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Scott-Moncrieff
business advisers and accountants

**SOCIAL INVESTMENT SCOTLAND
(A COMPANY LIMITED BY GUARANTEE)**

**Trustees' Report and Consolidated Financial Statements
for the year ended 31 March 2018**

Registered Company Number: SC223302

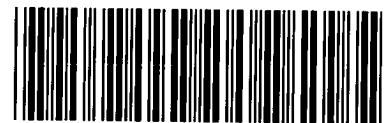
Registered Charity Number: SC036875

**COMPANIES HOUSE
EDINBURGH**

07 SEP 2018

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COMPANIES HOUSE

SOCIAL INVESTMENT SCOTLAND

CHAIRMAN'S STATEMENT

for the year ended 31 March 2018

Since 2012/13 Social Investment Scotland (SIS) has progressed in significant terms and in the year to March 2018 surpassed the milestone of having providing funding in excess of £60m. Alongside this, staffing has increased from six to twenty, the 2013-18 Framework for Growth was completed ahead of schedule, the Twenty/2020 strategic plan is already well advanced, and SIS is now acknowledged as having a leading role in the UK social enterprise ecosystem. The foresight of the funders in 2001 has been fully justified as the partnership strategy has borne fruit, creating a dynamic organisation that has supported over 300 organisations in areas of market failure, with an increasing number of funds under management, the securing of a unique Aeris credit rating (the first non-US organisation to do so) and increasingly sophisticated social impact reporting. Current economic conditions and social developments mean that there remains significant scope to further SIS operations.

The financial results demonstrate the continued year on year growth within the SIS Group. The year to 31 March 2018 has seen a total of £5.3m invested in over 44 organisations throughout Scotland. Of this total: £2m has been funded from SIS Community Finance (our core capital fund) in 30 projects and £2.7m from the Social Growth Fund in three projects. SIS continues to invest the charitable funds raised from the sale of single use carrier bags in Asda stores and during the current year £595k was invested in 11 projects from this fund. It has also been a year of significant investment in SIS' IT infrastructure, funds and product offering and resource capacity and this has resulted in a £131k deficit (2017: £56k surplus). However, this investment provides the platform for SIS to deliver new funds and continue growth under the Twenty/2020 strategic plan.

The highlight of the year has been the extension of SIS activity but as always based on the underlying partnership model. Without the ongoing meaningful support of the Scottish Government, Big Society Capital, the Esmée Fairbairn Foundation, our bank investors (RBS, Lloyds Banking Group, Clydesdale Banking Group and Triodos), Asda Walmart, and the Carnegie UK Trust none of this would be possible. As well as loan finance to social enterprises, the new funds take us into new markets including support to providers of affordable credit, SMEs in disadvantaged areas and broader forms of impact investment. There are extremely important for the future and provide a substantial platform for future activity and growth.

2017/18 has been notable for the establishment of two additional funds, namely the Affordable Credit Fund (with cornerstone investor the Carnegie UK Trust) and the management of the Community Investment Enterprise Facility in partnership with Big Society Capital. Also, key has been the creation of SIS Ventures Limited, a new arm of SIS authorised by the FCA, which launched its first fund 'Impact First' in the summer of 2018. Internally the executive also implemented the introduction of a new integrated customer relationship and loan management system and all of these developments have driven improved corporate governance arrangements and delivered a reorganisation of the management structure.

During the year Darrin Nightingale was appointed Chief Customer Officer, responsible for development activity and the growing investment team, and Alistair Johnstone was made Chief Credit and Compliance Officer. This move has facilitated a strengthening of the wider operations of SIS led by Chief Operations Officer, Debbie Zima, which allows SIS to manage a wider and more complex range of funds. This position is only made possible through the excellent performance of the senior management team led by Alastair Davis as Chief Executive Officer and Thomas Gillan as Chief Finance and Strategy Officer.

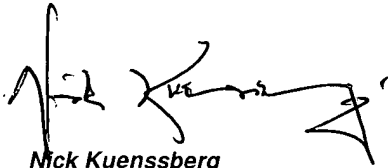
At the same time, I must record my gratitude to an exceptional board of trustees serving SIS, the Social Growth Fund and SIS Ventures together with a number of highly skilled non-board committee members, all of whom provide their services on a pro bono basis and whose engagement extends beyond the actual meetings. There have been changes with the retiral of Stewart Carruth, also a conscientious and discerning convenor of the Audit and Risk Committee, who has been replaced by Kenneth McDowell, previously a member of the same committee. We have also made two extremely important appointments with appointees of unimpeachable quality in Bill Crossan, Chair of SIS Ventures, and Kenneth Barclay as our first vice chair, who will take over from myself as chair in January 2019.

SOCIAL INVESTMENT SCOTLAND

CHAIRMAN'S STATEMENT

for the year ended 31 March 2018

It says a lot for the SIS Group that we can attract candidates of such talent, expertise and commitment and the calibre of these individuals together with the accomplishments of the executive mean that I will be able retire in December, confident in the future of SIS.

A handwritten signature in black ink, appearing to read 'Nick Kuenssberg', with a stylized flourish at the end.

Nick Kuenssberg
Chairman

3rd September 2018

SOCIAL INVESTMENT SCOTLAND

REPORT OF THE TRUSTEES

for the year ended 31 March 2018

The trustees, who are also directors for the purposes of the Companies Act 2006, present their report with the financial statements for the year ended 31 March 2018.

Objectives and Activities of the charitable company

Objectives

The objects of the charitable company are to promote the advancement of citizenship and community development within Scotland and elsewhere for the benefit of the public by supporting the social sector, and in particular widening access to funding for the social sector, identifying needs in the social sector, providing and developing and/or assisting in the provision and development of support and advice for the social sector, all with a view to developing capacities and skills in, improving the financial sustainability and maximising the contribution of the social sector to society and such that, for the purpose of this clause the "social sector" shall be taken to comprise:-

- organisations which are recognised as charities;
- social organisations which are (i) independent and/or voluntary organisations and established for purposes that add value to the community as a whole, or a significant section of the community, and (ii) which are not established primarily to distribute a profit (and on the basis that, for the avoidance of doubt, local government or other statutory authorities shall not be deemed to fall within the voluntary sector for the purposes of this clause); and
- companies and other legal entities which are wholly owned or controlled by one or more social sector organisation

Review of activities

Our activities during the past 12 months have continued to be primarily focused on the development of the social sector and social enterprises in Scotland through the provision of innovative social investment products and business support. In the current year, this had included the addition and establishment of three further funds within the SIS Group.

2017/18 saw the second year of operation under the refreshed strategy, known as 'Twenty/2020'. This framework builds on the success of the previous strategy, Framework for Growth. Twenty/2020 lays out 20 ambitious priorities for the continued development of SIS.

SIS continues to grow its portfolio of investments via a range of funds and partnership programmes. Our core loan fund, held within SIS Community Finance Ltd (SISCF), provides investments of up to £250,000 to third sector organisations for a range of purposes using capital held under Community Investment Tax Relief (CITR) from a small Group of investor banks. These simple loans support a range of organisations and purposes including asset purchase/renovation, working capital, expansion funding or grant bridging.

The charity continues to manage the Scottish Investment Fund (SIF) on behalf of the Scottish Government. This fund is fully subscribed and has supported 67 organisations across Scotland via a mix of grant, loan, risk capital and revolving credit depending on the needs of the organisation. Since April 2014 SIS has managed the follow on Social Growth Fund. This fund uses up to £8m of funds recycled within the SIF matched with the same amount of funding from Big Society Capital (BSC). BSC is a UK wide financial institution set up to grow the size of the social investment marketplace with capital to invest of £600m. The Social Growth Fund makes available a new 'patient capital' product as well as offering loans of up to £1.6m. This fund will run until March 2019 and is making good progress towards deploying its capital. Discussions with BSC are now underway regarding an evolution of the current SGF fund into a Social Growth Fund II.

SOCIAL INVESTMENT SCOTLAND

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for the year ended 31 March 2018

Review of activities (continued)

Since 2014, SIS has worked with Asda to distribute the proceeds of the 'carrier bag levy' charged in Asda's Scottish stores and the proceeds are used to provide small loans, at lower cost, to social enterprises earlier in their journey towards sustainability. During the year, Asda and SIS delivered the second Social Enterprise Supplier Development Academy. The Academy is an innovative programme of investment and business support with the ambition of getting more social enterprise products stocked in large retailers like Asda. A key aim of the programme is to raise awareness of social enterprise amongst the general population. Working with its partner the Welsh Council for Voluntary Action (WCVA), SIS has also continued to support the delivery of this programme for Welsh social enterprises. The final carrier bag levy payment was received in the last quarter of 2017/18 and it is planned that this remaining levy capital will be deployed by 31 March 2019. SIS expects to continue to evolve the retail academy programme with a broader range of partners in 2018.

SIS launched SIS Community Capital in May 2015, the UK's first mass participation social investment fund backed by social investment tax relief (SITR). The fund raised attracted 26 private investors to invest a total of £399k which was deployed into seven social enterprises in Scotland. SIS continues to manage this fund which is performing in line with expectations.

During the year, following the success of SIS Community Capital, a further fund back by both SITR and the Enterprise Investment Scheme (EIS) has been established. The Impact First Fund sits within a newly incorporated subsidiary, SIS Ventures Limited, which is a Financial Conduct Authority (FCA) authorised subsidiary. SIS Ventures will provide both equity investment and loan finance in social sector organisations as well as mission driven businesses. Fundraising for Impact First commenced in June 2018 with an initial target of £1.5-£2m.

In addition to the launch of SIS Ventures, SIS has been appointed as fund manager for two further funds; the Affordable Credit Fund (ACF) and the Community Investment Enterprise Facility (CIEF). The ACF was launched in early 2018 in partnership with the Carnegie UK Trust. The purpose of the fund is to provide debt finance to not-for-profit Responsible Finance Providers to help them expand their loan books and provide greater access to affordable credit. During the year the Carnegie UK Trust capitalised the fund with £1m (2017: Nil) and further investment commitments are expected during 2018. SIS was awarded the management of the CIEF fund in September 2017. The fund, delivered in partnership with BSC, will invest £30m in Community Development Finance Institutions (CDFIs) that operate in different parts of the UK, including areas outside Scotland. The addition of these funds expands the diversity of SIS' offering, helping to build the CDFI marketplace and, most notably with CIEF, will help deliver capital at scale.

Across these activities, interest income from loans and fund management fees received from partners cover operational costs, contributes to the operational sustainability of the Group.

Our core capital base within subsidiary SISCF remains stable with £4m of capital invested using CITR. This capital is confirmed until 2020, with Triodos Bank joining as an investor in December 2015. In line with a capital action plan, discussions with these investors are ongoing to secure their continued commitment to SIS.

The social investment marketplace in Scotland has continued to develop and mature over the past 12 months and SIS has seen positive growth in enquiries and work in progress, reflecting both the ambitions of Scotland's social enterprises and growing social need. The development of the sector is now supported by an ambitious ten-year vision for social enterprise in Scotland developed by the Scottish Government. SIS played a role in the coproduction of this strategy and expects to play a full role, in partnership with Government, in the delivery of a range of the priorities noted in the first corresponding three-year action plan. Recognising that the growth of the market is not just about the supply of capital, in the last financial year SIS continued to evolve its programme of business support including a series of 'investment readiness' workshops across Scotland. This programme of workshops has, and will continue to be, evolved to support the needs and growing ambitions of social enterprises in Scotland.

SOCIAL INVESTMENT SCOTLAND

REPORT OF THE TRUSTEES

for the year ended 31 March 2018

Review of activities (continued)

To support this continued growth in funds under management, and in line with the priorities of Twenty/2020, 2017/18 has been a year of significant investment in the capacity of the organisation. This has included the creation of the Chief Customer Officer role, additional investment manager capacity, restructure of the business development complement and further operational and finance resource. In addition, significant investment has been made into a new customer relationship and loan management system. The new system not only creates greater internal efficiencies and capacity but also provides SIS with the platform to support its growing number of funds, most notably the move into equity with SIS Ventures.

Grant making policy

Although not a core part of SIS's mission, the organisation provided small grants through the Asda Supplier Development Programme during the year.

All grants are approved as part of the overall due diligence and approval process administered by SIS as part of the fund management service.

Achievements and Performance

SIS continues to expand the use of Big Society Capital's 'Outcomes Matrix' methodology across its investment portfolios. All new investment appraisals consider primary and secondary outcome areas as part of the assessment process with organisations then reporting their progress towards these outcomes as part of an annual survey process.

Notable achievements have included:

- Appointment as Fund Manager for both the Community Investment Enterprise Facility and Carnegie Affordable Credit Loan fund;
- The launch of SIS Ventures Limited, using the Enterprise Investment Scheme (EIS) and Social Investment Tax Relief (SITR). This fund adds to SIS' product offering and meets a growing demand for capital in mission-driven businesses;
- Continued partnership with Asda during the year to deliver the Supplier Development Academy programme and deployment of the Asda Scottish single use carrier bag levy into social enterprises across Scotland; and
- Significant investment within internal capacity through resourcing and new system implementation.

Financial review

The results for the year for the Group are set out in the consolidated statement of financial activities on page 17. The position of the Group at the end of the year is shown in the consolidated balance sheet on page 19.

During the past 12 months, the organisation has continued to grow with income from lending operations increasing by 3% from 2016/17. The net assets of the Group remained the same as the prior year being £21.5m (2017: £21.5m).

Total unrestricted income, including lending operations, management fees and grants amounted to £1,278k, an increase of 10% from the prior year (2017: £1,162k). This increase is linked to additional grant and management fee income received from the launch of new funds in the year. Unrestricted income continues to be underpinned by the core loan book. Reported resources expended were managed in line with budget and are continually monitored through quarterly reforecasting.

SOCIAL INVESTMENT SCOTLAND

REPORT OF THE TRUSTEES

for the year ended 31 March 2018

Financial review (continued)

Unrestricted overheads before bad debts increased to £1,541k (2017: £1,303k), linked to the one-off implementation costs for the new loan and customer relations management system, professional fees linked to the launch of new funds and increased staff costs due to the rise in headcount. The culmination of this results in a deficit of £99k on unrestricted funds (2017: £56k surplus). This result underpins the significant investment made in the year in SIS' overall capacity and activity.

For the year to 31 March 2018, bad debt charges on unrestricted funds were £195k (2017: £103k) representing 3.8% of loans outstanding (2017: 1.9%), compared to five-year historic blended write-off rate of 1.9% on the core book held within SISCF. Investments continue to be monitored closely through on-going loan monitoring overseen by the Chief Credit and Compliance Officer, Alistair Johnstone.

Group bad debt provisions at 31 March 2018 represent £4,087k (2017: £2,043k). As percentages of the outstanding loans, this comprises 8% (2017: 5%) of the Community Finance core loan book, 7% (2017: 7%) of the SIF loan book, 21% (2017: 12%) of the Asda loan book and 39% (2017: 11%) of the SGF loan book. Provisions for bad and doubtful debts are recognised in line with the provisioning policy and are directly driven by the risk exposure to SIS. It is expected that provisions levels will be higher as SIS makes higher risk loans through the Asda fund and in patient capital facilities through SGF.

The Social Growth Fund gross loan book increased over the year to £6,329k (2017: £5,171k), however there was an overall result in the year of £1,700k deficit (2017: £56k surplus). Based on fund projections, an overall surplus is expected over the life of the fund. The Fund's investment period comes to an end in FY19 with discussions regarding SGF II underway.

The Asda Bag Levy fund continued to perform well in the year with new loans of £415k (2017: £502k). The increased activity was supported by another successful Asda Development Academy held in June 2017. The Asda product provides 12 months' capital and interest free and then interest at 5% with return yields expected to be c 4%. Repayments made on Asda loans are granted to SIS as unrestricted funds and in the year, £82k was granted to SIS under this fund.

The Scottish Investment Fund & SIS Community Capital continued to perform in line with expectations. Both funds are now fully drawn with the investment period complete, returning rates of 3.7% and 1.5% respectively.

The organisation continues to hold significant cash deposits, primarily reflecting SIF capital which has either been recycled and commitments to be drawn by investees in due course. The SIF recycled monies will continue to be used to capitalise the Social Growth Fund; any surpluses generated along with interest on cash deposits will be returned to the SIF as restricted funds.

Reserves policy and going concern

The trustees have ultimate responsibility for ensuring the charitable company has an effective reserves policy linked to the organisations risk management framework and long-term strategy. In August 2016, the trustees approved a refreshed reserves policy based on consideration of the following points:

- The level of reserves required to safeguard the operations of the SIS Group in the event of financial difficulties.
- The level of reserves required to ensure the Group maintains sufficient liquidity and resources to absorb bad debts and to cover loss of lending margin.
- The SIS Group must utilise reserves in a way which supports the overall objectives of the organisation.

SOCIAL INVESTMENT SCOTLAND

REPORT OF THE TRUSTEES

for the year ended 31 March 2018

Reserves policy and going concern (continued)

The Trustees have set a reserves policy which requires maintaining unrestricted general funds equivalent to between 6 and 9 months' expenditure. The Trustees have agreed that it is prudent to maintain such levels of reserves to provide a financial buffer in the event of unforeseen financial difficulties to allow actions to be taken to resolve such pressures.

Designated funds represent reserves held to safeguard the future core lending activities of the Group. These funds are used to absorb bad and doubtful debts on the core CITR book and provide a margin cover in the event in the loss of profitability in the SIS CF loan book.

As at 31 March 2018, unrestricted funds of the Group represent £3,022k (2017: £3,153k), of which £2,252k (2017: £2,252k) has been designated to the future lending activities of the Group and supports activities of the Social Surplus Fund, see note 17 in the financial statements. The balance of £770k is equivalent to approximately six months' resources expended, excluding bad debts. The reserves are to be held in cash or cash equivalent securities.

The reserves policy and the level of reserves are subject to ongoing monitoring and review by the executive and the SIS Capital and Finance Committee using robust financial forecasting tools to ensure future activities and commitments can be met from existing resources. Any breaches or risks identified will be investigated with appropriate actions being implemented following endorsement of the SIS Capital and Finance Committee.

Restricted reserves at 31 March 2018 comprise funding received in respect of the management, promotion and delivery of the Scottish Investment Fund, the Social Growth Fund, SIS Community Capital, Asda Bag Levy Fund, Legacy 2014 Sustainable Sport for Communities Fund, Scotland's Social Enterprise Strategy 2016-2026, Carnegie Affordable Credit Fund and the Community Investment Enterprise Facility. There are no subsidiary undertakings that are materially in deficit in the year to March 2018.

The charity continues to adopt the going concern basis in preparing these financial statements.

Principal Risks and Uncertainties

The Board of Trustees, its sub-committees and the Executive Team review risks on an ongoing basis, evaluating the mitigative actions that are in place, and identifying any new risks with the aim of implementing appropriate remedial action. The trustees believe that implementation of agreed actions and procedures will significantly reduce the probability and the impact of these risks.

In addition, the continuation of Grant Thornton as internal auditors further strengthens the control environment and governance arrangements at Group level. In the year there were two internal audit reviews completed being risk management and general IT controls with all recommendations implemented or in progress.

The main principal risks to SIS Group are as follows:

- **Capital mismatch and liquidity** - The risk relating to the availability of appropriate capital to fund investment activity. The Capital and Finance Committee have oversight to monitor this risk and ensure the formation of appropriate contingencies. Capital action plans and liquidity forecasts are monitored at regular intervals.
- **Loan default** - The risk of financial or reputational loss on delinquent or non-performing loans. Higher risk loans are reported on as part of monthly portfolio reviews and scrutinised quarterly by the Portfolio Risk Committee. There are appropriate credit approval processes in place to provide challenge to approvals.

SOCIAL INVESTMENT SCOTLAND

REPORT OF THE TRUSTEES

for the year ended 31 March 2018

Principal Risks and Uncertainties (continued)

- **Capital deployment** – The risks arising due to under deployment of capital funds, including reputational and financial impact. The Executive team monitor deal flow and pipeline on a regular basis. Team KPI's and targets are agreed where necessary and a programme of business development activity is in place to continue to support deal flow.
- **Regulatory and compliance** – Risk associated with instances of non-compliance and violations of regulatory obligations. Internal compliances practices and policies are overseen by the Chief Credit and Compliance Officer, with regular reporting to the Board of Trustees. Appropriate policies and practices for key staff, with regular monitoring of training needs. Where necessary support for compliance and sought from external third parties.

The Audit and Risk Committee reviews audited financial statements of the Charity and each of the subsidiaries and recommends them to the Board. It also reviews reports from the internal and external auditors and monitors management actions to implement recommendations made in audit reports. It determines the frequency and process of tendering for both external and internal audit services and considers their appointment, fees and independence and objectivity.

Future plans

SIS continues to make progress towards a series of objectives laid out in its current strategic framework, known as Twenty/2020. This is a set of 20 organisational priorities that support the organisation's mission: 'to connect capital with communities, to make a real, measurable and sustainable impact upon people's lives'. These priorities fall with five broad headings:

1. To connect capital with communities (namely financial, social, intellectual and environmental capital);
2. To expand funding programmes to meet changing needs;
3. Build SIS' capacity to meet objectives;
4. To expand SIS' leadership role to support social impact in communities; and
5. To expand, monitor, measure and communicate social impact more effectively.

SIS remains ambitious for the potential of social enterprise, both as a business model of choice and the creation of sustainable social impact within our communities. SIS continues to engage with and listen to social enterprises, communities, our stakeholders and investors to make sure that our investment and support packages remain aligned with a growing Group of ambitious businesses with purpose.

Structure, Governance and Management

Governing document and organisational structure

On 5 September 2007 the company Social Investment Scotland (a company limited by guarantee) was granted charitable status. The charitable company is governed by the Memorandum and Articles of Association dated 18 September 2001 (as revised on 14 March 2016) and is a registered charity in Scotland.

The trustees are all independent non-executive directors of the charitable company and are responsible for all decisions. The trustees have delegated day to day management of the charitable company to Chief Executive Officer, Alastair Davis, and the executive directors.

SOCIAL INVESTMENT SCOTLAND

REPORT OF THE TRUSTEES

for the year ended 31 March 2018

Group structure and relationships

Social Investment Scotland is the focus for all supporting and subsidiary activities. It has subsidiary entities including SIS (Community Finance) Limited and SIS Community Capital Limited. The principal activity of both subsidiaries is the provision of loan finance to third sector organisations based or operating in Scotland.

Two further subsidiaries, SIS Ventures Limited and Community Investment Facility Limited, were incorporated in the year. The principal activity of both is the provision of loan finance to eligible social sector organisations. In addition, SIS Ventures Limited will provide equity investment in mission driven businesses.

On 15 April 2014, Social Investment Scotland and SIS (Community Finance) Limited entered into a members' agreement with Big Society Capital Limited (No. 07599565) to operate a fund called "The Social Growth Fund" for the purposes of providing debt finance to third sector organisations in Scotland. Social Growth Fund LLP (No SO304839) was incorporated on 21 March 2014 by Social Investment Scotland and SIS (Community Finance) Limited, the designated members, to be the entity which holds the fund.

Recruitment & appointment, induction and training of trustees

In accordance with the Memorandum and Articles of Association the trustees are appointed for a two-year term and can offer themselves for a further two terms of office. The trustees are recognised as having a wide range of financial and voluntary sector expertise, and they either hold, or have held, high-level positions in public, private, and voluntary sector organisations. All trustees are fully briefed on their legal obligations under charity and company law and are presented with monthly information on the financial performance of the charitable company. They are also encouraged to meet with key employees and to attend strategy and team building events. New trustees are recruited based on a skills analysis which identifies areas where specific support is required.

Trustees are involved in annual appraisals with the Chairman which enable the identification of any training needs. Where such needs are identified, appropriate training is provided. Performance of the Board and committees is evaluated through self-appraisal on an annual basis.

Committee structure

The following committees and members have been established as part of the corporate governance structure of the charitable company and its subsidiaries:

Portfolio risk committee:

Eric Gibson FCIBS (Chair)
David Robertson MA CA
Ryan Telfer

Capital and finance committee:

John Watt (Chair) BA (Hons) CA
Sam Bett
Lynne Robertson MA CA
Iain Watson BA (Hons) CA
Susan Younger LLB NP WS

SOCIAL INVESTMENT SCOTLAND

REPORT OF THE TRUSTEES

for the year ended 31 March 2018

Committee structure (continued)

Audit and risk committee:

Stewart Carruth (Chair) (until 12 March 2018)
Kenneth Barclay FCIBS
Celia Hodson
Kenneth McDowell (Chair) (from 12 March 2018)
Morag McNeill LLB LLM DipLP

Remuneration and appointments committee:

Mark Adderley MA MEng MBA FCIPD FIOD CDir (Chair)
Alexander Kennedy MA MBA
Nick Kuenssberg OBE FRSE DUniv

Social Growth Fund board:

Kenny Fraser BA CA (Chair)
James Burrows
David Gillespie MA (Oxon)
Professor Donald MacRae OBE FRSE FCIBS
Diane Wilde BEc MCSI

Related parties

As noted above, the charitable company has four subsidiary undertakings; SIS (Community Finance) Limited, SIS Community Capital Limited, SIS Ventures Limited and Community Investment Facility Limited. SIS Ventures Limited was dormant in the year to 31 March 2018.

Given the level of influence and control the SIS Group has over Social Growth Fund LLP, the fund's activities have been 100% consolidated into the Group consolidated accounts.

All transactions with these subsidiaries have been reflected within these financial statements. There were no other related party transactions in the year.

For detail of related party transactions in the financial year see note 22.

Remuneration of key management personnel

The SIS Remuneration and Appointments Committee (RemCom) make recommendations to the SIS board on appointments of board members and senior management, bearing in mind the requirements of the organisation. The committee reviews annually the performance of senior management and provide recommendations on policy to the SIS board on pay ranges, salary increases, ex gratia payments and other rewards for SIS staff.

RemCom ensures that arrangements are in place, and followed, to provide best performance appraisal practice and best value for the organisation. In the year, a salary and benefits market review was completed by an independent external consultant, The Korn Ferry Hay Group, to provide a tool to benchmark current performance and pay.

SOCIAL INVESTMENT SCOTLAND

REPORT OF THE TRUSTEES

for the year ended 31 March 2018

Reference and Administrative details

Trustees

The trustees, who are also directors for the purposes of the Companies Act 2006, who served the charitable company during the year were as follows:

Nick Kuenssberg OBE DUniv (Chairman)
Mark Adderley MA MEng MBA FIOD FCIPD CDir
Kenneth Barclay FCIBS (appointed 4 December 2017) (Vice Chair)
Stewart Carruth (resigned 12 March 2018)
William Crossan FCIBS (appointed 12 March 2018)
Kenneth Fraser BA CA
Eric Gibson FCIBS
Celia Hodson
Alexander Kennedy MA MBA
Kenneth McDowell (appointed 12 March 2018)
Morag McNeill LLB LLM DipLP
Lynne Robertson MA CA (resigned 6 November 2017)
John Watt BA (Hons) CA
Susan Younger LLB NP WS

Trustees Attendance at 2017/18 Board Meetings

Attendance Record	
Trustees	Attendance
Nick Kuenssberg OBE DUniv (Chairman)	7/7
Mark Adderley MA MEng MBA FIOD FCIPD CDir	6/7
Kenneth Barclay FCIBS (appointed 4 December 2017) (Vice Chair)	2/3
Stewart Carruth (resigned 12 March 2018)	3/6
William Crossan FCIBS (appointed 12 March 2018)	0/1
Kenneth Fraser BA CA	6/7
Eric Gibson FCIBS	6/7
Celia Hodson	6/7
Alexander Kennedy MA MBA	6/7
Kenneth McDowell (appointed 12 March 2018)	1/1
Morag McNeill LLB LLM DipLP	7/7
Lynne Robertson MA CA (resigned 6 November 2017)	4/4
John Watt BA (Hons) CA	7/7
Susan Younger LLB NP WS	6/7

SOCIAL INVESTMENT SCOTLAND

REPORT OF THE TRUSTEES

for the year ended 31 March 2018

Reference and Administrative details (continued)

Secretary	Thomas Gillan
Senior management team	Alastair Davis FCIBS (Chief Executive Officer) Alistair Johnstone MCIBS (Chief Credit Officer) Darrin Nightingale (Chief Customer Officer) Debbie Zima (Chief Operations Officer) Thomas Gillan CA (Chief Financial and Strategy Officer)
Register company number	SC223302
Registered charity number	SC036875
Registered Office	3 rd Floor Playfair House 6 Broughton Street Lane Edinburgh EH1 3LY
Auditor	Scott-Moncrieff Exchange Place 3 Semple Street Edinburgh EH3 8BL
Solicitors	Morton Fraser LLP Quartermile Two 2 Lister Square Edinburgh EH3 9GL
Bankers	Bank of Scotland plc 300 Lawnmarket Edinburgh EH1 2PH

Statement of trustees' responsibilities

The trustees (who are the directors of Social Investment Scotland for the purpose of company law and the trustees for the purposes of charity law) are responsible for preparing the trustees' report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Charity law requires the trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and parent charitable company and of the income and expenditure of the group and parent charitable company for that period. In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles of the Charities SORP;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent charitable company will continue.

SOCIAL INVESTMENT SCOTLAND

REPORT OF THE TRUSTEES

for the year ended 31 March 2018

Statement of trustees' responsibilities (continued)

The trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and parent charitable company and enable them to ensure that the financial statements comply with the articles of association, the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). They are also responsible for safeguarding the assets of the group, for ensuring that the assets are properly applied in accordance with charity law and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the charity and financial information included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement as to disclosure of information to auditor

In so far as the trustees are aware:

- there is no relevant information of which the group and parent charitable company's auditor is unaware; and
- they have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information, and to establish that the group and parent charitable company's auditor is aware of the information.

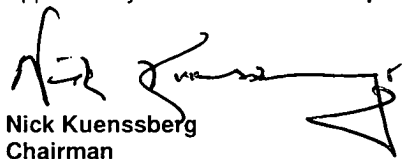
Auditor

A resolution regarding the reappointment of the auditor will be put to the annual general meeting.

Small company exemptions

The financial statements have been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006.

Approved by the trustees on 3rd September 2018 and signed on their behalf:


Nick Kuenssberg
Chairman

SOCIAL INVESTMENT SCOTLAND

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOCIAL INVESTMENT SCOTLAND

for the year ended 31 March 2018

Opinion

We have audited the financial statements of Social Investment Scotland (the parent charitable company) and its subsidiaries (the group) for the year ended 31 March 2018 which comprise the consolidated and parent charitable company statement of financial activities (incorporating the income and expenditure account), the consolidated and parent charitable company balance sheet, the consolidated and parent charitable company statement of cash flows, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and the parent charitable company's affairs as at 31 March 2018 and of the group's and the parent charitable company's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulations 6 and 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent charitable company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and the provisions applicable for small entities, in the circumstances set out in note 21 to the financial statements, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in which the ISAs (UK) require us to report to you where:

- the trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent charitable company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The trustees are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our Auditor's Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

SOCIAL INVESTMENT SCOTLAND
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
SOCIAL INVESTMENT SCOTLAND

for the year ended 31 March 2018

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the report of the trustees, which includes the report of the directors prepared for the purposes of company law, for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the report of the directors' included within the report of the trustees has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and parent charitable company and their environment obtained in the course of the audit, we have not identified material misstatements in the report of the trustees.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 and the Charities Accounts (Scotland) Regulations 2006 (as amended) require us to report to you if, in our opinion:

- adequate and proper accounting records have not been kept by the parent charitable company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent charitable company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- The trustees were not entitled to prepare the financial statements in accordance with the small companies' regime and take advantage of the small companies' exemption in preparing the report of the trustees and take advantage of the small companies' exemption from the requirement to prepare a strategic report.

Responsibilities of the trustees

As explained more fully in the trustees' responsibilities statement set out on page 12, the trustees (who are the directors for the purposes of company law and trustees for the purposes of charity law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

SOCIAL INVESTMENT SCOTLAND
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
SOCIAL INVESTMENT SCOTLAND
for the year ended 31 March 2018

Responsibilities of the trustees (continued)

In preparing the financial statements, the trustees are responsible for assessing the group's and the parent charitable 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 the trustees either intend to liquidate the parent charitable company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report in accordance with the Acts and relevant regulations made or having effect thereunder.

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

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

Use of our report

This report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and to the charitable company's trustees, as a body, in accordance with regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Our audit work has been undertaken so that we might state to the parent charitable company's members, as a body, and the charitable company's trustees, as a body, 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 parent charitable company, the parent charitable company's members, as a body, and the parent charitable company's trustees, as a body, for our audit work, for this report, or for the opinions we have formed.

Scott-Moncrieff

Gillian Donald, Senior Statutory Auditor

For and on behalf of

Scott-Moncrieff, Statutory Auditor

Eligible to act as an auditor in terms of Section 1212 of the Companies Act 2006

Chartered Accountants

Exchange Place 3

Seample Street

Edinburgh

EH3 8BL

Date: **3 SEP 2018**

SOCIAL INVESTMENT SCOTLAND
CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES
(INCLUDING CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT)

for the year ended 31 March 2018

	Notes	Restricted funds £	Unrestricted funds £	2018 Total £	2017 Total £
Income from:					
Charitable activities	3	2,810,939	1,262,723	4,073,662	3,676,813
Investments		43,482	1,382	44,864	54,678
Other income		2,583	14,727	17,310	-
Total		<u>2,857,004</u>	<u>1,278,832</u>	<u>4,135,836</u>	<u>3,731,491</u>
Expenditure on:					
Charitable activities	5	<u>2,412,876</u>	<u>1,735,306</u>	<u>4,148,182</u>	<u>1,990,324</u>
Net income/(expenditure)	4	444,128	(456,474)	(12,346)	1,741,167
Transfers between funds		<u>(325,447)</u>	<u>325,447</u>	<u>-</u>	<u>-</u>
Net movement in funds		118,681	(131,027)	(12,346)	1,741,167
Total funds brought forward		<u>18,378,854</u>	<u>3,153,323</u>	<u>21,532,177</u>	<u>19,791,010</u>
Total funds carried forward	17	<u><u>18,497,535</u></u>	<u><u>3,022,296</u></u>	<u><u>21,519,831</u></u>	<u><u>21,532,177</u></u>

All amounts relate to continuing activities.

There were no recognised gains or losses in either year other than those included above.

The notes on pages 21 to 42 form part of these financial statements

SOCIAL INVESTMENT SCOTLAND
CHARITABLE COMPANY STATEMENT OF FINANCIAL ACTIVITIES
(INCLUDING CHARITABLE COMPANY INCOME AND EXPENDITURE ACCOUNT)

for the year ended 31 March 2018

	Notes	Restricted Funds £	Unrestricted Funds £	2018 Total £	2017 Total £
Income from:					
Donations and legacies		-	75,759	75,759	72,670
Charitable activities	3	2,246,845	1,242,731	3,489,576	3,354,706
Investments		34,911	1,382	36,293	24,975
Other income		2,580	-	2,580	-
Total		<u>2,284,336</u>	<u>1,319,872</u>	<u>3,604,208</u>	<u>3,452,351</u>
Expenditure on:					
Charitable activities	5	<u>439,967</u>	<u>1,444,218</u>	<u>1,884,185</u>	<u>1,769,080</u>
Net income/(expenditure)	4	1,844,369	(124,346)	1,720,023	1,683,271
Transfer between funds		<u>(25,447)</u>	<u>25,447</u>	-	-
Net movement in funds		1,818,922	(98,899)	1,720,023	1,683,271
Total funds brought forward		<u>19,302,496</u>	<u>3,031,847</u>	<u>22,334,343</u>	<u>20,651,072</u>
Total funds carried forward	17	<u><u>21,121,418</u></u>	<u><u>2,932,948</u></u>	<u><u>24,054,366</u></u>	<u><u>22,334,343</u></u>

All amounts relate to continuing activities.

There were no recognised gains or losses in either year other than those included above.

The notes on pages 21 to 42 form part of these financial statements

SOCIAL INVESTMENT SCOTLAND


BALANCE SHEET

As at 31 March 2018

	Notes	2018 £	Group 2017 £	Company 2018 £	2017 £
Fixed assets					
Tangible fixed assets	8	27,406	23,772	27,406	23,772
Investments	9	-	-	7,783,004	5,856,974
Total fixed assets		<u>27,406</u>	<u>23,772</u>	<u>7,810,410</u>	<u>5,880,746</u>
Current assets					
Debtors – due within one year	10	3,707,168	1,325,595	2,119,291	790,909
Debtors – due after one year	10	12,243,288	17,274,045	5,297,071	8,291,508
Cash at bank and in hand		15,579,246	11,228,896	9,102,266	7,787,652
Total current assets		<u>31,529,702</u>	<u>29,828,536</u>	<u>16,518,628</u>	<u>16,870,069</u>
Creditors: amounts falling due within one year	11	(295,930)	(173,783)	(274,672)	(166,472)
Net current assets		<u>31,233,772</u>	<u>29,654,753</u>	<u>16,243,956</u>	<u>16,703,597</u>
Total assets less current liabilities		<u>31,261,178</u>	<u>29,678,525</u>	<u>24,054,366</u>	<u>22,584,343</u>
Creditors: amounts falling due after more than one year:					
Unsecured loans	12	(9,741,347)	(7,896,348)	-	-
Provisions for liabilities	14	-	(250,000)	-	(250,000)
Net assets		<u>21,519,831</u>	<u>21,532,177</u>	<u>24,054,366</u>	<u>22,334,343</u>
Capital and reserves					
Restricted funds	17	18,497,535	18,378,854	21,121,418	19,302,496
Unrestricted funds	17	3,022,296	3,153,323	2,932,948	3,031,847
		<u>21,519,831</u>	<u>21,532,177</u>	<u>24,054,366</u>	<u>22,334,343</u>

These financial statements have been prepared in accordance with the special provisions applicable to small companies subject to the Small Companies regime.

These financial statements were approved and authorised by the trustees on 3rd September 2018 and signed on their behalf by:


Nick Kuenssberg
Chairman

The notes on pages 21 to 42 form part of these financial statements

SOCIAL INVESTMENT SCOTLAND

STATEMENT OF CASH FLOWS

for the year ended 31 March 2018

		Group		Company	
	Note	2018	2017	2018	2017
		£	£	£	£
Cash flows from operating activities:					
Net cash provided by operating activities:	19	2,479,409	1,170,499	3,223,273	3,259,928
Cash flows from investing activities:					
Investment income		44,864	54,678	36,293	24,974
Purchase of tangible fixed assets		(18,920)	(16,373)	(18,920)	(16,373)
Additional shareholder loans		-	-	(1,926,032)	(629,746)
Net cash provided by/(used in) investing activities		<u>25,944</u>	<u>38,305</u>	<u>(1,908,659)</u>	<u>(621,145)</u>
Cash flows from financing activities:					
Cash inflows from investors		<u>1,844,997</u>	<u>629,702</u>	<u>-</u>	<u>-</u>
Net cash provided by financing activities		<u>1,844,997</u>	<u>629,702</u>	<u>-</u>	<u>-</u>
Change in cash and cash equivalents in the reporting period		4,350,350	1,838,506	1,314,614	2,638,783
Cash at the beginning of the reporting period		<u>11,228,896</u>	<u>9,390,390</u>	<u>7,787,652</u>	<u>5,148,869</u>
Cash at the end of the reporting period		<u><u>15,579,246</u></u>	<u><u>11,228,896</u></u>	<u><u>9,102,266</u></u>	<u><u>7,787,652</u></u>
Represented by:					
Cash at bank and in hand		15,047,342	10,699,460	8,570,362	7,258,216
Short term deposits		531,904	529,436	531,904	529,436
		<u><u>15,579,246</u></u>	<u><u>11,228,896</u></u>	<u><u>9,102,266</u></u>	<u><u>7,787,652</u></u>

The notes on pages 21 to 42 form part of these financial statements

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

1 Accounting policies

General information

These financial statements are presented in pounds sterling (GBP) as that is the currency in which the company's transactions are denominated. Assets and liabilities are initially recognised at historical cost or transaction value unless otherwise stated in the relevant accounting policy.

The charitable company is a private company limited by guarantee and is incorporated in Scotland. The charitable company's registered number is SC223302.

The company's registered address is 3rd Floor, Playfair House, 6 Broughton Street Lane, Edinburgh, EH1 3LY.

The continuing activity of Social Investment Scotland is provision of innovative social investment products and business support.

Basis of accounting

The financial statements have been prepared in accordance with the Financial Reporting Standard 102, as issued by the Financial Reporting Council (effective 1 January 2015), the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102), as amended by Update Bulletin 1" and the Companies Act 2006.

Social Investment Scotland meets the definition of a public benefit entity under FRS102.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires trustees to exercise their judgement in the process of applying the accounting policies. Use of available information and application of judgement are inherent in the formation of estimates. Actual outcomes in the future could differ from such estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The financial statements consolidate the results of the charitable company and its wholly owned subsidiaries SIS (Community Finance) Limited (Company Number SC220983), Social Growth Fund LLP (Limited Liability Partnership number SO304839), SIS Community Capital Limited (Company Number SC501128) and Community Investment Facility Limited (11061536) on a line by line basis. The charitable company together with its subsidiaries comprises the group.

The financial statements are prepared on the historical cost basis of accounting and have been prepared in accordance with the Accounting and Reporting by Charities: Statement of Recommended Practice (FRS 102, as amended by Update Bulletin 1), The Charities and Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Going concern

The trustees are of the opinion that the group and parent charitable company can continue to meet their obligations as they fall due for the foreseeable future. The charitable company has significant cash reserves and regular income generated from interest on loans, fund management and specific grants and is able to restrict the loans given out if necessary. As a consequence the trustees have prepared the financial statements on the going concern basis.

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

1 Accounting policies (continued)

Recognition and allocation of income

Grants and voluntary income

Income from grants, including capital grants, is recognised when the charitable company has legal entitlement to the funds, the receipt is probable and the amount can be measured reliably.

Where there are terms placed on income that limit the charitable company's discretion over how that income can be used, that income is shown as restricted income in the accounts.

Income from charitable activities

The income from lending operations is included in incoming resources in the period in which the group is entitled to receipt. Certain advances from the Scottish Investment Fund bear interest which may be waived at the discretion of Social Investment Scotland subject to the achievement of specified social outcomes. Interest on these advances is included within income from charitable activities and a related provision for interest expected to be waived is charged to charitable activities.

The Charities SORP (FRS 102) recommends income from lending activities is classified as "charitable" when carried out by the charitable company, but as "other trading" when carried out by the group's subsidiaries. Each company carries out the same principal activity, being the provision of loan finance to third sector organisations based or operating in Scotland, in furtherance of the charitable purposes of the group. Therefore the trustees consider it appropriate that these activities are classified consistently across the group as charitable income.

In the event of income being received in advance this is deferred and released in the year in which the event takes place. Any income not received in the year in which it is receivable is accrued at the year end.

Investment income

Interest is recognised using the effective interest rate applicable to the asset.

Recognition and allocation of expenditure

Expenditure is recognised on an accruals basis when the charitable company has entered into a legal or constructive obligation. Where possible, expenditure is allocated directly to the function to which it relates.

Charitable activities include expenditure associated with the strategic investment in the social sector in Scotland and include both the direct costs and support costs relating to these activities.

All support costs relate to the single activity of the company, being the provision of loan finance to third sector organisations based or operating in Scotland.

Governance costs include those costs associated with meeting the constitutional and statutory requirements of the group and parent charitable company.

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

1 Accounting policies (continued)

Funds

Unrestricted funds include incoming resources receivable or generated for the objects of the group without further specified purpose and are available as general funds. These funds can be used in accordance with the charitable objects at the discretion of the trustees.

Designated funds primarily represent reserves held to capitalise the future core lending activities of the organisation, as designated by the trustees.

Restricted funds are to be used for specific purposes as laid down by the donor.

Tangible fixed assets

Fixed assets costing £500 or more are included in the balance sheet at cost, less accumulated depreciation.

Depreciation

Depreciation is provided in the period in which the fixed assets are purchased. The rates of depreciation are calculated so as to write off the cost less residual value of each asset evenly over its expected useful life as follows:

Office equipment, fixtures and fittings: 25% straight line

Investments

The trading subsidiaries of the charitable company along with any shareholders' loans are included in the financial statements at cost less impairment.

Operating leases

Rentals payable under operating leases are charged on a straight line basis over the term of the lease.

Taxation

Social Investment Scotland has been recognised by HM Revenue and Customs as a charity for the purposes of sections 466 to 493 Corporation Tax Act 2010 and section 256 Taxation of Chargeable Gains Act 1992. Accordingly the charitable company is potentially exempt from taxation in respect of income or capital gains to the extent that such income or gains are applied to charitable purposes. Social Investment Scotland's trading subsidiaries are subject to corporation tax in the same way as any commercial organisation.

Provisions

Specific provisions against advances are recognised when a risk of non-recoverability is identified, as a result of regular monitoring and review by the trustees. Provisions made during the year, less amounts released, are charged to the statement of financial activities and are netted off against advances reported in the balance sheet.

Debtors

Concessionary loans are amounts due from customers for loans given out.

Concessionary loans

Loans issued by group companies, as members of a public benefit entity group, are deemed to be concessionary loans. Concessionary loans are initially measured at the amount paid. Subsequent to initial recognition, the carrying amount of concessionary loans at the reporting date is adjusted to reflect any repayments, accrued interest and impairment.

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

1 Accounting policies (continued)

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Creditors

Trade creditors are obligations to pay for goods or services that have been acquired. They are recognised at the undiscounted amount owed to the supplier, which is normally the invoice price.

Financial assets and financial liabilities

The charitable company only enters into basic financial instruments that result in the recognition of financial assets and liabilities such as trade and other accounts receivable and payable, loans from banks and other third parties and loans to related parties and social enterprises. Financial instruments are classified as in accordance with Chapter 11 of FRS 102.

Financial instruments are recognised in the balance sheet when the charitable company becomes a party to the contractual provisions of the instrument. Financial instruments payable or receivable within one year are measured at the undiscounted amount expected to be paid or received. Financial instruments payable or receivable outwith one year are initially measured at transaction cost. Subsequent to initial recognition, at the end of each reporting period, basic financial instruments are measured at amortised cost using the effective interest rate method.

Financial assets are derecognised when the contractual rights to the cash flows from assets are due to expire, or when the company has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of financial activities.

Pensions

Pension contributions are made to the group defined contribution pension scheme. These are charged in the year in which they are incurred.

2 Critical judgements and estimates

In preparing the financial statements trustees make estimates and assumptions which affect reported results, financial position and disclosure of contingencies. Use of available information and application of judgement are inherent in the formation of the estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

Advances of concessionary loans are reviewed regularly and given a risk rating, this rating is based on judgement after reviewing the available information from the borrower. There are certain ratings that require a provision to be made against the loan depending on whether there is deemed to be adequate security on the loan or not.

Income from lending activities by subsidiaries is treated as charitable income in the consolidated statement of financial activities. This is because the substance of this income is the same as that carried out in the parent entity, therefore the trustees consider it appropriate that these activities are classified consistently across the group.

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

3 Incoming resources from charitable activities

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Grant income:				
Scottish Government:				
Third Sector Division	343,919	315,000	343,919	315,000
ASDA bag levy	1,028,972	1,333,117	1,028,972	1,333,117
Carnegie Fund	1,000,000	-	1,000,000	-
The Robertson Trust	-	13,816	-	13,816
Highlands and Islands Enterprise	22,739	44,504	22,739	44,504
Other grants	84,938	272,209	84,938	272,209
Interest	1,364,619	1,349,999	510,987	633,035
Fees and commissions	69,677	46,112	-	9,652
Management fees and recharges	117,994	283,372	498,021	733,373
Other income	40,804	18,684	-	-
	<u>4,073,662</u>	<u>3,676,813</u>	<u>3,489,576</u>	<u>3,354,706</u>

4 Net income/(expenditure)

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Net income/(expenditure) is stated after charging:				
Hire of assets under operating leases	3,096	3,000	3,096	3,000
Leasing of buildings under operating leases	65,740	59,080	65,740	59,080
Depreciation	15,286	20,517	15,286	20,517
Auditor's remuneration:				
- Audit fee	20,761	24,947	14,092	15,912
- Tax fees	5,325	5,465	4,707	4,852
- Other non-audit services	-	2,160	-	2,160
Internal auditor's remuneration	2,400	2,400	2,400	2,400
	<u>2,400</u>	<u>2,400</u>	<u>2,400</u>	<u>2,400</u>

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

5 Charitable activities - lending

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
The Legacy 2015 Sustainable Sport for Communities Fund	9,800	(31,125)	9,800	(31,125)
Management fee	-	18,000	-	18,000
ASDA Academy	9,391	55,707	9,391	55,707
Recycled funds	83,326	28,653	83,326	28,653
Bad and doubtful debt provision	2,219,655	350,418	106,934	247,212
SIF Risk Capital interest provision	-	234,221	-	234,221
Other capacity building activities	101,323	66,909	101,323	66,909
Support costs (Note 6)	1,686,001	1,236,809	1,542,012	1,128,419
Governance costs (Note 6)	38,686	30,732	31,399	21,084
	<u>4,148,182</u>	<u>1,990,324</u>	<u>1,884,185</u>	<u>1,769,080</u>

6 Support costs

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Staff costs (Note 7)	929,223	784,135	929,223	784,135
Recruitment	11,917	2,200	11,917	2,200
Legal and professional fees	259,180	109,970	204,716	91,288
Depreciation	15,286	20,517	15,286	20,517
Premises	89,570	88,727	89,570	88,727
Office costs	-	25,502	-	25,502
Repairs and maintenance	27,382	25,096	27,382	25,096
Communication and IT	31,251	6,592	31,251	6,592
Travel, accommodation and subsistence	75,782	55,670	75,782	55,670
General expenses	159,328	31,006	156,850	28,692
Interest paid	87,082	87,394	36	-
	<u>1,686,001</u>	<u>1,236,809</u>	<u>1,542,012</u>	<u>1,128,419</u>
Governance costs				
External audit	36,286	28,332	28,999	18,684
Internal audit	2,400	2,400	2,400	2,400
	<u>38,686</u>	<u>30,732</u>	<u>31,399</u>	<u>21,084</u>

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

7 Staff costs

Group and company	2018	2017
	£	£
Wages and salaries	793,346	664,960
Social security costs	77,172	65,460
Pension costs	58,705	53,715
	<u>929,223</u>	<u>784,135</u>

During the year there was one employee whose remuneration fell into the band of £80,001 to £90,000 (2017: one within £80,001 to £90,000).

The key management personnel of the group comprise the Chief Executive Officer, Chief Financial and Strategy Officer, Chief Operations Officer, Chief Customer Officer and Chief Credit and Compliance Officer. The employee benefits for key management totalled £350,101 (2017: £309,356).

Pension costs relate to employer contributions into the group pension scheme that was set up during the year and individual employee private pension schemes. There was £6,667 outstanding for payment as at 31 March 2018 (2017: £6,204).

Trustees' remuneration and expenses

No trustee was remunerated for the year ended 31 March 2018 (2017: £nil). During the year, two (2017: two) trustees received £537 in relation to reimbursed travel expenses (2017: £641).

The average monthly number of employees during the year was:

	Group and Company	
	2018	2017
Full time	14	13
Part time	6	4

8 Tangible fixed assets – group and company

	Office Equipment, Fixtures & Fittings
	£
Cost	
At 1 April 2017	115,856
Additions	18,920
At 31 March 2018	<u>134,776</u>
Depreciation	
At 1 April 2017	92,084
Charge for the year	15,286
At 31 March 2018	<u>107,370</u>
Net book value	
At 31 March 2018	<u>27,406</u>
At 31 March 2017	<u>23,772</u>

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

9 Investments

Company only	Shares in group undertakings £	Shareholder loans £	Total investments £
Cost			
At 1 April 2017	102	5,856,872	5,856,974
Additions	2	1,926,028	1,926,028
At 31 March 2018	104	7,782,900	7,783,004
Net book value			
At 31 March 2018	104	7,782,900	7,783,004
At 31 March 2017	102	5,856,872	5,856,974

The investments brought forward at 1 April 2017 are shown at cost. Investments comprise:

- 100% of the ordinary share capital of SIS (Community Finance) Limited, a subsidiary registered in Scotland;
- 99% of the members capital in Social Growth Fund LLP (100% of the members capital is held within the group), a Limited Liability Partnership registered in Scotland; and
- 100% of the ordinary share capital of SIS Community Capital Limited, a company registered in Scotland.
- 100% of the ordinary share capital of Community Investment Facility Limited, a company registered in England & Wales.
- 100% of the ordinary share capital of SIS (Ventures) Limited, a company registered in Scotland.

The registered office of all subsidiaries is 3rd Floor, Playfair House, 6 Broughton Street Lane, Edinburgh, EH1 3LY and all subsidiaries are included within the consolidated financial statements.

The principal activity of SIS (Community Finance) Limited continued to be the provision of loan finance to third sector organisations based or operating in Scotland. The capital and reserves of SIS (Community Finance) Limited at 31 March 2018 were £2,880,903 including shareholder loans of £2,791,553 (2017: £2,832,003 including shareholder loans of £2,710,525) and the profit for the financial year was £42,631 (2017: £74,759) which includes income of £414,747 (2017: £416,474) and expenditure of £372,116 (2017: £341,715).

The principal activity of Social Growth Fund LLP continued to be the provision of loan finance to third sector organisations based or operating in Scotland. Social Investment Scotland have a membership agreement with Big Society Capital Limited to operate the fund. The capital and reserves of Social Growth Fund LLP at 31 March 2018 were £7,357,616 including members' loan of £9,982,795 (2017: £5,367,770 including members' loans of £6,292,795) and the loss for the financial year was £1,700,154 (2017: profit of £55,762) which includes income of £566,675 (2017: £379,158) and expenditure of £2,266,836 (2017: £323,396).

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

9 Investments (continued)

The principal activity of SIS Community Capital Limited is the provision of loan finance to third sector organisations based or operating in Scotland. The capital and reserves of SIS Community Capital Limited at 31 March 2018 were £1,297 (2017: £1,386) and the loss after tax for the financial period was £89 (2017: profit of £1,385) which includes income of £5,990 (2017: £6,179) and expenditure of £6,070 (2017: £6,133).

The principal activity of Community Investment Facility Limited is the provision of loan finance to eligible social sector organisations based or operating in the United Kingdom. It was incorporated on 13 November 2017. The capital and reserves of Community Investment Facility Limited at 31 March 2018 were £1. The company earned no income nor generated expenditure during the year. Note 17 to these financial statements disclose further details of the purpose, structure and accounting treatment of this subsidiary.

The principal activity of SIS (Ventures) Limited is the provision of equity investment or loan finance in either eligible social sector organisations or mission driven businesses. The company was incorporated on 13 September 2017 and was dormant during the accounting year. The company became authorised by the Financial Conduct authority in May 2018. This gives the company permissions to provide certain regulated services and products.

SIS (Ventures) Limited owns 100% of the ordinary share capital of Impact First Nominees Limited, a company registered in Scotland. The principal activity of the company is to support the provision of loan and equity finance. The company was incorporated on 26 July 2017 and was dormant during the accounting year.

10 Debtors

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Due within one year				
Concessionary loans	3,107,278	730,826	1,533,727	204,091
Prepayments and accrued income	204,608	538,168	191,962	538,168
Other debtors	395,282	56,601	393,602	48,650
	<u>3,707,168</u>	<u>1,325,595</u>	<u>2,119,291</u>	<u>790,909</u>
Due after one year				
Concessionary loans	12,243,288	17,274,045	5,297,071	8,291,508
	<u>15,950,456</u>	<u>18,599,640</u>	<u>7,416,362</u>	<u>9,082,417</u>

Interest is charged on concessionary loans at rates of 4% - 12%. Security is held over certain loans by way of a fixed and/or a floating charge over assets

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

11 Creditors : amounts falling due within one year

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Trade creditors	77,548	22,881	73,909	22,616
Other taxes and social security	21,860	16,967	21,860	16,967
Accruals and deferred income	191,622	95,297	174,842	88,251
Amounts due to group undertakings	-	-	1,479	-
VAT Payable	-	38,638	-	38,638
Other creditors	4,900	-	2,582	-
	<u>295,930</u>	<u>173,783</u>	<u>274,672</u>	<u>166,472</u>

	Group and Company	
	2018	2017
	£	£
Deferred income		
At 1 April 2017	27,913	109,500
Amounts released from previous years	(27,913)	(109,500)
Incoming resources deferred in the current year	93,134	27,913
At 31 March 2018	<u>93,134</u>	<u>27,913</u>

Deferred income represents rental income deferred, and grant income received in advance of performance milestones being met.

12 Creditors : amounts falling due after more than one year

	Group	
	2018	2017
	£	£
1% subordinated unsecured loan stock April 2020	2,000,000	2,000,000
2.5% subordinated unsecured loan stock 2020 (note 14)	2,000,000	2,000,000
Unsecured loan (note 13)	750,000	750,000
Members loans	4,991,347	3,146,348
	<u>9,741,347</u>	<u>7,896,348</u>

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

13 Loans and borrowings

	Group	
	2018	2017
	£	£
Analysis of loans		
Unsecured loans	9,741,347	7,896,348
	<u>9,741,347</u>	<u>7,896,348</u>
Maturity of debt		
Within one year	-	-
Between two and five years	8,991,347	7,146,348
In more than five years	750,000	750,000
	<u>9,741,347</u>	<u>7,896,348</u>

The group has £2,000,000 of 1% subordinated unsecured loan stock repayable in April 2020.

The group has £2,000,000 of 2.5% subordinated unsecured loan stock repayable in December 2020.

The group has a £750,000 1.5% unsecured loan not repayable before December 2025.

14 Provisions for liabilities

	Group and company	
	2018	2017
	£	£
Unsecured loans	-	250,000
	<u>-</u>	<u>250,000</u>

In 2012, £250,000 was received from the Scottish Government under the terms of the Green Equity Fund Pilot Scheme. This was then loaned on to a specific project and fell repayable as and when funds were repaid from the underlying loan agreement, which occurred during the year.

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

15 Financial assets and liabilities

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Financial assets				
Financial assets at amortised cost	31,410,630	29,848,763	16,404,888	16,890,296
Financial liabilities				
Financial liabilities at amortised cost	(10,037,277)	(8,236,613)	(159,677)	(332,954)

Financial assets at amortised cost comprise of cash, concessionary loans, accrued income and other debtors. Company financial assets also includes amounts due by group undertakings.

Financial liabilities comprise of trade creditors, other creditors, accruals and all amounts falling due after more than one year.

Company financial liabilities also include amounts due to group undertakings.

16 Operating lease and other commitments

At 31 March 2018 the group and charitable company had commitments under non-cancellable operating leases as set out below:

	Land and buildings		Other	
	2018	2017	2018	2017
	£	£	£	£
Operating leases payments falling due:				
Within 1 year	42,098	42,098	2,312	2,312
Between two and five years	94,721	126,294	5,202	7,514
Over 5 years	-	21,049	-	-
	<u>136,819</u>	<u>189,441</u>	<u>7,514</u>	<u>9,826</u>

At 31 March 2018 the group and charitable company had the following contractual commitments under signed loan or grant agreements, not yet drawn down, as set out below:

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Loans	<u>4,145,215</u>	<u>884,836</u>	<u>199,250</u>	<u>110,000</u>

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

17 Movement in funds

Group - 2018	At 1 April 2017 £	Income £	Expenditure and transfers £	At 31 March 2018 £
Unrestricted funds				
General fund	901,274	1,278,832	(1,409,359)	770,747
Designated funds:				
Social Surplus Fund	2,049	-	(500)	1,549
Default reserve	1,900,000	-	-	1,900,000
Margin reserve	350,000	-	-	350,000
	<u>3,153,323</u>	<u>1,278,832</u>	<u>(1,409,859)</u>	<u>3,022,296</u>
Restricted funds				
The Scottish Investment Fund	17,318,959	520,533	72,193	17,911,685
The Legacy 2014 Sustainable Sport for Communities Fund	35,236	37	(35,273)	-
The ASDA Bag Levy Fund	1,723,301	763,125	(277,334)	2,209,092
Social Growth Fund	(925,027)	566,678	(2,266,830)	(2,625,179)
SIS Community Capital	1,385	5,990	(6,079)	1,296
Scotland's Social Enterprise Strategy 2016-2026	225,000	-	(225,000)	-
Carnegie Affordable Credit Loan Fund	-	1,000,641	-	1,000,641
Community Investment Facility Fund	-	-	-	-
	<u>18,378,854</u>	<u>2,857,004</u>	<u>(2,738,323)</u>	<u>18,497,535</u>
Total funds	<u>21,532,177</u>	<u>4,135,836</u>	<u>(4,148,182)</u>	<u>21,519,831</u>

A £300,000 transfer has been made between the Social Growth Fund and the general fund at 31 March 2018. This transfer is necessary to correctly account for the Social Growth Fund management charges removed on consolidation.

A £25,447 transfer has been made between the Legacy 2014 Sustainable Sport for Communities Fund and the general fund at 31 March 2018. This transfer is for the release of underspend of these restricted funds to unrestricted funds, with permission obtained from the funder to remove all restrictions on these monies.

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

17 Movement in funds (continued)

Group - 2017	At 1 April 2016 £	Income £	Expenditure and transfers £	At 31 March 2017 £
Unrestricted funds				
General fund	1,290,624	1,162,271	(1,551,621)	901,274
Designated funds:				
Social Surplus Fund	11,211	-	(9,162)	2,049
Default reserve	1,795,338	-	104,662	1,900,000
Margin reserve	-	-	350,000	350,000
	<u>3,097,173</u>	<u>1,162,271</u>	<u>(1,106,121)</u>	<u>3,153,323</u>
Restricted funds				
The Scottish Investment Fund	17,053,890	629,238	(364,169)	17,318,959
The Legacy 2014 Sustainable Sport for Communities Fund	25,852	(3,664)	13,048	35,236
The ASDA Bag Levy Fund	593,544	1,333,310	(203,553)	1,723,301
Social Growth Fund	(980,788)	379,157	(323,396)	(925,027)
SIS Community Capital	1,339	6,179	(6,133)	1,385
Scotland's Social Enterprise Strategy 2016-2026	-	225,000	-	225,000
	<u>16,693,837</u>	<u>2,569,220</u>	<u>(884,203)</u>	<u>18,378,854</u>
Total funds	<u>19,791,010</u>	<u>3,731,491</u>	<u>(1,990,324)</u>	<u>21,532,177</u>

A £300,000 transfer has been made between the Social Growth Fund and the general fund at 31 March 2017. This transfer is necessary to correctly account for the Social Growth Fund management charges removed on consolidation.

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

17 Movement in funds (continued)

Company - 2018	At 1 April 2017 £	Income £	Expenditure and transfers £	At 31 March 2018 £
Unrestricted funds				
General fund	779,798	1,319,872	(1,418,271)	681,399
Designated funds:				
Social Surplus Fund	2,049	-	(500)	1,549
Default reserve	1,900,000	-	-	1,900,000
Margin reserve	350,000	-	-	350,000
	<u>3,031,847</u>	<u>1,319,872</u>	<u>(1,418,771)</u>	<u>2,932,948</u>
Restricted funds				
The Scottish Investment Fund	17,318,959	520,533	72,193	17,911,685
The Legacy 2014 Sustainable Sport for Communities Fund	35,236	37	(35,273)	-
The ASDA Bag Levy Fund	1,723,301	763,125	(277,334)	2,209,092
Scotland's Social Enterprise Strategy 2016-2026	225,000	-	(225,000)	-
Carnegie Affordable Credit Loan Fund	-	1,000,641	-	1,000,641
	<u>19,302,496</u>	<u>2,284,336</u>	<u>(465,414)</u>	<u>21,121,418</u>
Total funds	<u>22,334,343</u>	<u>3,604,208</u>	<u>(1,844,185)</u>	<u>24,054,366</u>

A £25,447 transfer has been made between the Legacy 2014 Sustainable Sport for Communities Fund and the general fund at 31 March 2018. This transfer is for the release of underspend of these restricted funds to unrestricted funds, with permission obtained from the funder to remove all restrictions on these monies.

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

17 Movement in funds (continued)

Company - 2017	At 1 April 2016 £	Income £	Expenditure and transfers £	At 31 March 2017 £
Unrestricted funds				
General fund	1,171,237	1,268,467	(1,659,906)	779,798
Designated funds:				
Social Surplus Fund	11,211	-	(9,162)	2,049
Default reserve	1,795,338	-	104,662	1,900,000
Margin reserve	-	-	350,000	350,000
	<u>2,977,786</u>	<u>1,268,467</u>	<u>(1,214,406)</u>	<u>3,031,847</u>
Restricted funds				
The Scottish Investment Fund	17,053,890	629,238	(364,169)	17,318,959
The Legacy 2014 Sustainable Sport for Communities Fund	25,852	(3,664)	13,048	35,236
The ASDA Bag Levy Fund	593,544	1,333,310	(203,553)	1,723,301
Scotland's Social Enterprise Strategy 2016-2026	-	225,000	-	225,000
	<u>17,673,286</u>	<u>2,183,884</u>	<u>(554,674)</u>	<u>19,302,496</u>
Total funds	<u>20,651,072</u>	<u>3,452,351</u>	<u>(1,769,080)</u>	<u>22,334,343</u>

A £300,000 transfer has been made between the Social Growth Fund and the general fund at 31 March 2017. This transfer is necessary to correctly account for the Social Growth Fund management charges removed on consolidation.

Designated funds

Designated funds represent reserves held to safeguard the future core lending activities of the Group. These funds are used to absorb bad and doubtful debts on the core CITR book and provide a margin cover in the event in the loss of profitability in the SIS CF loan book.

Default reserve – £1.9m and reviewed quarterly.
Margin reserve – £350k and reviewed quarterly.

Contributions to the surplus fund will be made on an annual basis, in line with the finalisation of consolidated group financial statements. Subject to the final ratification of the SIS Board, contributions to the fund will be calculated as 25% of any annual surplus reported over and above £50,000, the surplus being derived from group unrestricted funds. Funds will be designated to the surplus fund but will remain unrestricted funds for accounting purposes. In any financial year the board shall not be compelled to make an allocation to the fund, and will always retain the right of veto on any designation of funds.

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

17 Movement in funds (continued)

Restricted funds

The Scottish Investment Fund was set up in 2008 to provide third sector organisations a broad range of financial support including loans, risk capital funding and non-repayable (grant) investments. The Scottish Government subscribed a total of £31,800,000 to the fund in the four-year period to 31 March 2012.

The Legacy 2014 Sustainable Sport for Communities Fund was set up in 2014 to support the sustainability of aspiring and existing social enterprises delivering sport and physical activity in communities across Scotland. The Scottish Government subscribed £500,000 to the fund in the year to 31 March 2014.

The Asda Bag Levy Fund was created in 2015 and is capitalised through a partnership with Asda Stores Limited. The fund is designed to support early stage social enterprises looking to access social investment for the first time. Using money raised through the carrier bag levy, the fund aims to support social enterprises to make the step change they need to increase their social impact and/or financial sustainability. Monies received also support the delivery of the Social Enterprise Supplier Development Academy. The Academy is an innovative new programme of investment and business support with the ambition of getting more social enterprise products stocked in large retailers.

The Social Growth Fund was set up in 2014 for the purposes of providing debt finance to third sector organisations in Scotland, including term loans and patient capital products. During the year, Social Investment Scotland advanced £629,701 (2016: £962,500) by way of a members' capital to support the activities of the fund. The Social Growth Fund is fully consolidated based on control of the LLP and as a result the losses are recognised onto the consolidated balance sheet of Social Investment Scotland. If losses were to crystallise then they would be equally split between capital partners.

SIS Community Capital was formed in 2015 to utilise the newly introduced Social Investment Tax Relief (SITR) and provides flexible loan finance to third sector organisations in Scotland. The pilot fund is capitalised with monies from private investors and is operated as an unregulated collective investment scheme using a nominee structure. SIS performs the role of specialist advisor to SIS Community Capital and is 100% shareholder in the corporate vehicle delivering the fund.

The Scottish Social Enterprise Strategy Fund was formed in 2017 to support the work contributing to Scotland's 10 year Social Enterprise Strategy for 2016-2026. The fund main objectives are to stimulate social enterprise through awareness raising, impact hubs and mission-led business, develop stronger organisations through business support and to realise market opportunities through a series of 'Buy Social Academies'. The Scottish Government subscribed £225,000 to the fund in the year to 31 March 2017.

The Carnegie Affordable Credit loan fund was formed in early 2018 in partnership with the Carnegie UK Trust. The purpose of the fund is to provide debt finance to not-for-profit responsible Finance Providers to help them expand their loan books and be able to provide greater access to affordable credit. During the year the Carnegie UK Trust capitalised the fund with £1,000,000 (2017: Nil).

SOCIAL INVESTMENT SCOTLAND
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17 Movement in funds (continued)

Restricted funds (continued)

The Community Investment Facility ("CIF") Fund was launched in early 2018, in partnership with Big Society Capital Limited ("BSC"). The fund will invest £30m in Community Development Finance Institutions (CDFIs) that operate in different parts of the UK, including areas outside Scotland. The main objectives of the fund are to help build the CDFI marketplace and provide capital at scale. A parent share pledge was granted by Social Investment Scotland on 13th December 2017 over the £1 share capital in CIF Limited in favour of BSC as chargee. CIF Limited is accounted for on a "nominee basis" as ultimately the economic benefit and liabilities lie with BSC.

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
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Analysis of net assets between funds

Group - 2018	Tangible fixed assets £	Net current assets £	Long term liabilities & provisions £	Total £
Unrestricted funds	27,406	7,744,890	(4,750,000)	3,022,296
Restricted funds:				
The Scottish Investment Fund	-	17,911,685	-	17,911,685
The Legacy 2014 Sustainable Sport for Communities Fund	-	-	-	-
ASDA bag levy fund	-	2,209,092	-	2,209,092
Social Growth Fund	-	2,366,168	(4,991,347)	(2,625,179)
SIS Community Capital fund	-	1,296	-	1,296
Scotland's Social Enterprise Strategy 2016-2026	-	-	-	-
Carnegie Affordable Credit Loan Fund	-	1,000,641	-	1,000,641
Community Investment Facility Fund	-	-	-	-
	<u>27,406</u>	<u>31,233,772</u>	<u>(9,741,347)</u>	<u>21,519,831</u>

Company - 2018	Tangible fixed assets & investments £	Net current assets £	Long term liabilities £	Total £
Unrestricted funds	2,812,151	120,797	-	2,932,948
Restricted funds:				
The Scottish Investment Fund	4,991,347	12,920,338	-	17,911,685
The Legacy 2014 Sustainable Sport for Communities Fund	-	-	-	-
The ASDA Bag Levy Fund	-	2,209,092	-	2,209,092
Scotland's Social Enterprise Strategy 2016-2026	-	-	-	-
Carnegie Affordable Credit Loan Fund	-	1,000,641	-	1,000,641
	<u>7,803,498</u>	<u>16,250,868</u>	<u>-</u>	<u>24,054,366</u>

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

18 Analysis of net assets between funds (continued)

Group - 2017	Tangible fixed assets £	Net current assets £	Long term liabilities & provisions £	Total £
Unrestricted funds	23,772	8,129,551	(5,000,000)	3,322,296
Restricted funds:				
The Scottish Investment Fund	-	17,318,959	-	17,318,959
The Legacy 2014 Sustainable Sport for Communities Fund	-	35,236	-	35,236
ASDA bag levy fund	-	1,723,301	-	1,723,301
Social Growth Fund	-	2,221,321	(3,146,348)	(925,027)
SIS Community Capital fund	-	1,385	-	1,385
Scotland's Social Enterprise Strategy 2016-2026	-	225,000	-	225,000
	<u>23,772</u>	<u>29,654,753</u>	<u>(8,146,348)</u>	<u>21,532,177</u>

Company - 2017	Tangible fixed assets & investments £	Net current assets £	Long term liabilities £	Total £
Unrestricted funds	2,734,398	547,449	(250,000)	3,031,847
Restricted funds:				
The Scottish Investment Fund	3,146,348	14,172,611	-	17,318,959
The Legacy 2014 Sustainable Sport for Communities Fund	-	35,236	-	35,236
The ASDA Bag Levy Fund	-	1,723,301	-	1,723,301
Scotland's Social Enterprise Strategy 2016-2026	-	225,000	-	225,000
	<u>5,880,746</u>	<u>16,703,597</u>	<u>(250,000)</u>	<u>22,334,343</u>

SOCIAL INVESTMENT SCOTLAND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2018

19 Reconciliation of net income to net cash flow from operating activities

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Net income for the year	(12,346)	1,741,167	1,720,023	1,683,271
Adjustments for:				
Depreciation charges	15,288	20,517	15,288	20,517
Investment income	(44,864)	(54,678)	(36,293)	(24,974)
Decrease/(increase) in debtors	2,649,184	(491,423)	1,666,055	1,609,893
Decrease in creditors	(127,853)	(45,084)	(141,800)	(28,779)
Net cash provided by operating activities	2,479,409	1,170,499	3,223,273	3,259,928

20 Ultimate controlling party

In the opinion of the trustees, the charitable company has no ultimate controlling party.

21 Other professional services provided by the auditor

In common with many other entities of our size and nature we use our auditor to prepare and submit returns to the tax authorities, provide corporate finance and tax consultancy and assist with the preparation of the financial statements.

22 Related party transactions

At the year end there are amounts payable by Cornerstone Community Care, a company in which Lynne Robertson has a significant influence, totalling £267,946 (2017: £370,530). During the year repayments were received of £120,523 (2017: £120,523) which included interest repayments of £17,939 (2017: £23,490). During the year, £17,939 (2017: £23,490) of interest had been accrued for.

At the year end there is an amount payable by Broxburn United Sports Club, a company in which Thomas Gillan is a director, totalling £72,446 (2017: £74,374). During the year repayments were received of £4,559 (2017: £6,825) which included interest of £2,631 (2017: £5,044).

Social Investment Scotland charged a management charge of £81,028 (2017: £150,000) to SIS (Community Finance) Limited, one of its subsidiaries, in the year. SIS (Community Finance) Limited gift aided £74,759 (2017: £72,670) to Social Investment Scotland in the year. There is a balance of £2,791,553 (2017: £2,710,525) due at the year end from SIS (Community Finance) Limited, this is included within investments in the company. These transactions have been removed on consolidation.

Social Investment Scotland charged a management charge of £300,000 (2017: £300,000) to Social Growth Fund LLP, one of its subsidiaries, in the year. They also loaned the partnership £1,845,000 (2017: £629,701) in the year per an agreement in place with Social Growth Fund and Big Society Capital. There is a balance of £4,991,348 (2017: £3,146,348) due at the year end from the LLP, this is included within investments in the company. These transactions have been removed on consolidation.

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22 Related party transactions (continued)

At the year end there is an amount payable by Social Bite, an organisation that Morag McNeill is a trustee of, totalling £84,785 (2017: £121,305). During the year, repayments were received of £297,366 (2017: £43,859). These repayments included repayment of a bridging facility and interest repayments of £10,485 (2017: £9,800).

23 Guarantee

The members of the charitable company have agreed to contribute £1 each to the assets of the charitable company in the event of it being wound up.

24 Prior year statement of financial activities

Group	Restricted Funds £	Unrestricted Funds £	2017 Total £
Income and endowments from:			
Charitable activities	2,539,988	1,136,825	3,676,813
Investments	29,232	25,446	54,678
Total	2,569,220	1,162,271	3,731,491
Expenditure on:			
Charitable activities	584,203	1,406,121	1,990,324
Net income/(expenditure)	1,985,017	(243,850)	1,741,167
Transfers between funds	(300,000)	300,000	-
Net movement in funds for the year	1,685,017	56,150	1,741,167
Company	Restricted Funds £	Unrestricted Funds £	2017 Total £
Income and endowments from:			
Donations and legacies	-	72,670	72,670
Charitable activities	2,159,800	1,194,906	3,354,706
Investments	24,084	891	24,975
Total	2,183,884	1,268,467	3,452,351
Expenditure on:			
Charitable activities	554,674	1,214,406	1,769,080
Net income and net movement in funds for the year	1,629,210	54,061	1,683,271