
SME WHOLESALE FINANCE (LONDON) LIMITED
(A Company Limited by Guarantee)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

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SME WHOLESALE FINANCE (LONDON) LIMITED
(A Company Limited by Guarantee)

COMPANY INFORMATION

Directors	P Barnett Sir H A McGrath D L Prais M E Rodriguez-Piza A Conway
Registered number	05165896
Registered office	330 Holborn Gate 326-332 High Holborn London WC1V 7QH
Independent auditor	CLA Evelyn Partners Limited Chartered Accountants & Statutory Auditor 45 Gresham Street London EC2V 7BG
Bankers	Barclays Bank Plc 1 Churchill Place Canary Wharf London E14 5HP
Fund managers	MMC Ventures Limited 24 High Holborn London WC1V 6AZ FSE Group Riverside House 4 Meadows Business Park Station Approach Blackwater Camberley Surrey GU17 9AB

SME WHOLESALE FINANCE (LONDON) LIMITED
(A Company Limited by Guarantee)

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SME WHOLESALE FINANCE (LONDON) LIMITED
(A Company Limited by Guarantee)

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2023

The directors present their report and the financial statements for the year ended 31 March 2023.

Principal activity

SME Wholesale Finance (London) Limited (the "Company") was established in 2004 by the then Mayor of London with a specific long-term mandate to support the Economic Development Strategy for London through its SME funding activities. Since our inception, we have continually deployed funding from the European Regional Development Fund ('ERDF') Programmes (2000-2006, 2007-2013 and 2014-2020) and the GLA's Growing Places Fund via our SME investment funds. Returns generated from our funds are re-invested into the London ecosystem, driving growth for the next generation.

The Company's vision is to be the catalyst for growth businesses within the capital by:

1. Providing strategic funding and independent support for early-stage businesses within the London ecosystem;
2. Enabling sustainable growth opportunities for small businesses;
3. Supporting best of breed fund managers to deliver investment to small businesses; and
4. Reinvesting success, fuelling continuous fund provision to support the next generation of high growth businesses.

Ownership

The Company is a wholly owned subsidiary of the Greater London Authority ('GLA'). The Company operates on an arms-length basis to the GLA.

Current Activities

During the financial year, our funds deployed £26m alongside £168m of private sector co-investment.

Our funds



Launched 2012
£12.7m invested
19 early-stage SMEs Late
Seed to Series A in sectors of
strategic importance

Managed by MMC VC



**LONDON
CO-INVESTMENT
FUND**

Launched 2014
£23m invested
150 start ups
Pre-seed/Seed in digital
and tech sectors

Managed In house



**GREATER LONDON
INVESTMENT FUND**

Launched 2019
£100m to be invested by 2025
170 SMEs
Growth Loans and Pre-Seed to Series A
Addressing persistent market failures

Managed by MMC VC and FSE Group

The MMC London Fund is at the end of its portfolio phase having invested £12.7m in 19 London based companies. Notable companies in the portfolio include Gousto, a home ingredient delivery service, and Mubi which is a subscription streaming service. Exits to date have generated £14.1m of gross profits which is equivalent to a DPI of 0.93x. The remaining portfolio is valued at £10.96m, giving a TVPI of 1.65x.

SME WHOLESALE FINANCE (LONDON) LIMITED
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DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2023

The London Co-Investment Fund ('LCIF') is operated through the legal entity LCIF LLP. The fund invested alongside a cohort of 14 competitively selected partners who represent a broad range of investors including venture capital funds, angel syndicates and crowd funding. LCIF's investment period ended in April 2019. Proceeds from exits are reinvested in follow-on rounds. To date, the fund has invested £26.4m in 150 companies alongside £369m from co-investors. The Company has a 6.2% share in the fund, the remaining 93.8% share is attributable to grant funding provided by the GLA from the Growing Places Fund.

At 31 March 2023, the live portfolio was valued at £48.56m (2022 - £57.5m) and the Company's share is £2.9m (2022 - £3.5m). Exits to date amount to £8.68m, with the Company's share being £538k.

Greater London Co-investment Fund ('GLIF') launched its £100m fund of funds in April 2019. GLIF is funded by a £50m facility from the European Investment Bank, a £35m grant from the ERDF (2014-2020) Programme (which is managed by the GLA), a £7m grant from ReLondon and £8m of the Company's own legacy funds.

The FSE Group manages the two loan sub funds with a commitment to invest a total of £55m and MMC Ventures manages the equity fund which has a commitment to invest £45m. As at 31 March 2023, GLIF fund managers had deployed £67.1m across 139 SMEs.

During the year the Company has contributed £5m from its legacy funds to finance GLIF's activities. This brings the total contributed since inception to £10.9m.

Other Programmes

**London Business Hub
Investment Ready Programme**

Launched 2022
For underrepresented entrepreneurs
Remove barriers to successful
fundraising

*59 SMEs supported to be investment
ready. Of these, 12 companies, have
raised £9.7m so far. 84% are led by
underrepresented founders*

We have secured a grant from the UK Shared Prosperity Fund which will allow us to support a further 100 SMEs with this important programme until March 2025.

Legacy Funds and the evergreen model

Since 2012, c. £21m of returns generated by our funds have been reinvested into newer funds. Of this £7.25m were returns generated by our first ever funds launched between 2008 and 2010. The balance of £13.75m is attributable to the MMC London Fund which was established in late 2012.

In addition, the London Co-investment Fund is reinvesting proceeds from exits. To date, exit proceeds amount to £8.68m. As more portfolio companies are exited, LCIF will continue to reinvest returns either as follow on funding in current portfolio companies or, in due course, in new companies.

SME WHOLESALE FINANCE (LONDON) LIMITED
(A Company Limited by Guarantee)

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2023

Our impact

Since inception, we have invested £129m via five equity and seven loan funds as part of £946m of total investment received by 770 SMEs. Approximately 12,825 jobs have been created or safeguarded by our investees.

Our funds are much more representative of the diversity in London's population than the industry



Champion of sustainability and net zero

The Greater London Investment Fund intends to deploy at least £14M (out of £100M) to Circular Economy companies. So far £8.4m was invested in 13 SMEs.

The London Co-Investment Fund supporting sustainable business models has invested over £1M in this sector

Future Prospects

During the financial year, the market correction of the second half of 2022 had a significant impact on our equity portfolios both in terms of availability of funding and valuations. Many companies shifted focus from growth to profitability and we expect that this will continue for some time. In the first half of 2023 funding conditions seem to be easing.

The persistently high inflationary environment and the continued increases to interest rates continue to impact investee companies. Most of the consumer-facing companies in our portfolios are managing through although a limited number have had to cease trading. Our fund managers continue to monitor the portfolios closely.

Although inflationary pressures have begun to ease, inflation is declining more slowly than expected and further interest rate rises are predicted for the remainder of 2023. Therefore, we expect trading conditions will continue to be difficult until early 2024.

Result for the Year

For the year to 31 March 2023, the Company reported a loss before tax of £11,243,353 (2022 - a gain before tax of £4,725,777). This loss is primarily made up of unrealised losses in the investment portfolio. The closing cash position at 31 March 2023 was £1,655,969 (2022 - £7,362,356).

SME WHOLESALE FINANCE (LONDON) LIMITED
(A Company Limited by Guarantee)

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2023

Financial risk management

The Company's financial risk management objectives and policies are disclosed in note 4 of the financial statements.

Directors

The directors who served during the year were:

P Barnett
J C Izzard (resigned 2 August 2022)
M M Mc Mahon (resigned 15 May 2023)
Sir H A McGrath
P Paranjothi (resigned 15 May 2023)
D L Prais
M E Rodriguez-Piza
A Conway (appointed 14 July 2022)

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Auditor

The auditor, CLA Evelyn Partners Limited, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Small companies note

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

This report was approved by the board and signed on its behalf.



M E Rodriguez-Piza
Director

Date: 12 October 2023

SME WHOLESALE FINANCE (LONDON) LIMITED
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DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 MARCH 2023

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SME WHOLESALE FINANCE (LONDON)
LIMITED

Opinion

We have audited the financial statements of SME Wholesale Finance (London) Limited (the 'Company') for the year ended 31 March 2023 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 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 Company's affairs as at 31 March 2023 and of its loss 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.

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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other 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 opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

SME WHOLESALE FINANCE (LONDON) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SME WHOLESALE FINANCE (LONDON) LIMITED (CONTINUED)

Other information

The other information comprises the information included in the Directors' Report and Financial Statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Directors' Report and Financial Statements. 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. 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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report 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 Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors 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 directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

SME WHOLESALE FINANCE (LONDON) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SME WHOLESALE FINANCE (LONDON) LIMITED (CONTINUED)

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained a general understanding of the Company's legal and regulatory framework through enquiry of management in respect of their understanding of the relevant laws and regulations. We obtained an understanding of the Company's policies and procedures in relation to compliance with relevant laws and regulations. We also drew on our existing understanding of the Company's industry and regulation.

We understand that the Company complies with requirements of the framework through:

- Internal reviews and reporting;
- Updating operating procedures, manuals and internal controls as legal and regulatory requirements change; and
- The directors' close involvement in the day-to-day running of the business, meaning that any litigation or claims would come to their attention directly and are considered at Board meetings.

In the context of the audit, we considered those laws and regulations which determine the form and content of the financial statements, which are central to the Company's ability to conduct its business and where failure to comply could result in material penalties.

We have identified the following laws and regulations as being of significance in the context of the Company:

- The Companies Act 2006 and FRS 102 in respect of the preparation and presentation of the financial statements.

To gain evidence about compliance with the significant laws and regulations above we reviewed board meeting minutes, made enquiries of management and obtained written management representations regarding the adequacy of procedures in place.

The senior statutory auditor led a discussion with senior members of the engagement team regarding the susceptibility of the company's financial statements to material misstatement, including how fraud might occur. The key areas identified as part of the discussion were the risk of manipulation of the financial statements through manual journal entries, the incorrect recognition of revenue and the manipulation of the fair value of investments. These areas were communicated to the other members of the engagement team who were not present at the discussion.

The procedures we carried out to gain evidence in the above areas included;

- Testing of a sample of revenue transactions to underlying documentation;
- Testing a sample of valuations of investments held at fair value at 31 March 2023; and
- Testing of a sample of manual journal entries, selected through applying specific risk assessments based on the company's processes and controls surrounding manual journal entries.

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

SME WHOLESALE FINANCE (LONDON) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SME WHOLESALE FINANCE (LONDON)
LIMITED (CONTINUED)

Use of our report

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

CLA Evelyn Partners Limited

Mark Bishop FCA (Senior Statutory Auditor)

for and on behalf of

CLA Evelyn Partners Limited

Chartered Accountants
Statutory Auditor

45 Gresham Street

London

EC2V 7BG

Date: 12 October 2023

SME WHOLESALE FINANCE (LONDON) LIMITED
(A Company Limited by Guarantee)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2023

	2023 £	2022 £
Turnover	318,007	14,999
Net (loss)/gain from financial assets at fair value through profit or loss	(10,460,565)	5,549,143
Gross (loss)/profit	(10,142,558)	5,564,142
Administrative expenses	(1,102,082)	(838,401)
Operating (loss)/profit	(11,244,640)	4,725,741
Interest receivable and similar income	1,287	36
(Loss)/profit before tax	(11,243,353)	4,725,777
Tax on (loss)/profit	(20,146)	(290,081)
(Loss)/profit for the financial year	(11,263,499)	4,435,696

There was no other comprehensive income for 2023 (2022 - £Nil).

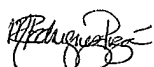
SME WHOLESALE FINANCE (LONDON) LIMITED
(A Company Limited by Guarantee)
REGISTERED NUMBER:05165896

BALANCE SHEET
AS AT 31 MARCH 2023

	Note	2023 £	2022 £
Fixed assets			
Investments	8	21,993,367	30,544,835
		<u>21,993,367</u>	<u>30,544,835</u>
Current assets			
Debtors: amounts falling due within one year	9	4,136,907	1,549,410
Cash at bank and in hand		1,655,969	7,362,356
		<u>5,792,876</u>	<u>8,911,766</u>
Creditors: amounts falling due within one year	10	(220,685)	(545,164)
Net current assets		<u>5,572,191</u>	<u>8,366,602</u>
Total assets less current liabilities		<u>27,565,558</u>	<u>38,911,437</u>
Creditors: amounts falling due after more than one year	11	(623,794)	(706,174)
Net assets		<u><u>26,941,764</u></u>	<u><u>38,205,263</u></u>
Capital and reserves			
Capital reserve	12	20,904,155	20,904,155
Retained earnings	12	6,037,609	17,301,108
Shareholders' funds		<u><u>26,941,764</u></u>	<u><u>38,205,263</u></u>

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime and in accordance with the provisions of FRS 102 Section 1A - small entities.

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



M E Rodriguez-Piza
Director

Date: 12 October 2023

The notes on pages 13 to 25 form part of these financial statements.

SME WHOLESALE FINANCE (LONDON) LIMITED
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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2023

	Capital reserve £	Retained earnings £	Total equity £
At 1 April 2021	20,904,155	12,865,412	33,769,567
Comprehensive income for the year			
Profit for the year	-	4,435,696	4,435,696
At 1 April 2022	20,904,155	17,301,108	38,205,263
Comprehensive loss for the year			
Loss for the year	-	(11,263,499)	(11,263,499)
At 31 March 2023	20,904,155	6,037,609	26,941,764

SME WHOLESALE FINANCE (LONDON) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

1. General information

SME Wholesale Finance (London) Limited is a private company, limited by guarantee, domiciled and incorporated in England and Wales (registered number: 05165896). The registered office address is 330 Holborn Gate, 326-332 High Holborn, London, WC1V 7QH.

The Company's functional and presentational currency is GBP.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Section 1A of Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The Company holds investments in LCIF LLP and GLIF Limited in addition to being the sole limited partner of a sub-fund into which the Company invests. The directors have therefore considered whether the Company has control over these entities for accounting purposes. The directors' assessment has considered, in particular, the provisions of the profit sharing and limited partnership agreements, the basis on which investment decisions are made for the funds by the respective fund managers, and the interactions between the entities. The directors have concluded that the Company does not exercise control over the Company's investments and therefore they are not consolidated within these financial statements.

The following principal accounting policies have been applied:

2.2 Going concern

The directors have made an assessment in preparing these financial statements as to whether the Company is a going concern and have concluded that there are no material uncertainties that may cast doubt on the Company's ability to continue as a going concern.

2.3 Turnover

Turnover represents grant contributions to specific items of expenditure (see 2.4 below), and sundry investment income.

SME WHOLESALE FINANCE (LONDON) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

2. Accounting policies (continued)

2.4 Grants

Grants received from UK and European government agencies are deferred until utilised as a contribution towards specific items of expenditure or, by making loans or fixed asset investments in accordance with the conditions of the grant.

Contributions to specific items of expenditure are credited to profit or loss when the related expenditure is expensed.

Grants utilised by making loans or fixed asset investments are transferred to a Capital Reserve.

2.5 Interest income

Interest income is recognised in profit or loss using the effective interest method.

Interest earned on funds received from Government agencies is deferred in the accounts for future capital investments in SMEs where it has not been set against expenditure in any year. Interest earned on funds from Government agencies is accounted for on an accruals basis when receivable.

SME WHOLESALE FINANCE (LONDON) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

2. Accounting policies (continued)

2.6 Valuation of investments

'Capital investment in Limited Partnership', as disclosed in note 8, represents the Company's capital contribution as a Limited Partner, in a Limited Partnership established to undertake commercial investments in micro, small and medium sized enterprises which have their principal place of business, or a majority of their operations, in London. The fair value of the investment represents the Company's share of the capital accounts of the relevant Limited Partnership.

'Investment loans to Limited Partnership', as disclosed in note 8, are loans made to finance equity investments by a Limited Partnership in which the Company is a Limited Partner and form part of the Company's commitment to the Limited Partnership. The fair value of the loan is considered to be the amount borrowed by the Limited Partnership less impairment. When considering whether any impairment provision is required against these loans, reference is made to the underlying investment portfolio these loans have been used to finance.

'Unlisted and listed investments', as disclosed in note 8, held by the Company are classified as financial assets at fair value through profit or loss. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where financial instruments are held at fair value and not traded in an active market, the fair value is determined using valuation techniques. The valuation techniques used are dependent on the level of data, the circumstances and the availability of observable inputs for each such financial instrument but may include comparable, recent arm's length transactions and discounted cash flow analysis.

The fair value is determined in accordance with the International Private Equity and Venture Capital "IPEV" Guidelines from December 2022 and the IPEV Special Guidance issued in March 2020 (in response to COVID-19).

Net gains or losses from financial assets and liabilities at fair value through profit or loss recognised in the Statement of comprehensive income includes all realised and unrealised fair value changes but does not include interest and dividend income.

"Other loans to Limited Partnership", as disclosed in note 8, are loans made to fund the General Partner's Share and other expenses incurred by the Limited Partnership in which the Company is a Limited Partner. The General Partner's Share, in accordance with the Limited Partnership agreement, are amounts due to the General Partner, in respect of fund establishment and management fees. These loans are interest free and repayable out of the future profits of the partnership as they arise. The fair value of the loans is considered to be the amount borrowed less impairment. Due to the uncertainty of the availability of future profits in the Limited Partnership, an impairment provision is made against these loans when they are drawn down.

SME WHOLESALE FINANCE (LONDON) LIMITED
(A Company Limited by Guarantee)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

2. Accounting policies (continued)

2.7 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.8 Financial instruments

Financial assets and financial liabilities are recognised in the Balance Sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade and other debtors and creditors are classified as basic financial instruments and measured on initial recognition at transaction price. Debtors and creditors are subsequently measured at amortised cost using the effective interest rate method. A provision is established when there is objective evidence that the Company will not be able to collect all amounts due.

Cash and cash equivalents are classified as basic financial instruments and comprise cash in hand and at bank, short-term bank deposits with an original maturity of three months or less and bank overdrafts which are an integral part of the Company's cash management.

Financial liabilities and equity instruments issued by the Company are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Interest bearing bank loans, overdrafts and other loans which meet the criteria to be classified as basic financial instruments are initially recorded at the present value of cash payable to the bank, which is ordinarily equal to the proceeds received net of direct issue costs. These liabilities are subsequently measured at amortised cost, using the effective interest rate method.

SME WHOLESALE FINANCE (LONDON) LIMITED
(A Company Limited by Guarantee)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

2. Accounting policies (continued)

2.9 Taxation

Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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3. Judgements in applying accounting policies and key sources of estimation uncertainty

Judgements

In preparing the financial statements, the directors recognise different types of investment held, as set out in note 2.6. These include unlisted investments held directly, and partnership shares in Funds which invest in both loans and equity. The directors have exercised judgement over the basis of the valuation in determining the fair value of equities not quoted in an active market, with the valuation typically based on the most recent funding round.

Where the Company owns a share in a partnership it recognises the fair value of the investment as its share of the members' capital.

Estimates

The valuation of unlisted equity and debt securities held by the partnerships inevitably involves estimation uncertainty as there are no active markets to determine the fair value of these securities. These are typically young companies raising early stage seed or pre seed funding.

The fund managers will apply some standard valuation approaches. For underlying loan investments these are generally valued at cost less any impairment. For underlying equity investments the general approach is to use the valuation from the most recent fundraising round, whether or not the fund participated directly in the investment and to make adjustments to this valuation if required. The directors review the Fund Managers' reports. If there has only been one fundraising round, this equates to cost, less any impairments. The resulting accounting estimates will, by definition, seldom equal the related actual results.

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4. Financial risk management

4.1 Fair value

The following provides an analysis of the position of assets and liabilities, classified at fair value through profit or loss following their initial recognition, within the fair value hierarchy.

The fair value hierarchy groups assets and liabilities measured at fair value according to the extent to which the inputs used to determine the fair values are observable:

- Level 1: Inputs derived from quoted prices (unadjusted) in active markets, that the entity can access at the measurement date, for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices);
- Level 3: Inputs which are not observable from market data and which are derived from valuation techniques.

The fair value hierarchy level is determined based on the lowest level of input that is significant to the valuation.

The Altimmune shares held by the Company were listed on the NASDAQ in 2018 and they are valued at £2,033 at 31 March 2023 (2022 - £2,760). These are Level 1 financial assets. All other financial assets held by the Company are Level 3 investments.

4.2 Nature and extent of risks arising from financial instruments

The Company's activities expose it to a variety of financial risks: market risk (particularly price risk), credit risk, liquidity risk and funding risk. The Company's overall risk management programme focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out by the relevant investment manager under supervision of the directors.

4.2.1 Market risk

The Company invests in financial instruments, taking positions in unlisted investments.

All equity investments present a risk of loss of capital. The Fund Managers moderate this risk through diversification of the investment portfolio. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

At 31 March 2023, had equity values increased by 20% (2022 - 20%), with all other variables held constant there would have been an increase in the net assets of £4,398,673 (2022 - £6,108,967). Had equity values fallen 20% (2022 - 20%), there would have been a corresponding decrease in net assets of £4,398,673 (2022 - £6,108,967). 20% has been chosen as it is management's best estimate of the reasonable possible change in equity values for a portfolio of this nature.

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4. Financial risk management (continued)

4.2.2 Credit risk

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when they fall due, resulting in a financial loss for the Company including the credit risk associated with the loan funds the Company is ultimately invested in.

The Company is exposed to credit risk through its cash deposits which are all held at an A rated bank. The Company is also exposed to credit risk on the loans and other debtors but this is not material given the counterparties involved. In management's opinion the carrying amounts of the financial assets represent the maximum exposure to credit risk at the year end.

4.2.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities as they fall due. Due to the nature of its funding, whereby its costs are provided in the form of grant funding from government funded entities, that can be drawn in advance, the Company is not significantly exposed to liquidity risk.

4.2.4 Funding risk

The funding for the Company is provided by the Greater London Authority under a funding agreement. If the Company fails to perform its obligations in accordance with the funding agreement, the Greater London Authority could withhold future funding. The Company is notified of the relevant obligations in advance and ensures they are met through the requirements being integrated into the quarterly reporting regime.

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5. Employees

The average monthly number of employees, including the directors, during the year was as follows:

	2023 No.	2022 No.
Investment management	2	2
Administration	5	5
	<u>7</u>	<u>7</u>

6. Directors' remuneration

	2023 £	2022 £
Directors' emoluments	132,833	128,964
Company contributions to defined contribution pension schemes	8,298	7,905
	<u>141,131</u>	<u>136,869</u>

The highest paid director received remuneration of £132,833 (2022 - £128,964). £9,852 of this amount is recharged to LCIF LLP (2022 - £9,566).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £8,298 (2022 - £7,905).

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7. Taxation

	2023 £	2022 £
Corporation tax		
Current tax on (losses)/profits for the year	20,146	290,081
Taxation on (loss)/profit on ordinary activities	<u>20,146</u>	<u>290,081</u>

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2022 - *lower than*) the standard rate of corporation tax in the UK of 19% (2022 - 19%). The differences are explained below:

	2023 £	2022 £
(Loss)/profit on ordinary activities before tax	<u>(11,243,353)</u>	<u>4,725,777</u>
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2022 - 19%)	(2,136,237)	897,898
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	2,010,152	29,381
Non-taxable income	-	(1,054,337)
Chargeable gains	-	1,625,863
Adjustments to tax charge in respect of previous periods	20,145	-
Remeasurement of deferred tax for changes in tax rates	(39,816)	(208,670)
Movement in deferred tax not recognised	165,902	(1,000,054)
Total tax charge for the year	<u>20,146</u>	<u>290,081</u>

Factors that may affect future tax charges

Finance Act 2021 includes legislation to increase the main rate of corporation tax from 19% to 25% from 1 April 2023. The full anticipated effect of these changes is reflected in the above deferred tax balances.

The Company has an unrecognised deferred tax asset of £1,000,851 (2022 - £869,457), representing losses of £4,033,913 (2022 - £3,477,830) where recoverability is not sufficiently certain.

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8. Fixed asset investments

	Capital Investment in Limited Partnership £	Listed Investments £	Unlisted Investments £	Other Loans to Limited Partnership £	Investment Loans to Limited Partnership £	Total £
Cost or valuation						
At 1 April 2022	1,403	203,912	6,457,904	9,240,722	6,543,806	22,447,747
Additions	-	-	2,233,886	95,873	-	2,329,759
Disposals	-	-	(141,129)	-	(1,056,211)	(1,197,340)
At 31 March 2023	1,403	203,912	8,550,661	9,336,595	5,487,595	23,580,166
Unrealised fair value movements						
At 1 April 2022	-	(201,152)	1,781,243	(9,240,722)	15,757,719	8,097,088
Net fair value gains/(losses)	-	(727)	689,529	(95,873)	(10,276,816)	(9,683,887)
At 31 March 2023	-	(201,879)	2,470,772	(9,336,595)	5,480,903	(1,586,799)
Fair value of investments						
At 31 March 2023	1,403	2,033	11,021,433	-	10,968,498	21,993,367
At 31 March 2022	1,403	2,760	8,239,147	-	22,301,525	30,544,835

The Company is a member of LCIF LLP, a Limited Liability Partnership, with registered number OC396839, registered in England and Wales. Included within unlisted investments is £2,987,412 (2022 - £3,536,833) arising from the Company's interest in LCIF LLP.

The Company is also the sole member of GLIF Limited, a company limited by guarantee, registered in England and Wales with company number 11403390. GLIF Limited was incorporated on 7 June 2018 and became operational as the holding company of a fund of funds from April 2019.

The registered office of both LCIF LLP and GLIF Limited is: 330 Holborn Gate, 326-332 High Holborn, London, WC1V 7QH.

The Company is the sole limited partner of MMC London Fund LP, a limited partnership registered in England and Wales with the company number LPO15196. MMC London Fund LP was registered on 3 October 2012. The registered office of MMC London Fund LP is Third Floor, 24 High Holborn, London WC1V 6AZ.

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9. Debtors

	2023 £	2022 £
Amount due from LCIF LLP	488,076	312,080
Amount due from GLIF Limited	3,520,006	1,182,424
Other debtors	128,825	54,906
	<u>4,136,907</u>	<u>1,549,410</u>

The Company has entered into a funding agreement to provide a capital grant to GLIF Limited of £9.4 million as its share of the overall funding commitment, for that company to acquire investments. At 31 March 2023, the balance owed by GLIF Limited includes £2,925,977 (2022 - £361,493) which is to be invested, and £594,029 (2022 - £820,931) which relates to operating expenses attributable to the Greater London Authority and the London Waste and Recycling Board.

10. Creditors: Amounts falling due within one year

	2023 £	2022 £
Trade creditors	2,206	3,611
Corporation tax	-	290,081
Other taxation and social security	72,074	62,073
Other creditors	146,405	189,399
	<u>220,685</u>	<u>545,164</u>

11. Creditors: Amounts falling due after more than one year

	2023 £	2022 £
GLIF costs	356,793	439,173
Accruals and deferred income	267,001	267,001
	<u>623,794</u>	<u>706,174</u>

The Company has also entered into a funding agreement to provide a reserve grant to GLIF Limited of £1.6 million for that company to meet expenses of which £0.4m was owed at 31 March 2023 (2022 - £0.4m).

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12. Reserves

Capital reserve

This reserve consists of grants utilised for the funding of loans and the acquisition of fixed asset investments as well as the cumulative net gains and losses from financial assets and liabilities at fair value at year end.

Profit and loss account

This reserve relates to the cumulative retained earnings less amounts distributed to shareholders.

13. Limited Liability

The Company is a private company limited by guarantee and consequently does not have share capital. The member is liable to contribute an amount not exceeding £1 towards the assets of the Company in the event of liquidation.

14. Related party transactions

The Company is a member of LCIF LLP. As at 31 March 2023, £103,923 (2022 - £98,783) was owed by LCIF LLP to the Company in relation to operating expenses incurred by the Company on behalf of LCIF LLP – see note 9.

The Company is controlled by the Greater London Authority. As at 31 March 2023, £594,029 in respect of GLIF Limited, the Company was owed by the Greater London Authority and its subsidiary the London Waste and Recycling Board to the Company in relation to their share of operating expenses incurred by the Company on behalf of GLIF Limited (2022 - £820,931) – see note 9.

15. Controlling party

The immediate and ultimate parent undertaking is The Greater London Authority, a company registered in England and Wales.

The smallest group of undertakings for which group accounts for the year ending 31 March 2023 have been drawn up, is that headed by The Greater London Authority. The registered office address is City Hall, Kamal Churchie Way, London, E16 1ZE.