidated funds line in the Consolidated Statement of Financial Position and any movements are recognised in the Consolidated Income Statement.

In the Company, investments in consolidated entities are carried at cost less any impairment charges.

Details of the entities consolidated in these Financial Statements are included at Note 12.

Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired.

Revenue recognition
Revenue – interest income
Interest income is recognised in the income statement for all interest-bearing financial instruments using the effective interest method, except for those classified at fair value through profit or loss. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

The effective interest rate is calculated on initial recognition of the financial asset or liability by estimating the future cash flows after considering all the contractual terms of the instrument but not future credit losses. Direct incremental transaction costs related to the acquisition of a financial instrument are also taken into account in the calculation. Where a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Revenue – fees
The recognition of fee revenue is determined by the purpose of the fee and the basis of accounting for any associated financial instruments.

- Fees and commissions which are not an integral part of the effective interest rate are recognised when the service has been provided; for example, non-utilisation or undrawn facility fees

- If there is an associated financial instrument, fees that are an integral part of the effective interest rate of that financial instrument are included in the effective interest rate calculation

- Upfront fees for loans that are likely to be drawn are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan once drawn. Where it is unlikely that loan commitments will be drawn, upfront fees are recognised over the life of the commitment

Revenue – dividends
Dividend income is recognised when the right to receive payment is established.

Financial assets
The Group classifies financial assets into the following categories:

Amortised cost:
- Loans and receivables
- Held-to-maturity investments

Fair value:
- Available-for-sale assets
- Financial assets at fair value through profit or loss

The classification depends on the type of financial instrument and the purpose for which the financial asset is held or acquired. The Group determines the classification of financial assets at initial recognition.

As at 31 March 2013 the Group had investments within the loans and receivables and available-for-sale categories.

Loans and receivables
These are non-derivative financial assets with fixed or determinable payments that are not traded in an active market.

Loans and receivables, held by the Group, comprise cash and cash equivalents, receivables and loans.

Loans and receivables are initially recognised when cash is advanced to the borrowers and measured at fair value inclusive of transaction costs. After initial recognition, they are carried at amortised cost in accordance with IAS 39. This involves the gross value of the loans issued being discounted to net present value using the effective interest rate.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets classified as loans and receivables or available-for-sale assets are impaired. Evidence of impairment arises where there is observable data indicating that there is a measurable decrease in the estimated future cash flows from holding financial assets.

Impairment losses are assessed individually for financial assets that are individually significant and individually or collectively for assets that are not individually significant. In making collective assessments of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics.

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition.

As the loan amortises over its life, the impairment loss may amortise through the income statement. All impairment losses are reviewed at least at each reporting date. If subsequently the amount of the loss decreases and relates objectively to an event after the impairment loss was recognised, the relevant element of the outstanding impairment loss is reversed.

Interest on impaired financial assets is recognised at the original effective interest rate applied to the carrying amount as reduced by an allowance for impairment.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and current balances with banks and other financial institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

Notes to the Financial Statements (cont)

For the period ended 31 March 2013

Available-for-sale assets
These are non-derivative financial assets designated as such or not classified in any of the other three categories of financial assets. After initial recognition, these financial assets are carried at fair value. More information about the measurement techniques used to determine their carrying value in the Financial Statements is provided in Note 13.

Fair value changes for available-for-sale assets are recognised directly in equity within the Statement of Comprehensive Income in a specifically created reserve within equity, until the financial asset is either sold, becomes impaired or matures. At this time the cumulative gain or loss previously recognised in comprehensive income is recognised in the Income Statement.

When a decline in the fair value of a financial asset classified as available-for-sale has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in the income statement. The loss is measured as the difference between the amortised cost of the financial asset and its current fair value. Impairment losses on available-for-sale equity instruments are not reversed through the income statement, but those on available-for-sale debt instruments are reversed, if there is an increase in fair value that is objectively related to a subsequent event.

At each balance sheet date, the Group assesses whether there is objective evidence that an available-for-sale financial asset is impaired. In addition to the criteria for financial assets accounted for at amortised cost, this assessment involves reviewing the current financial circumstances and future prospects of the issuer, assessing the future cash flows expected to be realised and, in the case of equity shares, considering whether there has been a significant or prolonged decline in the fair value of the asset below its cost.

If an impairment loss has been incurred, the cumulative loss measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that asset previously recognised, is reclassified from equity to the income statement.

Financial liabilities
The Group currently classifies all financial liabilities as "other financial liabilities" with all liabilities recognised being classed as temporary in nature and derived from the normal course of business.

Property, plant and equipment
The Group has opted to measure property, plant and equipment on a depreciated historical cost basis. The Group's capitalisation threshold for property, plant and equipment is £5,000, except where an individual asset is part of a group of assets that comprise greater than £5,000 or for furniture assets, where all expenditure in one financial year is pooled and capitalised.

Property, plant and equipment are depreciated at rates calculated to write them down to their estimated residual value on a straight line basis over their estimated useful lives commencing from when an asset is brought into use.

Assets are depreciated over the following periods:

- Leasehold improvements: shorter of estimated remaining useful economic life or outstanding term of lease
- Computer equipment: three to five years
- Furniture, fixtures and fittings: seven years

Intangible assets
Where computer software licences are purchased and have a useful life in excess of one year, they are capitalised as intangible assets and are amortised over the shorter of the term of the licence and the useful economic life. The useful economic life is usually between three to ten years, and the value is amortised on a straight line basis.

Impairments of property, plant and equipment and intangible assets
At each period end, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets, to determine whether there is any impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. The recoverable amount is the higher of fair value less costs to sell, and value in use. Impairment losses are charged to the income statement.

Provisions
The Group makes provision for liabilities and charges where, at the Statement of Financial Position date, a legal or constructive obligation exists (i.e. a present obligation arising from past events), where the transfer of economic benefits is probable and a reasonable estimate can be made.

Taxation
Tax expense or benefit for the period comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in comprehensive income or directly in equity. In this case the tax is recognised in comprehensive income or directly in equity, respectively.

Current tax is recognised as an expense or benefit in the period in which the profits or loss arise and is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the UK.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Equity
Ordinary shares are classified as equity and have been issued at par in the period to 31 March 2013.

Reserves
Capital contributions from BIS are non-reciprocal in nature and are recognised directly in a capital contribution reserve in equity. In the period to 31 March 2013 these contributions provided start-up funding for the Group's operations.

Value Added Tax
The Group is not registered for Value Added Tax (VAT) and it is, therefore, accounted for as follows:

- Irrecoverable VAT on expenditure is charged to the Income Statement, and included under the relevant expenditure heading
- Irrecoverable VAT on the purchase of an asset is included in additions

Operating leases
Rentals due under operating leases are charged to the Income Statement over the lease term on a straight-line basis. The amounts payable in the future, under these operating lease arrangements, which are disclosed in Note 22, are not discounted.

Pensions
The Group operates a defined contribution pension scheme for eligible employees. Under the defined contribution scheme the Group pays fixed contributions into a fund separate from the Group's assets. Contributions are charged in the Consolidated Income Statement when they become payable.

Holiday entitlements
When an employee has rendered service during an accounting period, it is the policy of GIB to recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service, as a liability on the Statement of Financial Position after deducting any amount paid.

New standards and interpretations
The Group has adopted all existing standards, amendments and interpretations in this, its first, reporting period. The Group has not sought early adoption of any standards or amendments.

A number of IFRS and amendments to IFRS were in issue at or post 31 March 2013 that had effective dates of 1 April 2013 or later. These are outlined below.

Investment entities
In October 2012, the IAASB issued 'Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)'. The amendments apply to 'investment entities': entities whose business is to invest funds solely for returns from capital appreciation, investment income or both and which evaluate the performance of their investments on a fair value basis. The amendments provide an exception to IFRS 10 by requiring investment entities to measure their subsidiaries (other than those that provide services related to the entity's investment activities) at fair value through profit or loss, rather than consolidate them. On initial review the Company is unlikely to be classified as an investment entity and will need to consolidate, on a line by line basis, all of its consolidated entities investments. The amendments are effective from 1 January 2014.

IAS 32: Financial instruments: presentation
In December 2011, the IAASB issued 'Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)'. The amendments add application guidance to IAS 32 to address inconsistencies identified in applying some of the standard's criteria for offsetting financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after 1 January 2014 and must be applied retrospectively.

IFRS 9: Financial instruments
In November 2009, the IAASB issued IFRS 9 'Financial Instruments' simplifying the classification and measurement requirements in IAS 39 in respect of financial assets. The standard reduces the measurement categories for financial assets to two: fair value and amortised cost.

In October 2010, IFRS 9 was updated to include requirements in respect of the classification and measurement of liabilities. In December 2011, the IAASB issued amendments to IFRS 9 and to IFRS 7 'Financial Instruments: Disclosures' delaying the effective date of IFRS 9 to annual periods beginning on or after 1 January 2015 and introducing revised transitional arrangements including additional transition disclosures.

IFRS 9 makes major changes to the framework for the classification and measurement of financial instruments. The Group is assessing the effect of IFRS 9 which will depend on the results of IAASB's reconsideration of IFRS 9's classification and measurement requirements and the outcome of the other phases in the development of IFRS 9.

IFRS 13: Fair value measurement
In May 2011 IFRS 13 'Fair Value Measurement' was issued and applies to annual periods beginning on or after 1 January 2013. IFRS 13 applies to IFRS that require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. The standard defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement.

IFRS 13 seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels.
The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

Application is required prospectively as of the beginning of the annual reporting period in which the IFRS is initially applied. Comparative information need not be disclosed for periods before initial application.

4. Segmental reporting

In line with IFRS 8 'Operating Segments', the Group has determined that there is only one operating segment, being investment in green infrastructure. This is consistent with the internal reporting provided to the Executive Committee, which is considered the Group's chief operating decision maker.

The Company operates in one geographical location, being the UK.

Notes to the Financial Statements (cont)

For the period ended 31 March 2013

5. Interest and fee receivable

As discussed previously in the Directors' Report, the Group earns and recognises income in different periods based on the timing of loan drawdowns and the nature of the income.

The following disclosure shows how the income is represented in the Financial Statements.

(i) Calculation of deferred income.

During the year the Group generated revenue from fees and interest. In line with our accounting policies a significant portion of this is deferred.

	Company	Group
	31.03.2013	31.03.2013
	£'000	£'000
Opening deferred income	–	–
Income generated during the period	8,093	8,125
Income recognised during the period	(1,960)	(1,992)
Income deferred at year end	6,133	6,133

This amount is recognised in the accounts as follows:	Company	Group
	£'000	£'000
Adjustment to the effective interest rate for loans and receivables	2,210	2,210
Deferred income	3,923	3,923
Total	6,133	6,133

(ii) Estimated recognition of deferred income.

The deferred income will be recognised in future years based on when loans are drawn and the number of years that the loan is outstanding.

Based on the amount of funding drawn at 31 March 2013 the estimated recognition timing is as follows:

	Company	Group
	£'000	£'000
Recognition within one year	63	63
Recognition greater than one year	1,360	1,360
Recognition dependent on timing of loan drawdown	2,500	2,500
Recognition over one year	3,860	3,860
Total	3,923	3,923

iii) Reconciliation of total interest and fee income recognised.

The below tables show the recognised and unrecognised fee and interest income during the period to 31 March 2013:

Company	Total recognised	Total unrecognised	Total
	£'000	£'000	£'000
Upfront commitment fee	500	6,133	6,633
Undrawn facility fee	793	–	793
Interest Income	667	–	667
Total	1,960	6,133	8,093

Group	Total recognised	Total unrecognised	Total
	£'000	£'000	£'000
Upfront commitment fee	500	6,133	6,633
Undrawn facility fee	793	–	793
Total fee income	1,293	6,133	7,426
Interest Income	699	–	699
Total	1,992	6,133	8,125

(iv) Reconciliation of income received.

The table below splits the income earned between received during the year and receivable at 31 March 2013:

	Group			
	Opening receivable	Total generated	Total received	Total receivable
	£'000	£'000	£'000	£'000
Upfront commitment fee	-	6,746	4,246	2,500
Undrawn facility fee	-	793	608	185
Interest income	-	586	74	512
Total	-	8,125	4,928	3,197

6. Expenses

(i) Direct investment costs.

Direct expenses, totalling £1.6m for the Group, include the establishment and Fund Management costs related to the consolidated entities set up during the period, as well as direct costs related to investment activity that is not able to be capitalised.

(ii) Operating expenses:

	Note	Company	Group
		31.03.2013	31.03.2013
Employee and Board compensation		£'000	£'000
Wages, salaries and other staff costs		2,912	2,912
Annual and long-term incentive plan		473	473
Board costs		234	234
National Insurance		351	351
Pension costs – defined contribution schemes		190	190
		4,160	4,160
Other expenses			
Professional fees		1,355	1,366
General and administrative expenses		499	526
Premises costs		433	433
		2,287	2,325
Depreciation and amortisation			
Property, plant and equipment	10	109	109
Intangible assets	11	7	7
		116	116
Total operating expenses		6,563	6,601

Notes to the Financial Statements (cont)

For the period ended 31 March 2013

7. Auditor remuneration

Amounts paid or payable to the Group's auditor for statutory audit services are set out below. The Audit and Risk Committee is responsible for ensuring that all audit-related and non-audit services are approved and are subject to controls to ensure the external auditor's independence is unaffected by the provision of other services.

During the period, the external auditor was only engaged for statutory audit services.

	2012–13
	£'000
Fees payable for the audit of the Group's annual accounts	72
Fees payable to the auditor and its associates for other services	-
Total auditor remuneration	72

Other auditors are engaged for the provision of audit services to controlled entities within the Group.

8. Tax	Company	Group
	31.03.2013	31.03.2013
	£'000	£'000
Current tax		
Current tax benefit on loss for the period	1,129	1,129
Deferred tax		
Origination of temporary difference	76	76
Income tax benefit	1,205	1,205

	£'000	£'000
Reconciliation of tax benefit		
Loss before tax	(5,853)	(6,212)
Loss before tax multiplied by rate of corporation tax in UK of 24%	1,405	1,491
Tax effects of:		
- Expenses not deductible for tax purposes	(197)	(197)
- Tax losses for which no deferred tax asset was recognised	0	(86)
- Deferred tax asset at different tax rates	(3)	(3)
Tax benefit for the period	1,205	1,205

In recognising the tax asset, the view has been taken that the Group will make sufficient taxable profits in the future to utilise any carried forward losses.

To the extent profits are not deemed adequately probable, either in relation to the Company or consolidated entities the Group does not recognise a tax asset.

9. Dividends

During the period to 31 March 2013 the Company did not make any dividend payments. As at 31 March 2013, the Company does not propose to pay any dividends.

10. Property, plant and equipment

Group and Company	Leasehold improvements	Computer equipment	Fixtures and fittings	Total
Cost	£'000	£'000	£'000	£'000
Balance at 15 May 2012	–	–	–	–
Acquisitions	900	255	222	1,377
Balance at 31 March 2013	900	255	222	1,377
Depreciation and impairment losses				
Balance at 15 May 2012		–	–	–
Depreciation for the period	(80)	(19)	(10)	(109)
Balance at 31 March 2013	(80)	(19)	(10)	(109)
Carrying amount	820	236	212	1,268

The following useful lives are used in the calculation of depreciation:

Leasehold improvement	Five Years
Computer equipment	Five Years
Fixtures and fittings	Seven Years

11. Intangible assets

Group and Company	Computer Software	Total
Cost	£'000	£'000
Balance at 15 May 2012	–	–
Acquisitions	88	88
Balance at 31 March 2013	88	88
Amortisation and impairment loss		
Balance at 15 May 2012	–	–
Amortisation for the period	(7)	(7)
Balance at 31 March 2013	(7)	(7)
Carrying amount	81	81

Computer software consists of licences and software development costs which are amortised over the estimated useful life of five years.

Notes to the Financial Statements (cont)

For the period ended 31 March 2013

12. Consolidated entities

Consolidated entities are carried at cost less impairment.

Movements during the period were as follows:

	Total
	£'000
Balance at 15 May 2012	–
Additions	65,182
Balance at 31 March 2013	65,182

The principal subsidiary undertakings of each consolidated entity are shown below. The capital of each entity depends on its nature and consists of ordinary shares or Limited Partner contributions.

Entity	Fund manager	Country of incorporation	Nature of business	Shares held by Company	Group interest
Energy Saving Investments LP	Equitix Investment Management Limited	UK	Investment in non-domestic energy efficiency	100%	100%
UK Waste Resources & Energy Investments LP	Foresight Group LLP	UK	Investment in small-scale waste operations	100%	100%
UK Green Sustainable Waste & Energy Investment LP	Greensphere Capital LLP	UK	Investment in small-scale waste operations	100%	100%
UK Energy Efficiency Investments 1 LP	SDCL EE Co (UK) LLP	UK	Investment in non-domestic energy efficiency	100%	100%
Aviva Investors REaLM Energy Centres LP	Aviva Investors Global Services Limited	UK	Investment in non-domestic energy efficiency in the NHS	100%	100%
UK GIB Rhyl Flats Investment Limited	N/A	UK	Offshore wind investment	100%	100%

To align interests and incentivise external managers, GIB will often require managers to take a minority Limited Partner interest. GIB investment amounts are rounded, for commercial reasons, to 100% above. The Fund Manager LP amounts are treated as third-party interest in consolidated funds in the consolidated accounts of the Group.

13. Investments

	Note	Company 31.03.2013	Group 31.03.2013
		£'000	£'000
Investment in controlled entities	12	65,182	–
Loans and receivables – unquoted loans		54,486	54,486
Available-for-sale investments – unquoted equity securities		–	6,655
Investments in associates	13 (iv)	–	58,156
		119,668	119,297

(i) Carrying value.

The carrying value of loans and receivables is net of adjustments for the effective interest rate.

The following table shows how the investment balance is calculated:

Reconciliation of carrying value – Company	Investment amount	Deferred upfront fee	Carrying value
	£'000	£'000	£'000
Loans and receivables – unquoted	56,696	(2,210)	54,486
Investments in controlled entities	65,182	0	65,182
Total	121,878	(2,210)	119,668

Reconciliation of carrying value – Group	Investment amount	Deferred upfront fee	Carrying value
	£'000	£'000	£'000
Loans and receivables – unquoted	56,696	(2,210)	54,486
Available-for-sale investments – unquoted equity securities	6,655	0	6,655
Investments in associates	58,156	0	58,156
Total	121,507	(2,210)	119,297

(ii) Disclosure of IFRS 7 risk requirements is detailed in Note 24.

(iii) The Company holds loans that carry interest with a weighted average interest rate of 3.8% per annum. The loans have maturity dates ranging between 2.4 and 26.25 years from the end of the reporting period. None of these assets had been past due or impaired at the end of the reporting period.

(iv) Investments in associates:

Group	31.03.2013
	£'000
Balance at 15 May 2012	–
Additions in the period	58,156
Balance at 31 March 2013	58,156

The Group invested in an associate investment through the acquisition of a 24.95% stake in Rhyl Flats Wind Farm Limited on 28 March 2013.

The summarised financial information of Rhyl Flats Wind Farm Limited are:

- Assets £238.2m
- Liabilities £226.6m
- Revenues for the year to 31 December 2012 £16.3m
- Profit for the year to 31 December 2012 £6.8m

The Financial Statements utilised are as at 31 December 2012, being the financial reporting date of the associate. As the investment was completed by the Group on 28 March 2013 no share of profit or loss has been recognised in the period to 31 March 2013.

The Group has provided an indemnity for the satisfaction of obligations under contractual arrangements (for example undertakings related to rehabilitation activities and supplier agreements). These would require the GIB Group, in common with all the other shareholders, to contribute its share (calculated in proportion to the Group's 24.95% minority equity holding) of any unpaid decommissioning costs of the offshore wind farm, and any rent arrears during operations, should the operational entity fail to meet these obligations. The total amount is £4.6m and is not provided for in the Statement of Financial Position.

(v) At 31 March 2013 all available-for-sale investments are made through consolidated entities (being Limited Partnerships) and comprise equity ownership between 20% and 50%.

The Group has concluded that it does not have significant influence over the operations of the investee entities as the Limited Partnership Agreements of the consolidated entities prevent the Group from participating in the policy-making process of the investee entity. This function, as well as Board representation, is undertaken by the Fund Manager of the Limited Partnership which is an unrelated party to the Group.

Notes to the Financial Statements (cont)

For the period ended 31 March 2013

(vi) Valuation.

The investment portfolio consists of assets carried at amortised cost (loans and receivables) and fair value (available-for-sale investments) as follows:

	Company Level 3	Group Level 3
	£'000	£'000
Loans and receivables	54,486	54,486
Available-for-sale investments	-	6,655
Total	54,486	61,141

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

Level	Fair value input description
1	Quoted prices (unadjusted) from active markets
2	Inputs other than quoted prices included in Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)
3	Inputs that are not based on observable market data

The available-for-sale assets are classified as Level 3 assets.

The Group completes regular valuation exercises to assess the fair value of each class of assets. At 31 March 2013 the valuation assessment indicates no significant variation between fair value and carrying value, after recognising any adjustment to the Carrying Value for Effective Interest Rate calculations for assets at amortised cost.

The primary valuation methodology used for 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, discounted at the appropriate risk-adjusted discount rate. The discount rate is estimated with reference to the market risk-free rate and a risk-adjusted premium.

Where an asset is in the early stage of construction, and there are no indicators of future performance issues, or impairment, then the asset is carried at cost. This applies to the available-for-sale investments at 31 March 2013.

14. Cash and cash equivalents

The cash and cash equivalents balance of £27.8m is comprised solely of cash at bank.

The Company holds its cash at bank with the Government Banking Service and draws funding from BIS as investment and operations require.

Funding held in the Government Banking Service is non-interest bearing.

As at 31 March 2013, the Group held £0.2m of cash at bank outside the Government Banking Service. The amount is held entirely in the accounts of the consolidated entities.

15. Financial assets and liabilities

Company 31.03.2013	Note	Loans and Receivables	Controlled entities	Total carrying amount
		£'000	£'000	£'000
Assets				
Investments	13	54,486	65,182	119,668
Cash and cash equivalents	14	27,611	–	27,611
Interest and fee receivable	5	3,197	–	3,197
Total		85,294	65,182	150,476
Liabilities				
Deferred income	5	3,923	–	3,923
Total		3,923	–	3,923

Group 31.03.2013	Note	Loans and Receivables	Equity investments	Total carrying amount
		£'000	£'000	£'000
Assets				
Investments	13	54,486	64,811	119,297
Cash and cash equivalents	14	27,785	–	27,785
Interest and fee receivable	5	3,197	–	3,197
Total		85,468	64,811	150,279
Liabilities				
Deferred income	5	3,923	–	3,923
Total		3,923	–	3,923

Maturity analysis	<1 yr	1–5 yr	>5 yrs	Total
	£000	£000	£000	£000
Loans and receivables	1,951	22,685	32,060	56,696

The above excludes the deferred upfront fee netted against this balance.

16. Provisions

	Employee incentive pay	Total
	£'000	£'000
Balance at 15 May 2012	–	–
Addition	283	283
Balance at 31 March 2013	283	283

At 31 March 2013 a provision of £283k was taken up in respect of Long Term Incentive Plan (LTIP) payments to members of the Executive Team. The amount provided for is an estimate of the amount that will be payable when the liability falls due, and is not discounted for the time value of money as this is deemed to be non-material. The full details of how the LTIP is structured and the calculation are included in the Remuneration Committee Report.

Notes to the Financial Statements (cont)

For the period ended 31 March 2013

17. Creditors, accruals, and other liabilities

	Company 31.03.2013	Group 31.03.2013
	£'000	£'000
Accrued expenses	1,335	1,481
Related party liabilities	974	974
Payroll liabilities	462	462
Creditors	378	378
Total	3,149	3,295

18. Issued capital

	Allotted, called up and fully paid	
	Number of Shares	Ordinary Shares
	'000	'000
Balance at 15 May 2012	–	–
Issue of ordinary shares	145,850	145,850
Balance at 31 March 2013	145,850	145,850

During the period ended 31 March 2013, 145,850,000 ordinary shares of £1 each were issued to the Government Shareholder.

Initial share capital of 50,000 shares (£50,000) was issued on registration of the Company. Following approval at a General Meeting of the Company a further 148,500,000 shares (£148,500,000) were issued. The Directors have approval to allot shares up to an aggregate nominal amount of £3bn.

19. Capital contribution reserve

	Total
	£'000
Balance at 15 May 2012	–
Capital contribution	4,600
Balance at 31 March 2013	4,600

In addition to the £145.85m received for share issues, the Company received £4.6m in operational funding from its Shareholder which is recognised as a capital contribution from shareholders but does not form part of the shareholding in the Company. It is non-interest bearing and non-repayable.

20. Retained earnings

	Company	Group
	£'000	£'000
Balance at 15 May 2012	-	-
Loss for the period	(4,649)	(5,007)
Balance at 31 March 2013	(4,649)	(5,007)

21. Retirement benefits

Defined contribution scheme

Retirement benefits for employees are solely provided by defined contribution schemes, funded by contributions from the Company and employees. The Company makes a 10% contribution subject to a minimum employee contribution of 3%. The amount charged to the profit and loss account of £190k represents contributions payable in the period to this scheme at rates specified in the rules of the plan. As at 31 March 2013, contributions of £0.1m due in respect of the current reporting period had not been paid over to the scheme.

22. Commitments

Capital commitments	<1 yr	1–5 yrs	>5 yrs	Subject to project requirements	Total
	£'000	£'000	£'000	£'000	£'000
Investment commitments	64,080	71,964	–	126,298	262,342

Investment commitments reflect the legal commitments the Group has made to parties external to the Group. This figure differs to the £635m in commitments the Company made during the 2012–13 period as the £635m includes:

- Commitments to Limited Partnerships that are included in the Consolidated Group. Over time the Limited Partnerships will commit this funding to external parties in line with their Limited Partnership Agreements.
- A commitment of £50m to Drax Finance Limited which was cancelled on 28 March 2013 as Drax refinanced this commitment.

Operational commitments	<1 yr	1–5 yrs	>5 yrs	Total
	£'000	£'000	£'000	£'000
Operating leases	905	3,068	1,629	5,602

Operational commitments reflect leases including premises, including Atria One in Edinburgh, which was signed on 24 April 2013, as well as the lease at Millbank Tower in London and other operational leases.

For the period to 31 March 2013, lease payments totalling £395k were recognised as an expense in the period.

Notes to the Financial Statements (cont)

For the period ended 31 March 2013

23. Related parties

The Company is 100% owned by the UK Government, with the Shareholder being the Secretary of State for the Department for Business, Innovation and Skills, who is the ultimate controlling party. As a result, the UK Government and UK Government controlled bodies are related parties of the Company. The Group has elected to take the exemption under IAS 24 regarding disclosure of transactions with related parties because the UK Government has control over both the Company and other entities. The Company trades with Government bodies on an arm's length basis on commercial terms in line with our contractual agreements. The main Government bodies transacted with are BIS as our Shareholder and UK Shared Business Services Limited (formerly RCUK Shared Services Centre Ltd), who are responsible for providing payroll, HR, IT, procurement and finance services. Other transactions include taxes, National Insurance contributions and local authority rates.

The balances outstanding with related parties at 31 March 2013 are significant and disclosed below:

	£'000
Department for Business, Innovation and Skills	372
UK Shared Business Services Limited (formerly RCUK Shared Services Centre Ltd)	602
Total	974

These balances represent short-term liabilities which are expected to be paid within the next 12 months and relate to set-up costs and operational service costs.

The only individually, or collectively, significant transaction between the Group and related parties of the UK Government was the transfer of interests in four limited partnerships. This occurred in November 2012 and involved the acquisition of Limited Partner interests, from the Department for Business, Innovation and Skills, including accumulated capital contributions and the making of a commitment by the Company to fund further obligations.

The transfer was completed at the value contributed by the Department, being £0.99m. Direct costs related to the establishment of the Limited Partnerships were reimbursed by the Company to the Department.

Lord Smith of Kelvin is Chair of, and a shareholder in, SSE plc. During the period there were no direct transactions between the Group and SSE. Indirectly there were two transactions during the year that involved SSE.

Firstly, BIS invested £50m in Greencoat Wind UK plc which raised a total of £260m in capital, and purchased interests ranging from 50% to 100% in four wind farms from SSE (as part of a six wind farm seed portfolio). Secondly, the Company lent £46m to a joint venture between Dutch pension fund PGGM and renewable energy investor Ampere Equity Fund (OPW) to support their 24.8% stake in the Walney Offshore Wind Farms. SSE is a 25.1% investor in the Walney project, with DONG Energy Power (UK) Ltd retaining a 50.1% holding.

Lord Smith had no involvement or influence in either transaction and removed himself from Board discussions on these matters.

Associates

The only associate of the Company during the 2012–13 period was Rhyl Flats Wind Farm Limited. More information is included in Note 13.

Key management compensation

Key management comprises 18 people within the Company, including all Directors, both executive and non executive and the direct reports of the Chief Executive. Detailed disclosures of Directors' and executives' remuneration for the period are contained within the audited section of the Directors' Remuneration Committee Report.

The compensation for key management is summarised below:

	2012–13
	£'000
Salaries and other short-term employee benefits	1,349
Post-employment benefits	48
Total compensation earned by key management	1,397

No other long-term benefits, termination benefits or share-based payments were made. The remuneration policy is described in more detail in the Remuneration Committee Report, as well as information concerning Directors' remuneration, long-term incentive schemes and pensions.

Average number of people employed	
Number of employees	23
Average number of people (including Executive Directors) employed	
Investment	12
Operations	11
Total	23

The above has been calculated for the period 15 May 2012 to 31 March 2013.
The staff in post at 31 March 2013 was 58; a further 16 had been recruited but not yet commenced employment.

Notes to the Financial Statements (cont)

For the period ended 31 March 2013

24. Risk disclosure

This note presents information about the nature and extent of risks arising from our financial instruments. It also discloses management's objectives and policies for managing these risks.

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

- Credit risk
- Liquidity risk
- Market risk

The Board is responsible for the establishment and oversight of the Governance, Risk and Control Framework. During the period, the Board established several governance measures to manage risk arising from our investments and our use of financial instruments including:

- An independent review of proposed investments by the Investment Committee
- The Portfolio Management Committee, an Executive Committee comprising the Chief Risk Officer and members of senior management
- The Portfolio and Investment Management and Finance functions, to oversee the control of these activities
- Policies for risk management

Credit risk
Credit risk is the risk of a loss due to the failure of a counterparty to meet its obligations to pay GIB in accordance with agreed terms. Credit risk may arise in any asset where there is the potential for default including direct loans and equity investments with a contractual repayment.

Credit risk also includes settlement risk when a counterparty fails to settle their side of a transaction and concentration risk arising from counterparty exposure to a business or common underlying factors such as technology and sector.

Credit risk assessment is carried out as part of the investment approval process and on an ongoing basis as part of the GIB portfolio management process. Investments are independently assessed by GIB's Valuation Committee.

Quantitative credit risk disclosure, with the exception of maximum exposure by asset class, is not provided in respect of direct investment assets or fund assets as the Shareholder is not directly exposed to credit risk from non-controlling interests or assets held by third parties in consolidated funds.

The amount of exposure, before taking into account any collateral or security, in each class of financial asset is limited to the amount invested at any given point in time. The amount invested in each class of financial asset is detailed in Note 13 above.

For current debt investments appropriate collateral is held. Collateral does not apply to equity investments and the nature of collateral may change over time depending on the investments which GIB holds in any given period.

GIB produces credit risk ratings for its investments based on a risk grading of the financial obligor and the estimated Loss Given Default on that investment. Risk drivers assessed in setting the ratings include the financial viability and lending safety of the investment and, if available, the rating assigned by an external credit agency.

The Group is deemed to have no financial assets that are past due or impaired.

Liquidity risk
Liquidity risk is the risk that an entity 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. GIB has minimum exposure to liquidity risk because it does not have a leveraged balance sheet.

GIB's policy is to manage exposure to liquidity risk by monitoring forecast and actual cash flows and ensuring that sufficient funding is available to meet potential downside scenarios.

Market risk
Market risk is the risk of a loss of earnings or economic value due to adverse changes in financial market rates or prices.

GIB does not have material exposure to currency risk as we only invest in our functional currency.

GIB will identify market risk arising from an inability to exit an investment within the intended time frame.

GIB's investments are a combination of fixed and variable rates of interest. Interest rate risk is regularly monitored to ensure that the mix of variable and fixed rate borrowing is appropriate. GIB does not use derivatives to hedge interest rate risk.

The impact of a 1% increase or decrease in the interest rate applicable to investments is disclosed below.

Sensitivity analysis
- The impact of a 1% increase in the interest rate applicable to investments would be an approximate increase in income of £4.2m over the life of the investment
- The impact of a 1% decrease in the interest rate applicable to investments would be an approximate decrease in income of £3.7m over the life of the investment
- The tax impact on the above would be dependent on the timing of the change, when tax is payable and the corporation tax rate at the time. Given the uncertainty around these items no assessment has been made
- The sensitivity analysis is non-linear and dependent on when interest rate changes occur. Larger or smaller impacts should not be derived from these results

25. Post balance sheet events

There have been no significant events between the year end and the date of approval of these accounts which would require a change to the accounts.

On 24 April 2013 the Company entered into a lease at Atria One in Edinburgh, which will be the permanent headquarters. The commitments relating to this are included in Note 22.

On 1 May 2013 GIB signed a Memorandum of Understanding (MoU) with Masdar, Abu Dhabi's state-backed renewable energy company, to explore project investment opportunities in the UK's clean energy sector. Under the MoU, the two parties will consider opportunities to jointly invest in green infrastructure projects in the UK over the next seven years. Together, they will introduce potential investment opportunities to one another and other potential investors. There is no change to the governance of both parties as joint investments will be made and managed independently.

On 17 May 2013 the Equitix managed fund, Energy Saving Investments LP, announced an investment of £4.9m into its first energy efficiency project. This investment mobilises a further £5.1m of investment from the Equitix Energy Efficiency Fund (EEEF). The project will see inefficient heating systems, in both public and private community facilities, replaced with biomass boilers.

Cautionary statement

This Annual Report contains forward-looking statements with respect to the financial condition, operations and performance of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect the knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Registered Office and Company Number

UK Green Investment Bank plc
Quartermile One
15 Lauriston Place
Edinburgh EH3 9EP
Scotland
Company Number SC424067

For more information, visit:
www.greeninvestmentbank.com/who-we-are/governance/

It is important that our Annual Report is produced in an environmentally responsible manner, including the sourcing of materials. The Annual Report is printed in the UK by FM Print, a Climate Neutral printing company, using vegetable-based inks. Cover printed on Think4 Bright 300gsm and text pages printed on Think4 Bright 150gsm, material which is 50% recycled and FSC certified. The printer and paper manufacturing mill both have ISO 14001 accreditation for environmental management.

FSC

Headquarters
Exchange Place 2
5 Semple Street
Edinburgh EH3 8BL

Tel: +44 (0)131 306 0175

enquiries@greeninvestmentbank.com

London Office
21–24 Millbank Tower
Millbank
London SW1P 4QP

Tel: +44 (0)330 123 3070

www.greeninvestmentbank.com