SCOTTISH INVESTMENTS LIMITED

Company Registration Number: SC681617

Audited Financial Statements

For period ended 31 March 2021

Contents

Company Information

For period ended 31 March 2021

Directors:	Eilidh Mactaggart (Appointed 20 November 2020) Sarah Roughead (Appointed 17 March 2021) Kay Hunt (Appointed 20 November and resigned 17 March 2021)
Registered office:	Waverley Gate 2-4 Waterloo Place Edinburgh United Kingdom EH1 3EG
Auditor:	KPMG LLP Statutory Auditor Glasgow G2 5AS
Company Number:	SC681617

Directors' Report

The Directors present their first annual report and audited financial statements of Scottish Investments Limited ("the company") for the period ended 31 March 2021. The company was incorporated on 20 November 2020.

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 a development investment bank, established and funded by Scottish Ministers as shareholder on behalf of the people of Scotland. Development banks seek to invest where the private sector is failing to provide sufficient finance to businesses or projects to support the development of a country's economy.

The missions set for the Bank seek to address the long-term challenges facing Scotland. In setting the Bank's strategic missions Scottish Ministers recognised that the financial and non-financial returns from the Bank's investments will have a long-term focus and impact which is reflected in the long-term nature. 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 that support the delivery of its missions.

- 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 our people to flourish by 2040. Invest in innovation and industries of the future for a healthier, more resilient and productive population.

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 financially self-sustaining in the medium term. 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' Report Continued

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 the benefit of certain Scottish Government 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 reliant on 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 Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for at least 12 months from the date approval of these financial statements. The Directors have made an assessment of going concern covering this period, taking into account both current performance and the group's outlook, which considered the impact of the COVID-19 pandemic, using the information available up to the date of issue of these financial statements.

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

Consequently, 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 period ended 31 March 2021.

Charitable Donations

The company made no charitable donations during the period ended 31 March 2021.

Directors' Report Continued

Dividend

There was no dividend paid in the period ended 31 March 2021 and the Directors do not recommend a payment of dividend.

Subsequent Events

There were no subsequent events to report.

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.

Accountable Officer Statement

The Bank's Chief Executive Officer, Eilidh Mactaggart 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 2021 is included in the Group Annual Report and Accounts.

This report was approved by the Board of Directors on 3 September 2021 and signed on behalf of the Board by:

Eilidh Mactaggart.

Eilidh Mactaggart

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.

Eilidh Mactaggart.

Eilidh Mactaggart

Director and Accountable Officer

3 September 2021

Independent Auditor's Report

Opinion

We have audited the financial statements of Scottish Investments Limited ("the company") for the period ended 31 March 2021 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 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of its profit for the period 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

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 of 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;
- Assessing significant accounting estimates for bias
- 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 the revenue is non-judgmental and straightforward, with limited opportunity for manipulation.

We did not identify any additional fraud risks.

We also performed procedures including identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. This included revenue and cash journals where the other 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 out team and remined 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

Owning 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 would 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, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion 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 the Directors' report for the financial period 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

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 7, 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.

Phil Merchant

Philip Merchant (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

319 St. Vincent Street

Glasgow

G2 5AS

3 September 2021

Statement of Comprehensive Income

For period ended 31 March 2021

	Note	Period ended 31 March 2021 £'000
Income		
Investment income	4	423
Net unrealised gains on revaluation of investments	8	3,433
Gross profit		**3,856**
Operating expenses	5	(488)
Operating profit and profit before taxation		**3,368**
Tax charge	7	(564)
Profit for the period		**2,804**
Other comprehensive income		-
Total comprehensive income		**2,804**

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

Statement of Financial Position

As at 31 March 2021

	Note	£'000
Assets		
Non-current assets		
Investments	*8*	26,530
Total non-current assets		26,530
Current assets		
Trade and other receivables	*9*	200
Cash and cash equivalents	*10*	138
Total current assets		338
Total assets		26,868
Liabilities		
Current liabilities		
Trade and other payables: amounts falling due within one year	*11*	22,877
Total current liabilities		22,877
Non-current liabilities		
Trade and other payables: amounts falling due after more than one year	*12*	560
Total non-current liabilities		560
Total liabilities		23,437
Equity:		
Share capital	*13*	-
General fund	*15*	3,431
Total equity		3,431
Total equity and liabilities		26,868

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 3 September 2021 and were signed on their behalf by:

Eilidh Mactaggart.

Eilidh Mactaggart

Director and Accountable Officer

Statement of changes in Taxpayers' Equity

For the period ended 31 March 2021

	Note	Share capital £'000	General fund £'000	Total £'000
Total equity at the start of the period		-	-	-
Profit for the period		-	2,804	2,804
Total comprehensive income for the period		-	2,804	2,804
Transactions with owners, recorded directly in equity				
Issue of shares	13	-	-	-
Funding received in period	14	-	627	627
Total equity at the end of the period		-	3,431	3,431

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 period presented in these financial statements.

Basis of preparation

The financial statements for period 20 November 2020 to 31 March 2021 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 international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRS's") 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 International Financial Reporting Standards and are available to the public and may be obtained from Waverley Gate, 2-4 Waterloo Place, Edinburgh, EH1 3EG.

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 IFRSs.

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

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 reliant on 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 £2bn of capital for investment over ten years.

The Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for at least 12 months from the date approval of these financial statements. The Directors have made an assessment of going concern covering this period, taking into account both current performance and the group's outlook, which considered the impact of the COVID-19 pandemic, using the information available up to the date of issue of these financial statements.

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

Consequently, 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.

Interest Income
Interest income is accrued on a time apportioned basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. The calculation does not consider expected credit losses and includes transaction costs, and premiums or discounts that are integral to the effective interest rate, such as origination fees. When the 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.

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.

Notes to the Financial Statements Continued

VAT

Currently all VAT is irrecoverable and therefore is charged to the Statement of Comprehensive Income and included under the relevant expenditure heading.

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 account 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.

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 and financial guarantees as FVTPL.

Notes to the Financial Statements Continued

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

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the 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 2018). 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 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.

Notes to the Financial Statements Continued

- 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.

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 profit or loss.

Notes to the Financial Statements Continued

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.

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:

Classification of Financial Assets

In accordance with IFRS 9, the company classifies its financial assets depending on its business model in relation to groups of assets and associated contractual cash flows. Business models are assessed in respect of how groups of financial assets are collectively managed in order to achieve a particular business objective, and in order to generate cash flows.

The company's view is that it has one business model, to make mission led investments that provide a commercial return alongside societal and environmental returns. This will be through both

Notes to the Financial Statements Continued

debt and equity investments that provide contractual cash flows but also capital appreciation from changes in the fair value. Investments are managed, and their performance evaluated, on a fair value basis in accordance with the company's documented investment strategy and reported to the Board on that basis. All investments are therefore measured as FVPL.

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 (2018). 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.

4. *Investment Income*

	Period ended 31 March 2021 £'000
Fee income	200
Interest income	223
Total investment income	423

5. *Operating expenses*

	Period ended 31 March 2021 £'000
Investment related fees	488
Total operating expenses	488

The fees payable to the company's auditors for the statutory audit of the company's annual financial statements of £20,000 net of VAT 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

Current tax	Period ended 31 March 2021 £'000
Current tax on income for the period	4
Total current tax	4
Deferred tax	560
Total deferred tax	560
Total tax	564

Reconciliation of effective tax rate:	Period ended 31 March 2021 £'000
Profit before taxation	3,368
Tax using the UK corporation tax rate of 19%	640
Effect of:	
Group relief	(76)
Total tax charge	564

The Finance (No.2) Act 2015 reduced the main rate of UK corporation tax to 19%, effective from 1 April 2017. A further reduction in the UK corporation tax rate to 17% was expected to come into effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016). However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax, thereby maintaining the current rate of 19%. Deferred taxes on the Statement of Financial Position have been measured at 19% which represents the future corporation tax rate that was enacted at the Statement of Financial Position date.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the Statement of Financial Position date and hence have not been reflected in the measurement of deferred tax balances at the period end. If the company's deferred tax balances at the period end were remeasured at 25% this would result in a deferred tax charge of £736,325.

Notes to the Financial Statements Continued

8. Investments

	31 March 2021 £'000
Opening book value	-
Additions	23,097
Disposals	-
Net unrealised fair value gain	3,433
Closing fair value	26,530

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 £22,873,333 and £223,341 in capitalised interest.

9. Trade and Other Receivables

	31 March 2021 £'000
Amounts due from group undertaking	200
Total trade and other receivables	200

Amounts due from a group undertaking are non-interest bearing and repayable on demand.

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 2021 £'000
Cash and cash equivalents	138
Cash and cash equivalents	138

Notes to the Financial Statements Continued

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

	31 March 2021 £'000
Amounts owed to group undertakings	22,873
Corporation tax payable	4
Total current liabilities	22,877

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 2021 £'000
Deferred tax liability	560
Total non-current liabilities	560

13. Share capital

Called up, allotted and unpaid	31 March 2021 £'000
Ordinary shares of £1 each	-
	-

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.

Notes to the Financial Statements Continued

14. Funding from the Bank

	31 March 2021 £'000
Funding received from the Bank	627
Total funding received	**627**

15. General Fund

	Note	31 March 2021 £'000
Balance at 1 December 2020		-
Funding received from the Bank	14	627
Profit for the period		2,804
Total general fund		**3,431**

16. 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.

Carrying value	Financial assets and liabilities at FVTPL £'000	Financial assets and liabilities at amortised cost £'000	Total £'000
Assets:			
Investments	26,530	-	26,530
Trade and other receivables	-	200	200
Cash and cash equivalents	-	138	138
Total assets	26,530	338	26,868
Liabilities:			
Payables: amounts falling due within one year		22,877	22,877
Payables: amounts falling due after one year		560	560
Total liabilities	-	23,437	23,437
Net assets	26,530	(23,099)	3,431

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).

Notes to the Financial Statements Continued

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy at 31 March 2021:

	Level 1	Level 2	Level 3	Total
	31 March 2021 £'000	31 March 2021 £'000	31 March 2021 £'000	31 March 2021 £'000
Assets:				
Investments	-	-	26,530	26,530
Total	-	-	26,530	26,530

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 to derive the fair value. Level 3 valuations are reviewed on a quarterly basis by the Valuation Committee which reports to the Bank's Board of Directors. The Committee considers the appropriateness of the valuation model inputs, as well as the valuation results, using various valuation methods and techniques generally recognised as standard within the industry. During the period ending 31 March 2021 the fair value of investments held at FVTPL increased by £3.4m and was taken to the Statement of Comprehensive Income.

17. 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
- Liquidity risk
- Market 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.

Notes to the Financial Statements Continued

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 and equity 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 investing in 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 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 2021 is:

	Maximum exposure 31 March 2021 £'000
Investments	26,530
Trade and other receivables	200
Cash and cash equivalents	138
Total	26,868

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.

Notes to the Financial Statements Continued

Liquidity risk exposure of the company as at period ended 31 March 2021:

	31 March 2021	
	Within 1 Year £'000	Between 1 and 5 years £'000
Trade and other payables	(22,877)	(560)
Total	(22,877)	(560)

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.

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. £5.2m of the company's financial assets are subject to fixed rate interest arrangements, there are no floating rate arrangements in place and therefore the company at 31 March 2021 is not exposed to interest rate risk.

Currency risk
The company does not have 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 2018). 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 by 10%.

Notes to the Financial Statements Continued

Key unobservable inputs of unquoted equity investments:

Estimated sustainable revenue or earnings
The selection of sustainable revenue or earnings 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. An assumed 10% movement in this assumption would lead to a change in the fair value of investments at 31 March 2021 of £0.9m.

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. An assumed 10% shift in absolute comparative multiple value would lead to a change in the fair value of investments at 31 March 2021 of £0.9m.

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 Banks missions and operations.

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

18. Capital commitments

Amounts contracted for but not provided for in the accounts amounted to £29.6m for investment commitments.

Notes to the Financial Statements Continued

19. 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 is it not probable that the ultimate outcome of any of these matters will have a material adverse effect on the financial position of the company.

20. 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 ultimate 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. No other group financial statements include the results of the Company. The consolidated financial statements of the group are available to the public.

21. Subsequent events

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