

**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2013
FOR
SOCIAL FINANCE LIMITED**

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FOR THE YEAR ENDED 30 SEPTEMBER 2013

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SOCIAL FINANCE LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 30 SEPTEMBER 2013

DIRECTORS.

B Bailey
D W Blood
T H Eccles
B P Horn
Ms V J Hornby
D A Hutchison
A Law
Ms P A Newman
Ms G Peacock CBE
D N Robinson
P S W Wheeler
D Anderson
C Devane
R Gillespie

REGISTERED OFFICE:

131-151 Great Titchfield St
London
W1W 5BB

REGISTERED NUMBER:

06402143 (England and Wales)

AUDITORS:

Baker Tilly Audit Limited, Statutory Auditor
Chartered Accountants
66 Chiltern Street
London
W1U 4JT

SOCIAL FINANCE LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 SEPTEMBER 2013

The directors present their report with the financial statements of the company for the year ended 30 September 2013

PRINCIPAL ACTIVITY

The principal activity of the company in the year under review was that of financial advice and capital raising for the social sector

The Company Number is 06402143 (England and Wales)

The company has maintained directors and officers liability insurance, a qualifying third party indemnity provision as defined under relevant legislation, for the benefit of the company's directors and other senior staff throughout the year

REVIEW OF BUSINESS

The business progressed well across each of its main areas of activity

Working with public service commissioners - Social Finance is working with a number of other local commissioners, including Manchester, Essex, the West Country and the Greater London Assembly, exploring the scope for investment in early intervention to deliver better outcomes for children in care, foster care, adult social care, health, substance misuse and youth offending. In July 2013, Social Finance, in partnership with the Local Government Association, was awarded a service contract to support commissioners applying for outcomes funding for Social Impact Bonds from the Big Lottery Fund Commissioning Better Outcomes Fund and the Cabinet Office's Outcomes Fund

Investment and Contract Readiness Fund - Social Finance was approved as a provider to the £10m Investment and Contract Readiness Fund in July 2012. Social Finance has been funded to work with 10 social ventures across a range of social issues. The ventures include Dartington Hall Trust, Shared Lives, Consortium of Voluntary Adoption Agencies (CVAA), Empower Community Management, Bromley Healthcare, Age UK, 4Children, Essex Offenders, West Mercia Probation Trust, Trailblazers and Marie Curie. Three ventures have already started fundraising including the CVAA, who launched an Adoption Social Impact Bond in October 2013.

Social Impact Bonds delivery - Social Finance launched three new Social Impact Bonds (SIBs) in 2012. These are the Essex County Council SIB for 380 vulnerable adolescents on the edge of care and two SIBs awarded by the Department of Work and Pensions to support 1500 14-15 year olds in danger of becoming NEET (not in education, employment or Training). Social Finance performance manages these SIBs, in addition to the Peterborough SIB launched in 2010.

Development Impact Bonds - Social Finance, the Center for Global Development and OPIC (the US Overseas Private Investment Corps) headed a high-level international working group to see whether SIBs could be adapted in the development market. They launched a report in June (London) and in October (New York) laying out the case for Development Impact Bonds.

Investor Development - A number of investors were introduced to social investment for the first time as a result of participating in Social Finance transactions. Following the June announcement from the UK Government that they intend to legislate for a new social investment tax relief in April 2014, Social Finance, in partnership with the FSE Group, cancelled its £20 million Social Impact Venture Capital Trust (VCT) public offering in July 2013. Interested cornerstone investors had indicated that they would not commit to Social Impact VCT before the new arrangements were clarified.

SOCIAL FINANCE LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 SEPTEMBER 2013

Further opportunities for Social Finance in 2014

In addition to the momentum in each of the established business lines, specific opportunities worth highlighting include

Social Investment Tax Relief - the UK Government announced that they would launch a new Social Investment Tax Relief in the April 2014 statement. Social Finance is a member of the sector focused working group, working closely with HM Treasury.

Care and Wellbeing Fund - Social Finance plans to launch a £20 million Care and Wellbeing Fund in 2014. Fundraising is underway. The Fund will focus on the following areas: ageing and long term conditions, disability, health improvement, health and employment and service innovation.

Development Impact Bond opportunities - Social Finance is actively involved in the preparation of four Development Impact Bonds, all in sub-Saharan Africa.

Affordable Housing - Social Finance has been commissioned by the Department of Communities and Local Government to DCLG to consider the potential for institutional investment to increase supply of accommodation for homeless families. Social Finance expects to raise money in 2014 for one local authority to purchase 1000 housing units.

International Network - plans are underway to launch a global alliance for Social Finance organisations in 2014.

Social Finance's team has expanded to 42 within the last twelve months to meet increasing workloads.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 October 2012 to the date of this report.

B Bailey
D W Blood
T H Eccles
B P Horn
Ms V J Hornby
D A Hutchison
A Law
Ms P A Newman
Ms G Peacock CBE
D N Robinson
P S W Wheeler

Other changes in directors holding office are as follows:

O O Kolade – resigned 15 May 2013

D Anderson, C Devane and R Gillespie were appointed as directors after 30 September 2013 but prior to the date of this report.

SOCIAL FINANCE LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 SEPTEMBER 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Report of the Directors 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

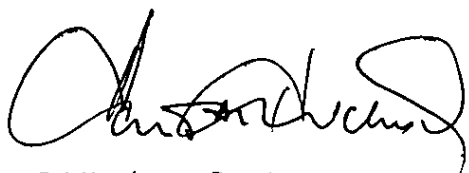
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies 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.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This report has been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies.

ON BEHALF OF THE BOARD



D A Hutchison - Director

Date 14th JANUARY 2014

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
SOCIAL FINANCE LIMITED**

We have audited the financial statements of Social Finance Limited for the year ended 30 September 2013 on pages seven to fifteen. The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

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 a Report of the Auditors 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.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page three, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 September 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
SOCIAL FINANCE LIMITED

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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 Report of the Directors

Baker Tilly Audit Limited

Malcolm Pirouet (Senior Statutory Auditor)
for and on behalf of Baker Tilly Audit Limited, Statutory Auditor
Chartered Accountants
66 Chiltern Street
London
W1U 4JT

Date *17 January 2014*

Prior to 30 September 2013, Baker Tilly Audit Limited was named RSM Tenon Audit Limited

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 SEPTEMBER 2013**

	Notes	30 9 13 £	30 9 12 £
TURNOVER		1,973,583	833,388
Administrative expenses		3,522,436	2,838,555
		(1,548,853)	(2,005,167)
Other operating income		2,256,751	2,323,666
OPERATING PROFIT	2	707,898	318,499
Interest receivable and similar income		262	144
		708,160	318,643
Interest payable and similar charges		10,435	13,848
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		697,725	304,795
Tax on profit on ordinary activities	3	68,333	64
PROFIT FOR THE FINANCIAL YEAR		629,392	304,731

The notes form part of these financial statements

BALANCE SHEET
30 SEPTEMBER 2013

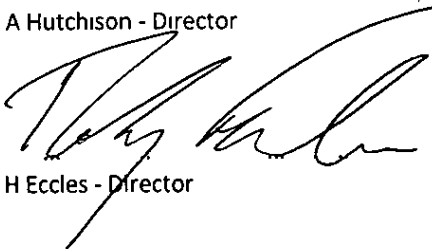
	Notes	30 9 13 £	30 9 12 £
FIXED ASSETS			
Tangible assets	5	11,441	13,510
Investments	6	6,253	6,253
		<u>17,694</u>	<u>19,763</u>
CURRENT ASSETS			
Debtors	7	750,758	799,860
Cash at bank		1,321,183	897,017
		<u>2,071,941</u>	<u>1,696,877</u>
CREDITORS			
Amounts falling due within one year	8	593,117	839,859
NET CURRENT ASSETS		<u>1,478,824</u>	<u>857,018</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,496,518</u>	<u>876,781</u>
CREDITORS			
Amounts falling due after more than one year	9	330,000	339,655
NET ASSETS		<u><u>1,166,518</u></u>	<u><u>537,126</u></u>
CAPITAL AND RESERVES			
Called up share capital	11	1,000,013	1,000,013
Profit and loss account	12	166,505	(462,887)
SHAREHOLDERS' FUNDS		<u><u>1,166,518</u></u>	<u><u>537,126</u></u>

The financial statements have been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies and with the Financial Reporting Standard for Smaller Entities (effective April 2008)

The financial statements were approved for issue by the Board of Directors on 14th JANUARY 2014 and were signed on its behalf by



D A Hutchison - Director



T H Eccles - Director

The notes form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2013**

1 ACCOUNTING POLICIES**Basis of preparing the financial statements**

The financial statements have been prepared on a going concern basis as this is deemed appropriate by the directors

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008)

Preparation of consolidated financial statements

The financial statements contain information about Social Finance Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company has taken the option under Section 398 of the Companies Act 2006 not to prepare consolidated financial statements

Income recognition

Turnover represents net invoiced sales of services, excluding value added tax. Grants and donations are included in other operating income and recognised when they are received. The exception to this is when income relates to a specific project, in which case it is matched with the relevant expenditure

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life

Plant and machinery etc - 33% on cost

Deferred tax

Deferred tax liabilities are recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax assets are recognised to the extent that they are regarded as likely to be recoverable

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result

Pension costs and other post-retirement benefits

The company operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to the profit and loss account in the period to which they relate

2 OPERATING PROFIT

The operating profit is stated after charging

	30 9 13	30 9 12
	£	£
Depreciation - owned assets	10,895	18,502
Auditors' remuneration	13,100	11,750
Pension costs	10,452	10,923
	<u>277,772</u>	<u>279,050</u>
Directors' remuneration and other benefits etc	<u>277,772</u>	<u>279,050</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 SEPTEMBER 2013

3 TAXATION

Analysis of the tax charge

The tax charge on the profit on ordinary activities for the year was as follows

	30 9 13 £	30 9 12 £
Current tax		
UK corporation tax	68,333	64
	<u>68,333</u>	<u>64</u>
Tax on profit on ordinary activities	<u>68,333</u>	<u>64</u>

Factors affecting the tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below

	30 9 13 £	30 9 12 £
Profit on ordinary activities before tax	<u>697,725</u>	<u>304,795</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.449% (2012 - 20%)	142,678	60,959
Effects of		
Expenses not deductible for tax purposes	12,665	5,447
Depreciation in excess of capital allowances	380	749
Utilisation of tax losses	(87,354)	(67,126)
Adjustments to tax charge in respect of previous periods	(36)	35
	<u>68,333</u>	<u>64</u>
Current tax charge	<u>68,333</u>	<u>64</u>

Factors that may affect future tax charges

The company has tax losses of £nil (2012 - £427,177) carried forward to future periods. A deferred tax asset in relation to these losses has not been provided in the financial statements as, while the directors forecast that the company will be profitable, due to the nature of the revenue streams, the level of profits cannot be predicted accurately. The directors therefore consider that it would not be prudent to recognise the deferred tax asset. The potential deferred tax asset is calculated to be in the region of £nil (2012 - £85,000).

4 BIG LOTTERY FUND GRANT

Social Finance Limited received payments of £1,500,000 from a grant (restricted funds) from the Big Lottery Grant Fund during the year (2012 - £1,499,999) (Grant reference number SGD/1/01375539). Income recognised during the year was £1,623,999 (2012 - £1,792,667), included within other operating income. Within cash at bank is £21,143 (2012 - £159,470) which is segregated for the Big Lottery Fund Grant. This was transferred to Social Finance post year end. The total grant is £5 million over a three year period. These funds are restricted funds which are specifically limited to the designated activities set out in the terms and conditions of the grant agreement. The aim of the grant is to allow Social Finance to promote a wider understanding of the Social Impact Bond and facilitate the development of a Social Impact Bond market place within the UK.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 SEPTEMBER 2013**5 TANGIBLE FIXED ASSETS**

	Plant and machinery etc £
COST	
At 1 October 2012	69,394
Additions	8,826
	<u>78,220</u>
At 30 September 2013	
DEPRECIATION	
At 1 October 2012	55,884
Charge for year	10,895
	<u>66,779</u>
At 30 September 2013	
NET BOOK VALUE	
At 30 September 2013	<u>11,441</u>
At 30 September 2012	<u>13,510</u>

6 FIXED ASSET INVESTMENTS

	Shares in group undertakings £	Interest in joint venture £	Totals £
COST			
At 1 October 2012 and 30 September 2013	3	6,250	6,253
	<u>3</u>	<u>6,250</u>	<u>6,253</u>
NET BOOK VALUE			
At 30 September 2013	3	6,250	6,253
	<u>3</u>	<u>6,250</u>	<u>6,253</u>
At 30 September 2012	3	6,250	6,253
	<u>3</u>	<u>6,250</u>	<u>6,253</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 SEPTEMBER 2013

6 FIXED ASSET INVESTMENTS - continued

The company's investments at the balance sheet date in the share capital of companies include the following

Subsidiaries**Social Impact Partnership General Partner Limited**

Nature of business General Partner in Social Impact Partnership LP

	% holding	30 9 13	30 9 12
Class of shares			
Ordinary	100 00	£	£
Aggregate capital and reserves		<u>1</u>	<u>1</u>

Social Impact Partnership General Partner Limited was dormant until it became a partner in Social Impact Partnership LP on 27 October 2010. The company has net assets of £1 and had no profit and loss activity in the year ended 30 September 2013.

Social Impact Partnership Founder Partner Limited

Nature of business Partner in Social Impact Partnership LP

	% holding	30 9 13	30 9 12
Class of shares			
Ordinary	100 00	£	£
Aggregate capital and reserves		<u>1</u>	<u>1</u>

Social Impact Partnership Founder Partner Limited was dormant until it became a partner in Social Impact Partnership LP on 27 October 2010. The company has net assets of £1 and had no profit and loss activity in the year ended 30 September 2013.

Social Finance VCB Limited

Nature of business Venture Capital

	% holding	30 11 13	30 11 12
Class of shares			
Ordinary	100 00	£	£
Aggregate capital and reserves		<u>1</u>	<u>1</u>

Social Finance VCB Limited was incorporated on 23 November 2011 and is currently dormant.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 SEPTEMBER 2013**6 FIXED ASSET INVESTMENTS - continued****Joint venture****Social Impact VCT PLC**

Nature of business Venture Capital

Class of shares	% holding	30 9 13	30 9 12
Ordinary	50 00	£	£
Aggregate capital and reserves		<u>6,250</u>	<u>6,250</u>

7 DEBTORS' AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 9 13	30 9 12
	£	£
Trade debtors	583,186	620,599
Other debtors	<u>167,572</u>	<u>179,261</u>
	<u>750,758</u>	<u>799,860</u>

Other debtors include unpaid share capital of £13 (2012 - £13)

8 CREDITORS' AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 9 13	30 9 12
	£	£
Trade creditors	31,921	93,164
Taxation and social security	297,188	114,666
Other creditors	<u>264,008</u>	<u>632,029</u>
	<u>593,117</u>	<u>839,859</u>

Other creditors include deferred income totalling £62,099 (2012 - £541,844) and a loan of £10,000 (2012 - £10,000) which is convertible into equity in any investment advisory service set up by the company as a separate entity and a loan of £169,631 (2012 - £41,140 included in more than 5 years) which is convertible into equity in any venture capital business set up by the company as a separate entity

9 CREDITORS' AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	30 9 13	30 9 12
	£	£
Other creditors	<u>330,000</u>	<u>339,655</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 SEPTEMBER 2013**9 CREDITORS' AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR - continued**

	30 9 13 £	30 9 12 £
Amounts falling due in more than five years		
Repayable otherwise than by instalments		
Other loans more than 5 years (non-instalments)	<u>300,000</u>	<u>268,515</u>
Repayable by instalments		
Other loans more than 5 years (instalments)	<u>30,000</u>	<u>71,140</u>

Other creditors falling due after more than one year include a grant of £30,000 (2012 - £30,000) which is convertible into equity in any investment advisory service set up by the company as a separate entity

10 OPERATING LEASE COMMITMENTS

The following operating lease payments are committed to be paid within one year

	30 9 13 £	30 9 12 £
Expiring		
Between one and five years	<u>292,170</u>	<u>194,377</u>

11 CALLED UP SHARE CAPITAL

Allotted, issued and fully paid Number	Class	Nominal value	30 9 13 £	30 9 12 £
100	Preference	£1000	100,000	100,000
9	Founder (preference)	£100K	900,000	900,000
			<u>1,000,000</u>	<u>1,000,000</u>

Allotted and issued Number	Class	Nominal value	30 9 13 £	30 9 12 £
13	Ordinary	£1	<u>13</u>	<u>13</u>

The Ordinary shares have full voting rights but have no dividend entitlement The Preference shares are non-redeemable, have no voting rights but have full dividend entitlement The Founder shares are non-redeemable and have no voting rights or dividend entitlement

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 SEPTEMBER 2013

12 RESERVES

	Profit and loss account £
At 1 October 2012	(462,887)
Profit for the year	<u>629,392</u>
At 30 September 2013	<u>166,505</u>

13 DIRECTORS' ADVANCES, CREDITS AND GUARANTEES

Other operating income includes £nil (2012 - £55,000) relating to David Blood, a director of the company, and £100,000 (2012 - £100,000) relating to Andrew Law, a director of the company

14 RELATED PARTY DISCLOSURES

Turnover includes £224,148 (2012 - £210,574) and trade debtors include £nil (2012 - £79,403) relating to Social Impact Partnership LP, of which the company's subsidiaries are partners

Other operating income includes £nil (2012 - £20,000) relating to The Generation Foundation, a charity of which the director David Blood is a trustee

Other operating income includes £20,336 (2012 - £ nil) relating to Social Finance, Inc, a company of which the director David Blood is a non-executive director

15 ULTIMATE CONTROLLING PARTY

The company is controlled by the board of directors, each director being entitled to one Ordinary share of £1 each