

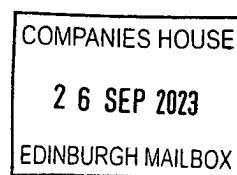


SCOTTISH INVESTMENTS LIMITED

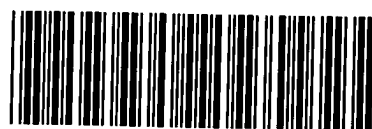
Company Registration Number: SC681617

Audited Financial Statements

For year ended 31 March 2023



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Company Information
For year ended 31 March 2023

Directors: Sarah May Roughead
Michael Scott Robertson (Appointed 2 August 2022)
David Alexander Ritchie (Appointed 2 August 2022)
Jason Scott McGibbon (Appointed 7 October 2022)
Jonathan Mcleod Grigor Taylor (Appointed 7 October 2022)

Secretary: Kimberley Anne Russell

Registered office: Waverley Gate
2-4 Waterloo Place
Edinburgh
United Kingdom
EH1 3EG

Auditor: KPMG LLP
Statutory Auditor
319 St. Vincent Street
Glasgow
G2 5AS

Company Number: SC681617



Directors' Report

The Directors present their annual report and audited financial statements of Scottish Investments Limited ("the company") for the year ended 31 March 2023.

The Directors' Report has been prepared in accordance with the provisions applicable to small companies entitled to under the small companies' exemptions.

Principal Activities

Scottish Investments Limited is the investment company to the Scottish National Investment Bank Plc ("the Bank") group of companies (the "Group"). The principal activity is to make mission-led investments in businesses and projects connected to Scotland on a commercial basis with a long-term focus.

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

The Bank has been established and funded by the Scottish Government on behalf of the people of Scotland. Development banks typically seek to invest where this investment can make a meaningful contribution to the development of a country's economy. The Bank's approach is to target its patient capital commercial investment into businesses and projects that align with its missions and where this investment can lead to further investment from other sources such as private sector finance.

The missions set for the Bank seek to address the long-term challenges facing Scotland. In setting the Bank's strategic missions it was recognised by Scottish Ministers that the financial and non-financial returns from the Bank's investments will be achieved over the long-term reflecting the nature of its missions. The Scottish Government has committed £2bn to the Bank to invest over 10 years. The Bank's mission-led investment activity will focus on delivering a commercial investment return to its shareholder, on behalf of the people of Scotland, alongside societal and environmental returns delivered by its mission impacts.

- Net zero mission

Achieving a Just Transition to net zero carbon emissions by 2045. Invest in rebalancing our economy towards leadership in sustainable technology, services and industries.

- Place mission

Extending equality of opportunity through improving places by 2040. Invest in places and regeneration to reduce inequality and improve opportunities and outcomes for people and communities.

- Innovation mission

Harnessing innovation to enable Scotland's people to flourish by 2040. Invest in innovation and industries of the future for a healthier, more resilient and productive population.



Directors' Report Continued

The Bank and its Group are operationally independent from Scottish Government. Scottish Investments Limited makes the Bank's investments in businesses and projects, receives associated income and incurs related expenditure. Scottish Investments Services Limited, another subsidiary of the Bank, employs all Bank staff and incurs the operational expenditure in supporting the Group deliver the Bank's missions. It is intended that the Group will become operationally financially self-sustaining over the medium term. Operational financial self-sustainability will be achieved by generating income from the investments the Group makes and by closely controlling the Group's costs and expenses.

Directors

The Directors of the Company, who served throughout the financial period and subsequently to the date of this report unless stated otherwise, are as shown on page 3.

Directors' Indemnities

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

Going Concern

As set out in the Statement of Directors' Responsibilities, the Directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons:

Scottish Investments Limited is funded by its parent company, Scottish National Investment Bank plc, and the Scottish Government for financial support. The Group is currently wholly funded by the Scottish Government, who are committed to supporting the Group's operational expenses until it becomes financially self-sustaining in the medium term and providing capital for investment. The Bank's sole shareholder has provided a Letter of Comfort stating they will provide support to Scottish National Investment Bank plc for a period of at least 12 months from the date of approval of the Company's balance sheet.

The Company is entirely reliant on continued funding from Scottish National Investment Bank plc to continue operating. As a result the Company has received a Letter of Support from Scottish National Investment Bank plc stating it will provide support, if required, to assist the Company in meeting its liabilities as and when they fall due for a period of at least 12 months from the date of approval of its balance sheet.

The Directors have made an assessment of going concern, considering both current performance and the Company's outlook together with funding arrangements from its Shareholder, using the information available up to the date of issue of these financial statements. The Company is cognisant that recent global events will continue to impact the economy and is mindful of the implications of these events including recent inflationary rises. This is reflected in the assessment of going concern and new investment opportunities and the Company continues to closely monitor its portfolio.

As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these Financial Statements, they have no reason to believe that it will not do so.



Directors' Report Continued

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

Political Donations

The Company made no political donations during the year ended 31 March 2023 (2022: nil).

Charitable Donations

The Company made no charitable donations during the year ended 31 March 2023 (2022: nil).

Dividend

There was no dividend paid in the year ended 31 March 2023 and the Directors do not recommend a payment of dividend (2022: nil).

Subsequent Events

In May 2022, the Company invested £9 million in the form of a debt investment in Circularity Scotland Limited ("CSL") who are the administrators for the proposed Deposit Return Scheme ("the scheme") in Scotland. The role of CSL was to administer the scheme on behalf of the drink producers and the main source of income for CSL would be a fee received from the producers each time an item is recycled. As at 31 March 2023, the fair value of this investment had reduced by 50% to £4.5 million reflecting estimated impact of the known risk at the time that the scheme, which was due to launch in August 2023, would be delayed hence impacting the revenue stream of CSL. This initial delay was confirmed in April 2023 when it was announced the scheme would be delayed until March 2024.

Subsequent to this, in June 2023, it was announced that the scheme would be further delayed until October 2025 due to a variation in the scheme conditions and launch date aligned with a wider UK roll out. This further delay will materially impact the revenue streams of CSL, with administrators now having been appointed. It is estimated that the Company's investment into CSL is now valued at a range of between £0-£1 million. This subsequent change in the fair value of the Company's investment in CSL is considered to be a non-adjusting post balance sheet event and is therefore not reflected in the financial statements as at 31 March 2023.

There have been no other material events since the reporting period that would require adjustment to these financial statement.

Auditor

KPMG LLP have been appointed as auditor of the Company in accordance with section 487(2) of the Companies Act 2006.

Pursuant to Section 418(2) of the Companies Act 2006:

Each of the Directors of the Company at the date when the report is approved confirms that:

- So far as they are aware, there is no relevant audit information of which the auditors are unaware; and
- They have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of such information.



Directors' Report Continued

Accountable Officer Statement

The Bank's Interim Chief Executive Officer, Sarah Roughead is accountable officer for the Group, having personal responsibility for safeguarding funds which she has charge, ensuring propriety and regularity in the handling of those public funds and managing the day-to-day operations of the Group with the support of the executive team. The accountable officer report for the Group for the period ended 31 March 2023 is included in the Group Annual Report and Accounts.

This report was approved by the Board of Directors on 4 July 2023 and signed on behalf of the Board by:

Sarah Roughead

Director and Accountable Officer



Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Sarah Roughead

Director and Accountable Officer

4 July 2023



Independent Auditor's Report

Independent Auditor's Report to the Members of Scottish Investments Limited

Opinion

We have audited the financial statements of Scottish Investments Limited ("the Company") for the year ended 31 March 2023 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Taxpayers' Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.



Independent Auditor's Report Continued

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, members of senior management and internal audit as whether they have knowledge of any actual, suspected or alleged fraud;
- Inspection of documents of the Company relating to high-level policies and procedures to prevent and detect fraud, including the Company's whistleblowing policy;
- Reading Board meeting minutes;
- Considering remuneration incentive schemes and performance targets for senior management and investment team staff; and
- Applying analytical procedures to identify any unusual or unexpected relationships within the financial information records in the financial statements.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the calculation of revenue is non-judgmental.

We did not identify any additional fraud risks.

We also performed procedures to identify journal entries to test based on risk criteria, and verified the identified entries against supporting documentation. This included cash journals where the other side of the entry was posted to unexpected accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations.

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and review of the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation) and taxation legislation, and we assessed the extent of compliance with these laws and regulations as a part of our procedures on the related financial statement items.



Independent Auditor's Report Continued

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: anti-bribery, data protection, anti-money laundering and certain aspects of company legislation recognising the financial nature of the company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulation to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transaction reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards are to identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Directors' report

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.



Independent Auditor's Report Continued

Directors' responsibilities

As explained more fully in their statement set out on page 8, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Philip Merchant (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Saltire Court

20 Castle Terrace

Edinburgh

EH1 2EG

4 July 2023



Statement of Comprehensive Income

For year ended 31 March 2023

	Note	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Income			
Investment income	4	10,582	1,905
Gross operating income		10,582	1,905
Net unrealised (loss) on revaluation of investments	8	(17,810)	(3,432)
Net operating loss		(7,228)	(1,527)
Administrative expenses	5	281	98
Operating (loss) before taxation		(7,509)	(1,625)
Tax credit on loss	7	389	217
Loss for the year		(7,120)	(1,408)

Notes to the financial statements form an integral part of the financial statements.



Statement of Financial Position

As at 31 March 2023

	Notes	31 March 2023 £'000	31 March 2022 £'000
Assets			
Non-current assets			
Investments	8	290,814	153,356
Deferred tax asset	7	400	-
Total non-current assets		291,214	153,356
Current assets			
Trade and other receivables	9	133	1
Cash and cash equivalents	10	1,031	8,686
Total current assets		1,164	8,687
Total assets		292,378	162,043
Liabilities			
Current Liabilities			
Trade and other payables : falling due within one year	11	297,475	160,020
Total current liabilities		297,475	160,020
Non-current liabilities	12	-	-
Total non-current liabilities		-	-
Total Liabilities		297,475	160,020
Equity:			
Called up share capital	13	-	-
General fund	14	(5,097)	2,023
Total equity		(5,097)	2,023
Total equity and liabilities		292,378	162,043

Notes to the financial statements form an integral part of the financial statements.

The financial statements were approved by the members of the Board on 4 July 2023 and were signed on their behalf by:

Sarah Roughead

Director and Accountable Officer



Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2023

		Share capital	General fund	Total
Year ended 31 March 2023	Note	£'000	£'000	£'000
Total equity at the start of the year		-	2,023	2,023
Loss for the year		-	(7,120)	(7,120)
Total comprehensive income for the year		-	(5,097)	(5,097)
Transactions with owners, recorded directly in equity				
Issue of shares	13	-	-	-
Funding received in year	14	-	-	-
Total equity at the end of the year		-	(5,097)	(5,097)

		Share capital	General fund	Total
Year ended 31 March 2022	Note	£'000	£'000	£'000
Total equity at the start of the year		-	3,431	3,431
Loss for the year		-	(1,408)	(1,408)
Total comprehensive income for the year		-	2,023	2,023
Transactions with owners, recorded directly in equity				
Issue of shares	13	-	-	-
Funding received in year	14	-	-	-
Total equity at the end of the year		-	2,023	2,023

Notes to the financial statements form an integral part of the financial statements.



Notes to the Financial Statements

1. **General information**

Scottish Investments Limited is incorporated and domiciled in Scotland under the Companies Act 2006. The company registration number is SC681617 and is a private company, limited by shares. The registered address is Waverley Gate, 2-4 Waterloo Place, Edinburgh, EH1 3EG. The company is the investment company of the Scottish National Investment Bank Group.

2. **Significant accounting policies**

The accounting policies set out below have, unless otherwise stated, been applied consistently to the year presented in these financial statements.

Basis of preparation

The financial statements for the year ended 31 March 2023 have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006 but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions have been taken.

The Company's parent undertaking, Scottish National Investment Bank Plc includes the Company in its consolidated financial statements. The consolidated financial statements of Scottish National Investment Bank Plc are prepared in accordance with the UK adopted international accounting standards, are available to the public and may be obtained from the Banks website www.theBank.scot.

In these financial statements, the Company has applied the exemptions available under FRS 101 in relation to the presentation of a cash flow statement and related notes, disclosures in respect of related party transactions with wholly owned subsidiaries, information regarding the entity's objectives, policies and processes for managing capital and the effects of new but not yet effective UK-adopted international accounting standards.

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

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

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

Adoption of new and revised standards

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



Notes to the Financial Statements Continued

Going Concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons:

Scottish Investments Limited is funded by its parent company, Scottish National Investment Bank plc (SNIB), and the Scottish Government for financial support. The Group is currently wholly funded by the Scottish Government, who are committed to supporting the Group's operational expenses until it becomes financially self-sustaining in the medium term and providing capital for investment. The Bank's sole shareholder has provided a Letter of Comfort stating they will provide support to SNIB Plc and its group for a period of at least 12 months from the date of approval of the balance sheet.

The Company is entirely reliant on continued funding from Scottish National Investment Bank plc to continue operating. As a result the Company has received a Letter of Support from Scottish National Investment Bank plc stating it will provide support, if required, to assist the Company in meeting its liabilities as and when they fall due for a period of at least 12 months from the date of approval of its balance sheet.

The Directors have made an assessment of going concern, considering both current performance and the Company's outlook together with funding arrangements from its Shareholder, using the information available up to the date of issue of these financial statements. The Company is cognisant that recent global events will continue to impact the economy and is mindful of the implications of these events including recent inflationary rises. This is reflected in the assessment of going concern and new investment opportunities and the Company continues to closely monitor its portfolio.

As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these Financial Statements, they have no reason to believe that it will not do so.

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

Income

Income represents arrangement fees and loan interest. Income is measured based on the consideration specified in a contract with the investee business or project. Income is recognised to the extent that it is probable that the economic benefits will flow to the Company and can be reliably measured.

Distributions from underlying funds are recorded based on the nature of the distribution as provided by the underlying fund's manager which includes realised gains on investments and investment income. Investment income and realised gains is recognised on the value date of the notice received from the underlying fund's manager.

Interest Income

Interest income is accrued on a time apportioned basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. The calculation does not consider expected credit losses and includes transaction costs, and premiums or discounts that are integral to the effective interest rate, such as arrangement fees. When the Company revises the estimates of future cashflows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the Statement of Comprehensive Income. The interest income is recognised over the relevant period.



Notes to the Financial Statements Continued

Fee Income

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

Expenses

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

Value Added Tax

The Bank became registered for VAT on 1 January 2023. Input VAT that relates to exempt supplies on purchases are not recoverable and are therefore charged to the statement of comprehensive income included under the heading relevant to the type of expenditure. Output VAT that relates to taxable supplies that is not yet due to HMRC is shown within trade and other payables.

Taxation

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

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

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

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

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

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

Financial instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognised in the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially measured at fair value plus transaction costs directly attributable to the acquisition of those financial assets or liabilities except for transaction costs directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss (FVTPL) which are recognised immediately in the Statement of Comprehensive Income.



Notes to the Financial Statements Continued

Classification of financial instruments

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

Investments

On initial recognition, the Company classifies its loan and equity investments, including investments in investment entities as FVTPL.

These assets at FVTPL are subsequently measured at fair value. Net gains and losses are recognised in the Statement of Comprehensive Income.

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The Company's fair value methodology has been derived using the International Private Equity and Venture Capital Valuation Guidelines (December 2022). Valuations of the investment portfolio are performed quarterly.

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

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

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

These techniques seek to calculate the enterprise value (the value of the business as a whole at the measurement date) of the investee company using a methodology that is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio using reasonable assumptions and estimates. Enterprise value is commonly derived using a comparable multiple basis. Companies with



Notes to the Financial Statements Continued

maintainable revenues, profits or cash flows are valued on a multiple basis using an appropriate multiple from companies in similar sectors and markets. The key judgements include selecting an appropriate multiple, which is derived from comparable listed companies or relevant market transaction multiples. Companies in the same geography and sector are selected and then adjusted for factors including liquidity risk, growth potential and relative performance.

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

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

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

Cash and Cash Equivalents

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

Trade and Other Receivables

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



Notes to the Financial Statements Continued

Trade and Other Payables

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

Derecognition of Financial Instruments or Liabilities

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

Impairment of assets

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

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

The recoverable amount of the Company's assets is the greater of their fair value less costs to sell and value in use, calculated as the present value of expected future cash flows. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Ordinary Share Capital

The ordinary share capital on the statement of financial position relates to the number of shares in issue.

Grant in Aid

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

General Fund

Scottish Ministers, acting through the Scottish Government, have provided funds for investment and operating purposes. The Scottish Government funding is allocated via the Bank to the general fund on the Statement of Financial Position and relates to funding received and not yet invested or used for investment or operating expenses.

Related party transactions

In accordance with the exemption conferred by paragraph 8(j) of FRS 101 "Reduced Disclosure Framework" the Company has not disclosed transactions with other Group Companies, where 100% of the voting rights are controlled by the Group.



Notes to the Financial Statements Continued

3. **Critical Accounting Judgements and Key Sources of Estimation Uncertainty**

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

Fair value measurement

The key accounting estimates are the carrying value of investments which are stated at fair value. Assets valuations for unquoted investments are inherently subjective and have a high degree of judgement and complexity. They are made on the basis of assumptions which may not prove to be accurate such as trading multiples, discount rates and assumptions on expected cash flows. The Company's investments are valued in accordance with IFRS and International Private Equity and Venture Capital (IPEV) valuation Guidelines December (2022). Where relevant, multiple valuation approaches may be used in arriving at and calibrating an estimate of fair value for an individual asset. Given the importance of this area, the Group has a separate valuations committee to review valuation policies, valuation process and application to individual investments.

Macro-economic Environment

The ongoing economic uncertainty and, to a lesser extent than prior year the Covid-19 pandemic, have given rise to significant additional uncertainty as to investment valuations. The impact on investments will vary depending on individual business model and the success of any mitigating market interventions. Valuation methodologies include market multiples, industry benchmarks and discounted cashflows, all of which are inherently more uncertain as marketplaces change and so forecasts and historical reference points become less reliable.



Notes to the Financial Statements Continued

4. *Investment Income*

	Year ended 31 March 2023	Year ended 31 March 2022
Income by type	£'000	£'000
Arrangement fees income	3,212	583
Interest income – capitalised	4,474	1,095
Interest income – received	2,840	221
Monitoring Fee	56	6
Total investment income	10,582	1,905

5. *Operating expenses*

	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	£'000
Investment related fees	281	98
Total operating expenses	281	98

The fees payable to the Company's auditors for the statutory audit of the Company's annual financial statements of £107,038 (2022: £52,250) plus £21,408 VAT (2022: £10,450) have been paid by Scottish Investments Services Limited and were not recharged to the Company. The auditor did not complete any non-audit services or receive any non-audit fees in the period.

6. *Information regarding Directors and employees*

None of the Directors received any emoluments from the Company in the current financial period. It is not practicable to allocate their remuneration between their services as Directors of this company and other group companies. Details of Directors' remuneration is presented in the financial statements of the Scottish National Investment Bank Plc Annual Report and Accounts. There were no employees employed by the Company during the period.



Notes to the Financial Statements Continued

7. Tax

	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	£'000
Current tax		
Current tax	11	343
Total current tax	11	343
Deferred tax credit	(400)	(560)
Total deferred tax	(400)	(560)
Total tax	(389)	(217)
(Loss) before taxation	(7,509)	(1,625)
Tax using the UK corporation tax rate of 19%	(1,427)	(309)
Effect of:		
Group relief claimed not paid for in previous year	11	-
Unrealised losses not relievable / taxable	1,123	92
Tax rate changes	(96)	-
Total tax (credit)	(389)	(217)
Reconciliation of Deferred tax asset		
	31 March 2023 £'000	31 March 2022 £'000
Deferred tax (asset)/liability b/f	-	560
Movement in the year	400	(560)
Total Deferred Tax asset	400	-

Current year tax charge relates to group relief received in the year which will be paid to a group subsidiary.

Deferred tax primarily relates to the Group's accumulated losses. It is calculated at 25% (2022: 25%) of the actual losses to date. This is a temporary timing difference and the tax losses will offset against the gains forecast to be made as a result of further investments made by the Bank, which in turn, will increase the income generated by the portfolio as demonstrated by the Bank's business plan. It is estimated the deferred tax asset will be recovered over the next 5 years.

At 31 March 2023 there were £5.9m (2022: £3.5m) of unrealised losses for which a deferred tax asset is not recognised in the Statement in Financial Position as it is not envisaged these capital losses would be utilised in the medium term. Of this loss, £1.4 million relates to losses covered by the substantial shareholder exemption and hence are permanent differences with £4.5 million assessed as temporary losses.



Notes to the Financial Statements Continued

7. Tax Continued

The Government announced in the Budget on 3 March 2021 that the main rate of Corporation Tax would increase to 25% for the financial year beginning 1 April 2023. Prior to this date, the rate of Corporation Tax will remain at 19%. The increase to 25% was substantially enacted at 24 May 2021 and therefore the deferred tax balances were re-measured at 31 March 2022.

8. Investments

	31 March 2023 £'000	31 March 2022 £'000
Opening fair value	153,356	26,530
Additions	156,347	130,414
Repayments	(1,079)	(156)
Net unrealised fair value (losses)	(17,810)	(3,432)
Closing fair value	290,814	153,356

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

The holding period of the Company's investment portfolio is on average greater than one year. For this reason, the portfolio is classified as non-current. Additions in the year included cash investment of £151,872,900 (2022: £129,320,000) and £4,473,858 (2022: £1,094,500) in capitalised interest.

The net unrealised loss of £17.8 million (2022: loss of £3.4 million) included £3.4 million of fair value movements related to an increase in market rates over the year as a result of market volatility which has resulted in a material change to the pricing of existing fixed rate debt coupons that are valued under IPEV guidelines. We view this as largely a reflection of macro-economic conditions rather than a structural concern relating to our debt investments though we continue to monitor this closely as part of our quarterly valuation process. The remainder of the loss relates to adjustments reflecting underlying performance of the investee companies.



Notes to the Financial Statements Continued

9. Trade and Other Receivables

	31 March 2023 £'000	31 March 2022 £'000
Current Assets		
Amounts due from debtors	133	1
Total trade and other receivables	133	1

10. Cash and Cash Equivalents

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

	31 March 2023 £'000	31 March 2022 £'000
Cash and Cash Equivalents	1,031	8,686
Total Cash and Cash Equivalents	1,031	8,686

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

	31 March 2023 £'000	31 March 2022 £'000
Amounts owed to group undertakings	297,475	160,020
Corporation tax payable	-	-
Total current liabilities	297,475	160,020

Amounts owed to group undertakings are non-interest bearing and repayable on demand. The Directors consider that the carrying amount of trade payables approximates their fair value. There are no trade payables past due and the trade payables and accruals will be settled within the credit period offered by the counterparty.

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

	31 March 2023 £'000	31 March 2022 £'000
Deferred tax liability	-	-
Total non-current liabilities	-	-



Notes to the Financial Statements Continued

13. **Share capital**

	31 March 2023 £'000	31 March 2022 £'000
Called up, allotted and unpaid		
Ordinary shares of £1 each	-	-
Total share capital	-	-

The Company has one class of ordinary share which carries no right to a fixed income.

The Company has issued 1 ordinary share at nominal value to its parent company, Scottish National Investment Bank Plc.

14. **General Fund**

	Note	31 March 2023 £'000	31 March 2022 £'000
Balance b/f		2,023	3,431
Funding received from the Bank		-	-
(Loss) for the period		(7,120)	(1,408)
Other		-	-
Total general fund		(5,097)	2,023

15. **Financial instruments**

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

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

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



Notes to the Financial Statements, Continued

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

At 31 March 2023

Carrying value	Financial assets and liabilities at FVTPL £'000	Financial assets and liabilities at amortised cost £'000	Total £'000
Assets:			
Investments	290,814	-	290,814
Trade and other receivables	-	133	133
Cash and cash equivalents	-	1,031	1,031
Total assets	290,814	1,164	291,978
Liabilities:			
Payables: amounts falling due within one year	-	(297,475)	(297,475)
Total liabilities	-	(297,475)	(297,475)
Net assets	290,814	(296,311)	(5,497)

At 31 March 2022

Carrying value	Financial assets and liabilities at FVTPL £'000	Financial assets and liabilities at amortised cost £'000	Total £'000
Assets:			
Investments	153,356	-	153,356
Trade and other receivables	-	1	1
Cash and cash equivalents	-	8,686	8,686
Total assets	153,356	8,687	162,043
Liabilities:			
Payables: amounts falling due within one year	-	160,020	160,020
Payables: amounts falling due after one year	-	-	-
Total liabilities	-	160,020	160,020
Net assets	153,356	(151,333)	2,023



Notes to the Financial Statements Continued

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement. The company classifies financial instruments measured at fair value according to the following hierarchy:

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

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

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

The table below shows the classification of financial instruments held at fair value in the valuation hierarchy at

31 March 2023:

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

31 March 2022:

	Level 1	Level 2	Level 3	Total
	31 March 2022 £'000	31 March 2022 £'000	31 March 2022 £'000	31 March 2022 £'000
Assets:				
Investments	-	-	153,356	153,356
Total	-	-	153,356	153,356

The Company's investment portfolio consists of assets carried at fair value and classified as Level 3 assets. Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently. As observable prices are not available for these securities, the Company has used valuation techniques in accordance with the IPEV Guidelines with reference to the most appropriate information available at the time of measurement to derive the fair value. Level 3 valuations are reviewed on a quarterly basis by the Valuation Committee which reports to the Board of Directors. The Committee considers the appropriateness of the valuation model inputs, as well as the valuation results, using various valuation methods and techniques generally recognised as standard within the industry. During the year ended 31 March 2023 the fair value of investments held at FVTPL decreased by £17,810,242 (2022: loss of £3,432,399) - this movement was reflected in the Statement of Comprehensive Income.



Notes to the Financial Statements Continued

16. **Financial risk management**

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

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

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

- ❖ Credit risk
- ❖ Market risk
- ❖ Liquidity risk

Credit Risk

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

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

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

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

As at the reporting date, there are no overdue or impaired receivables. The Company is cognisant that recent global events will continue to impact the economy and are mindful of the implications of these events including recent inflationary rises. This is reflected in assessment of new investments and the Company continues to closely monitor the portfolio.



Notes to the Financial Statements Continued

The carrying amount of financial assets in the Statement of Financial Position represents the maximum credit exposure. The maximum exposure to credit risk as at 31 March 2023 is:

	Maximum exposure	
	31 March 2023	31 March 2022
	£'000	£'000
Debt investments	138,184	50,613
Trade and other receivables	133	1
Cash and cash equivalents	1,031	8,686
Total assets	139,348	59,300

Liquidity Risk

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

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

Liquidity risk exposure of the Company as at year ended 31 March 2023:

	31 March 2023	
	Within 1 Year £'000	Between 1 and 5 years £'000
Trade and other payables	(297,475)	-
Total liabilities	(297,475)	-

	31 March 2022	
	Within 1 Year £'000	Between 1 and 5 years £'000
Trade and other payables	(160,020)	-
Total liabilities	(160,020)	-

Market risk

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



Notes to the Financial Statements Continued

Interest rate risk

As the Company has no borrowings subject to interest, holds cash balances to meet payments as they fall due and does not hold significant amounts of cash on deposit, for significant periods of time, it has no significant exposure to interest rate risk. Interest rate sensitivity can however drive valuation of the Banks debt instruments through the fair value calculation. As at 31 March 2023, £145.6 million (2022: £52.3 million) of the Company's financial assets (as measured at cost) are subject to fixed rate interest arrangements, there are no floating rate arrangements in place and therefore the Company at 31 March 2023 is not exposed to interest rate risk.

Currency risk

The Company does not have direct exposure to currency risk as the Company only invests in its functional currency, pounds sterling.

Valuation risk

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

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

Key unobservable inputs of unquoted investments:

Estimated sustainable revenue or earnings

The selection of sustainable revenue or earnings multiples will depend on whether the investee company is sustainably profitable or not, and where it is not then revenues will be used in the valuation. The valuation approach will typically assess companies based on the last audited financial statements or in a company of high growth the last twelve months of revenue or earnings if they are considered reliable and sustainable.

Where a company has reliably forecasted earnings previously, is achieving high levels of growth and/or there is a change in circumstance at the business which will impact earnings going forward, then forward estimated revenue or earnings may be used instead.

Discounted cash flow

Long-term cash flows are discounted at a rate which is benchmarked against market data, where possible, or adjusted from the rate at the initial investment based on changes in the risk profile of the investment

Net asset Value

Net asset value reported by the fund manager where the valuation of the underlying portfolio is consistent with IFRS.



Notes to the Financial Statements Continued

Selection of comparable companies

Management determines comparable companies individually for each investment to derive a comparator set of multiples at the point of investment, and the relevance of the comparable companies is evaluated quarterly. The key criteria used in selecting appropriate comparable companies are the industry size, sector in which they operate, the geography of the company's operations, development stage, the respective revenue and earnings growth rates, strategy and operating margins.

The multiple is calculated by dividing the enterprise value of the comparable company by either its earnings before interest, taxes, depreciation and amortisation (EBITDA), revenue or book value. The trading multiple is then discounted for considerations such as illiquidity and differences between the comparable companies based on company-specific facts and circumstances.

The following table summarises the various valuation methodologies used by the Company to fair value Level 3 instruments, the inputs and the sensitivities applied and the impact of those sensitivities to the unobservable inputs. The majority of our portfolio has so far mitigated the impacts of supply chain disruption due to geopolitical events and inflation via pricing mechanisms and diversifying supplier base, an important consideration in our portfolio valuation at 31 March 2023. As part of our case-by-case review of our portfolio companies the risks and opportunities from climate change are an important consideration in the overall discussion on fair value. These risks are adequately captured in the multiple sensitivity. All numbers in the table below are on an Investment basis.

As at 31 March 2023 Valuation basis	Fair value of unquoted investment s £'000	Variable input sensitivity	Impact:	
			£'000	% of net assets
Direct Equity (multiple basis)	14,500	+/- 10%	+/- 710	5%
Direct Equity (other basis)	43,250	+/- 10%	+/- 4,325	10%
Combined Investment	68,600	+/- 10%	+/- 6,860	10%
Debt Investments-Discounted cash flow	81,129	+/- 1%	(2,641) / 3,059	4%
Funds - Net Asset Value	83,335	+/- 10%	+/- 8,335	10%
Total unquoted investments	290,814			



Notes to the Financial Statements Continued

As at 31 March 2022 Valuation basis	Fair value of unquoted investments £'000	Variable input sensitivity	Impact:	
			£'000	% of net assets
Direct Equity (multiple basis)	16,965	+/- 10%	+/- 902	5%
Direct Equity (other basis)	58,542	+/- 10%	+/- 5,854	10%
Price of a recent investment	3,000	+/- 10%	+/- 300	10%
Funds - Net Asset Value	74,849	+/- 10%	+/- 7,485	10%
Total unquoted investments	153,356			

Capital management

The capital structure of the Company consists of debt, cash and cash equivalents and equity directly attributable to equity holders of the parent, comprising issued capital, and general fund balances as disclosed in the Statement of Changes in Taxpayers' Equity.

The Company considers its capital to be the total equity shown in the Statement of Changes of Taxpayers' Equity. The Company's objectives when managing capital are:

- ❖ to comply with the capital requirements set by Scottish Government regarding investing in eligible countries and sectors;
- ❖ to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns and benefits for stakeholders;
- ❖ to maintain a strong capital base to support the development of the Bank's missions and operations.

The Board regularly monitors the results of the Company and its financial position.

17. Capital commitments

Amounts contracted for but not provided for in the accounts amounted to £111.0m (2022: £42.2m) for investment commitments.

18. Contingencies

In the normal course of its business, the Company may be subject to matters of litigation or dispute. All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Company incurring a liability. Where it is concluded that it is more likely than not that a material outflow will be made a provision is established based on management's best estimate of the amount that will be payable. In some cases, it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly investigate, and no provisions are held for such matters. It is not possible to predict with certainty the extent and timing of the financial impact of legal proceedings and complaints and related regulatory matters.

While there can be no assurances, at this time the Directors believe, based on the information currently available to them, that it is not probable that the ultimate outcome of any of these matters will have a material adverse effect on the financial position of the Company.



Notes to the Financial Statements Continued

19. Ultimate parent company

The Company is a subsidiary undertaking of Scottish National Investment Bank Plc incorporated and registered in Scotland. The smallest group in which the Company's accounts are consolidated is that headed by Scottish National Investment Bank Plc (the Company's immediate parent undertaking). The largest group of which the Company is a member, and for which group financial statements are drawn up, is that headed by Scottish Ministers (the Company's ultimate parent undertaking). No other group financial statements include the results of the Company. The consolidated financial statements of the group are available to the public.

20. Subsequent events

In May 2022, the Company invested £9 million in the form of a debt investment in Circularity Scotland Limited ("CSL") who are the administrators for the proposed Deposit Return Scheme ("the scheme") in Scotland. The role of CSL was to administer the scheme on behalf of the drink producers and the main source of income for CSL would be a fee received from the producers each time an item is recycled. As at 31 March 2023, the fair value of this investment had reduced by 50% to £4.5 million reflecting estimated impact of the known risk at the time that the scheme, which was due to launch in August 2023, would be delayed hence impacting the revenue stream of CSL. This initial delay was confirmed in April 2023 when it was announced the scheme would be delayed until March 2024.

Subsequent to this, in June 2023, it was announced that the scheme would be further delayed until October 2025 due to a variation in the scheme conditions and launch date aligned with a wider UK roll out. This further delay will materially impact the revenue streams of CSL, with administrators now having been appointed. It is estimated that the Company's investment into CSL is now valued at a range of between £0-£1 million. This subsequent change in the fair value of the Company's investment in CSL is considered to be a non-adjusting post balance sheet event and is therefore not reflected in the financial statements as at 31 March 2023.

There have been no other material events since the reporting period that would require adjustment to these financial statements.