The Start-Up Loans Company

A company limited by guarantee

Annual Report and Financial Statements for the year ended 31 March 2022

Contents

Chair's statement for the year ending 31 March 2022

The Start-Up Loans Company ("SUL") is part of the British Business Bank plc Group ("the Group"), with the British Business Finance Limited ("BBFL", a wholly owned subsidiary of the British Business Bank plc) being the sole member of the Company. SUL manages the Start Up Loans Scheme ("the Scheme") which was created by the government in 2012 and has since delivered over 93,000 loans, providing over £854m of funding across the UK to an average of 25 businesses a day. Around 31% of SUL recipients were unemployed at the point of application, equating to approximately 26,350 jobs directly created over the lifetime of the scheme. Eligibility for the Scheme was expanded in March 2022, enabling us to further support early stage businesses as well as the existing SUL Borrower population with follow on funding.

The government has confirmed committed funding for the scheme for a further 3 years, until 2025 to deliver 33,000 additional Start Up Loans.

In addition to providing funding, the scheme is committed to provide mentoring through the Delivery Partner network; this is a defining feature of the programme. Applicants receive pre-loan support to support them through the funding journey, and all applicants are offered 12 months post loan support from when the loan is drawn to help them evolve and develop their business.

During the 2021-22 financial year we loaned a further £131 million to small businesses with an average loan size of £12.6k. This compared with £137 million gross lending in 2020-21 with an average loan size of £12k.

Value for money

The scheme by its nature is non-commercial. SUL delivers the scheme as a non-profit organisation through the support of grant and loan funding provided by the Secretary of State for Business, Energy & Industrial Strategy ("BEIS"). SUL continues to demonstrate a cost-effective approach with value for money for the UK taxpayer through enabling growth in the UK economy and increasing the tax take for HM Treasury. Value for money - as assessed by measuring turnover/Gross Value Added from start-up businesses against the economic costs of running the scheme - has also improved over time.

We continue to invest in new technology to deliver future cost efficiencies and improved customer service through our Atlas CRM system. We closely monitor and control the cost base to ensure that it is appropriate to enable us to effectively deliver our services whilst managing taxpayer resources efficiently within a robust risk management framework.

Chair's statement for the year ending 31 March 2022 (continued)

Future of the scheme

The scheme aims to ensure that people who would not otherwise have the resources to start up their own business have access to the support to allow them to do so. To date the scheme has focused on the inclusion of those people, with the key objectives of:

- Filling a market gap and supporting the provision of additional microfinance across the UK
- Helping individuals to start and develop a micro business or enter self-employment, particularly those who are 'furthest away' from accessing finance
- Ensuring support is present in areas of the greatest deprivation
- Supporting a culture of entrepreneurship

The scheme is a successful and well received government backed programme that reaches across the whole of the UK. It is well supported by industry bodies, local government and the Devolved Nations.

The scheme's performance to date is in line with the current government's aspiration.

Louis Taylor

Louis Taylor
Director

25 November 2022

Directors and advisers for the year ended 31 March 2022

The Directors of SUL who were in office during the year and up to the date of signing:

- Richard Bearman (appointed 13 June 2022)
- David Louis Taylor (appointed 1 October 2022)
- Patrick Magee (resigned 1 July 2022)
- Catherine Lewis La Torre (resigned 1 October 2022)

Bankers
National Westminster Bank plc
250 Bishopsgate, London, EC2M 4AA

Registered office address
71-75 Shelton Street, Covent Garden, London, England, WC2H 9JQ

Strategic report for the year ended 31 March 2022

The Directors present their report and the unaudited financial statements of The Start-Up Loans Company ("SUL") for the year ended 31 March 2022. For the financial year in question, the Company was entitled to exemption from audit under section 479a of the Companies Act 2006. No members have required the Company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006. The Directors acknowledge their responsibility for complying with the requirements of the Act with respect to accounting records and for the preparation of accounts

Review of Business

The aim of the scheme managed by SUL is to provide support to individual entrepreneurs and their businesses, by:

- Increasing the rate of business creation and promoting entrepreneurship
- Facilitating lending and the provision of mentoring and other forms of non-financial support
- Supporting the development and resourcing of a network of providers of finance, business support, mentoring and associated services
- Delivery of programmes grant or loan funded by BEIS and other public bodies in respect of the operation of projects, schemes and programmes relevant to the objects of the company
- Collecting and analysing data on the financing and performance of individual entrepreneurs and their businesses funded by or through SUL

Demand for funding under the scheme remains strong with a total of 10,381 new loans issued in the year ended 31 March 2022. The total value of loans made was £131m, a decrease of £6.6m on the previous year. We have seen a shift towards early-stage businesses and higher capital requirements from entrepreneurs and we have now provided over £854m via more than 93,000 loans through the scheme since its inception in 2012.

Principal risks and uncertainties

SUL has the following main areas of exposure:

Cash flow risk and going concern
SUL is dependent on receiving further funding from BEIS and BBFL to be able to meet its liabilities as they fall due. SUL has received a letter of support from BEIS stating it will provide sufficient funding to enable SUL to meet its liabilities as and when they fall due for a period of not less than twelve months from the date of approval of these financial statements, on the basis that SUL continues to meet the principles and conditions communicated to it, not least a number of financial covenants.

Credit risk
SUL has a policy of assessing at each reporting date whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that an individual loan is impaired or may become impaired. A charge is made to the profit and loss account for these loans based on the difference between the loan's carrying amount and the present value of estimated future cash flows discounted using the loan's original effective interest rate, which is the effective interest rate used at initial recognition.

The Company has closely followed the guidance issued by the Financial Conduct Authority, the Financial Reporting Council and the Prudential Regulation Authority regarding the approach to assessing ECL provisions under IFRS 9.

Strategic report for the year ended 31 March 2022 (continued)

Performance of the UK Economy
Performance of the UK economy has an impact on both new business volumes and performance of the existing loan book. The demand for the scheme is in part linked to unemployment levels and pricing compared to other forms of finance. The company continue to monitor demand and credit quality, through internal stress testing and adjust the credit risk parameters to ensure the loan book performs in line with the grant covenants set by BEIS.

Development & Performance

SUL has continued to invest in the development of infrastructure and partnerships with third parties:

- We have invested in continuous improvement of our 'Atlas' CRM system, to streamline the application process and improve the customer experience.
- Eligibility for the Scheme was expanded in March 2022, (first loans extended to 3 years trading from 2, second loans extended to 5 years trading from 2), enabling us to further support early stage businesses as well as the existing SUL recipient population with follow on funding.
- We've continued our partnership with The Open University under the 'Learn with Start Up Loans' proposition, helping new start ups and business owners to develop the necessary skills and knowledge to succeed. Since the November 2020 launch, we have referred over 17.5k users to the Open University, with 1,752 enrolling on to courses, with the most popular courses of study being entrepreneurship, finance and accounting and marketing.
- An audit of the SUL website has been undertaken to identify ways to improve the scheme's accessibility. Further partnerships and technology to increase inclusivity are underway.

The proportion of Start Up Loans which are lent to under-served groups is far higher than their proportion of the business population, with 40% female loan recipients (who make up 17% of the overall SME population), 21% to those from ethnic minority backgrounds (who make up 4% of the SME population) and 23% to those in the 18 to 24 age group and not in education, employment, or training.

During the year we supported the scheme through a series of marketing activities which resulted in the delivery of over 1.8 million visits to our website; a slight decrease of –9% in traffic when compared to the previous financial year that was inflated by the pandemic. This integrated marketing approach, including paid media, PR, affiliates, email marketing, SEO, events sponsorship and partnerships culminated towards achieving 104,234 registrations over the course of the full financial year, with a further 9,867 registrations received via our network of Delivery Partners.

Strategic report for the year ended 31 March 2022 (continued)

Our lending in 2021-22 was funded by a combination of capital grant received under the terms of a Grant Offer Letter with BEIS, an unsecured loan facility from BBFL and recycled capital receipts. On 1 April 2019, SUL signed an amendment to its second term facility agreement with BBFL, to a value of £50,300,000 at an interest rate of 2.525%. The facility matures on 31 March 2023 and has a drawdown availability period that ends on 31 March 2022. In the year £nil (2021 – £nil) was drawn from BBFL under the respective facility agreements.

During the year, SUL has met all the covenants in relation to the credit losses and operation of the Scheme that have been set by BEIS.

People

SUL is committed to promoting best employment practice and equal opportunities. It operates a framework for employee information and consultation.

In line with the Group, SUL is committed to ensuring the combined organisation is a great place to work, and has been continually developed its culture, processes and procedures over recent years as the Bank continues to grow.

The Bank's Colleague Forum plays a key role in this and ensures that matters important to colleagues have an appropriate place to be discussed between colleagues and Executive Committee on an ongoing basis.

SUL had 58 staff (2021: 56) and Board members including 2 Non Executive Directors.

Financial Performance

SUL's profit after tax was £9,000 (2021: £33,000). At the end of the financial year, the Company's net assets stood at £165,000 (2021: £156,000).

Post balance sheet events

There have been no reportable post balance sheet events.

Strategic report for the year ended 31 March 2022 (continued)

Future Developments

Work during 2022-23 is focused upon building for the future with the planned procurement of new regional, national and specialist Business Support Partners. A new national Post Loan Support Partner is also being procured to provide an enhanced, consistent service for those who receive SUL funding.

This will ensure SUL retains existing reach and aims to increase the proportion of loans delivered to female entrepreneurs whilst continuing to support harder to reach people and regions.

SUL remains committed to providing valuable support to entrepreneurs with pre loan support being provided by Business Support Partners. Access to post loan support will be offered through a new, dedicated national Post Loan Support Partner. New contracts will be in place from Q1 2023.

The significant investment made in previous years and ongoing continuous improvement in technology has increased both the sustainability and scalability of the scheme and provides a foundation upon which to build and support ever more entrepreneurs.

On behalf of the Board

Louis Taylor

Louis Taylor

Director

25 November 2022

Corporate Governance and managing our risks

Corporate governance

SUL is part of the British Business Bank plc Group. The British Business Bank plc's interests are represented by its executives sitting on SUL's Board. The policies that apply to the British Business Bank plc Group also apply to SUL.

SUL operates within the Risk Management and Governance Framework of the British Business Bank. Audit & Risk, Remuneration and Nomination matters fall within the remit of the British Business Bank plc Group's Executive and Board Committees. Investment decisions fall within the remit of the British Business Bank Investment Committee.

The Board's key responsibilities are:

- Reviewing, approving and guiding corporate strategy, major plans of action, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance;
- Reviewing and approving the risk appetite, controls and material policies of the Company;
- Monitoring the effectiveness of the Company's governance arrangements and practices, making changes as needed to ensure the alignment of the Company's governance framework with current best practices;
- Approving the remuneration and bonus payable to Executive Directors and fees payable to Non-Executive Directors on the recommendation of the Nomination and Remuneration Committees;
- Monitoring and managing potential conflicts of interest of management, Board members, stakeholders, external advisors and other service providers, including misuse of corporate assets and abuse in related party transactions; and
- Approving each year's annual financial statements prior to publication.

The composition of the Board of Directors is set out on page 5. The CEO of the British Business Bank (who is the Accounting Officer of the British Business Bank group for the purposes of HM Treasury's 'Managing Public Money' handbook) is the Chair of the Board of SUL. They have direct accountability to SULs' ultimate shareholder, BEIS. The responsibilities of an Accounting Officer include the propriety and regularity of the public finances for which the Accounting Officer is answerable, keeping proper records and safeguarding the British Business Bank's assets. The day to day running of SUL and the implementation of strategy and business plans is delegated to management.

Corporate Governance and managing our risks (continued)

Risk management and internal control

A full description of the Risk Management Framework of the British Business Bank is included within its Annual Report. The main aspects of the framework are:

- a collection of tools, processes and methodologies to identify, assess, monitor and control risks;
- a Risk Appetite Policy which SUL is subject to, however the SUL Board approves the company's own Risk Appetite Statement;
- risk governance based on the 'three lines of defence' model;
- a wide range of policies, frameworks and procedures which take account of regulatory or legal requirements and industry best practice.

The key operational risks that SUL is exposed to, discussed in the Directors' Report, are:

- Cash flow risk and going concern
- Credit risk
- Performance of the UK Economy

The key financial risks the company is exposed to are detailed in note 13.2 of the accompanying financial statements.

Statement of Directors' responsibilities

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

The Directors have chosen to adopt International Financial Reporting Standards (IFRSs) as adopted by the European Union which is consistent with the accounting treatment adopted by the British Business Bank plc Group, of which SUL is a wholly owned subsidiary. 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:

- Properly select and apply accounting policies.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
- Make an assessment of the Company's ability to continue as a going concern.

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

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face;
- The annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

Louis Taylor

Louis Taylor
Director

25 November 2022

Financial statements for the year ended 31 March 2022

Statement of Comprehensive Net Income

INCOME	**Note**	**2022 £'000**	**2021 £'000**
Interest income	**4.1**	28,585	26,223
Grant income	**4.2**	4,224	6,861
Gross operating income		**32,809**	**33,084**
Expected credit loss on amortised cost assets	**9**	16,264	44,795
Net losses on investment assets	**4.3**	(51,856)	(96,160)
Net gain on write down of repayable capital grant	**4.4**	22,608	36,619
Net operating income		**19,825**	**18,338**
EXPENDITURE			
Staff costs	**5.1**	(3,089)	(2,783)
Other operating expenditure	**5.2**	(15,285)	(13,652)
Depreciation and amortisation		(232)	(593)
Operating expenditure		**(18,606)**	**(17,028)**
Net operating profit before interest payable		**1,219**	**1,310**
Interest expense	**16**	(1,269)	(1,270)
(Loss)/profit before taxation		**(50)**	**40**
Tax charge for the year	**7**	**59**	**(7)**
Profit for the year after tax		**9**	**33**
Other comprehensive income for the year		**-**	**-**
Total comprehensive income in the year		**9**	**33**

All operations are continuing. The Company has no recognised gains and losses, other than those set out above. The notes on pages 17 to 42 form an integral part of these financial statements.

Financial statements for the year ended 31 March 2022 (continued)

Balance Sheet as at 31 March 2022

	Note	2022 £'000	2021 £'000
Assets			
Cash at bank and in hand		8,300	4,104
Trade and other receivables	8	833	1,277
Amortised cost investments	9	178,831	157,365
Property, plant and equipment		2	26
Intangible assets		12	220
Deferred tax assets		208	200
Total Assets		**188,186**	**163,192**
Liabilities			
Trade and other payables	10	(3,157)	(2,715)
Deferred scheme income	11	(974)	(198)
Loans and repayable capital grant	12	(183,890)	(160,123)
Total Liabilities		**(188,021)**	**(163,036)**
Net Assets		**165**	**156**
Capital & Reserves			
Retained earnings		165	156
Total Equity		**165**	**156**

The notes on pages 17 to 42 are an integral part of these financial statements.

For the financial year in question, the Company was entitled to exemption from audit under section 479a of the Companies Act 2006. No members have required the Company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006. The Directors acknowledge their responsibility for complying with the requirements of the Act with respect to accounting records and for the preparation of accounts.

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

Louis Taylor

Louis Taylor
Director
25 November 2022

Financial statements for the year ended 31 March 2022 (continued)

Statement of changes in equity as at 31 March 2022

	Retained Earnings £'000	Total Equity £'000
Balance as at 1 April 2020	123	**123**
Total comprehensive income for the year	33	**33**
Balance as at 31 March 2021	156	**156**
Balance as at 1 April 2021	156	**156**
Total comprehensive income for the year	9	**9**
Balance as at 31 March 2022	165	**165**

The notes on pages 17 to 42 are an integral part of these financial statements.

Financial statements for the year ended 31 March 2022 (continued)

Cash flow statement

	Notes	2022 £'000	2021 £'000
Cash flow from operating activities			
(Loss)/Profit before taxation		**(50)**	**40**
Adjustment for non-cash items:			
Net gain on write-down of capital grant	**4.4**	(22,608)	(36,619)
Depreciation and amortisation		233	593
Deferred loan scheme	**11**	776	(1,361)
Interest payable	**16**	1,269	1,270
Changes in operating assets and liabilities:			
Net increase in amortised cost investments	**9**	(21,466)	(29,488)
Decrease in trade and other receivables	**8**	444	308
Increase / (decrease) in trade and other payables	**10**	442	(102)
Payment of Corporation Tax		50	(60)
Net cash used in operating activities		**(40,910)**	**(65,419)**
Cash flows from financing activities			
Repayment of unsecured loans	**12**	(14,894)	-
Capital grants received	**12**	60,000	68,000
Net cash from financing activities		**45,106**	**68,000**
Net increase in cash and cash equivalents		**4,196**	**2,581**
Cash and cash equivalents at beginning of year		4,104	1,523
Cash and cash equivalents at the end of the year		**8,300**	**4,104**
Cash and cash equivalents consist of:			
Cash at bank and in hand		8,300	4,104

The notes on pages 17 to 42 are an integral part of these financial statements.

Notes to the financial statements for the year ended 31 March 2022

1. General Information

The Start-Up Loans Company ("The Company") is a Government funded business that provides start up support to entrepreneurs across the UK in the form of loan financing together with support from a business mentor. The Company is limited by guarantee and is incorporated and domiciled in the UK. The address of its registered office is 71-75 Shelton Street, Covent Garden, London WC2H 9JQ.

2. Summary of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with UK-adopted International accounting standards and International Financial Reporting Standards (IFRS). The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

The principal accounting policies adopted are set out below.

(b) Going concern

The Company requires future additional funding from British Business Finance Limited ("BBFL") and the Secretary of State for Business, Energy and Industrial Strategy ("BEIS") to maintain its ability to continue to operate the Start-up Loans Scheme. The Company has received a letter of support from the Secretary of State for Business, Energy and Industrial Strategy stating it will provide sufficient funding to enable the Company to meet its liabilities as and when they fall due for a period of not less than twelve months from the date of approval of these financial statements, on the basis that the Company continues to meet the principles and conditions communicated to it.

As the letter of support is not legally binding, the reliance on such support comprises an element of uncertainty. However, on the basis of history of support pre and post year-end the Directors consider that the necessary funding will be available to the Company as required. Thus, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

(c) Adoption of new and revised standards

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

At the date of authorisation of these financial statements, the Directors do not expect that the adoption of Standards and Interpretations in issue but not yet effective will have a material impact on the financial statements of the Group in future years.

Notes to the financial statements for the year ended 31 March 2022 (continued)

2. Summary of significant accounting policies (continued)

(d) Revenue recognition

(i) Interest income
Interest income and expense on all financial instruments are recognised within interest receivable or payable on an effective interest rate basis.

The effective interest rate method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts future contractual cash payments or receipts over the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of the financial liability. The calculation does not consider expected credit losses and includes transaction costs, and premiums or discounts that are integral to the effective interest rate, such as origination fees.

When the Company revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the Statement of Comprehensive Net Income.

(ii) Grant income
Grant income represents funding received from BEIS to cover the operating costs of the Company and performance fees for delivery partners. Any income in excess of this has been included as a liability on the Balance Sheet.

iii) Write down of repayable capital grant
The Company receives a repayable capital grant from BEIS for the purpose of extending entrepreneur loans at below market rate. The repayable capital grant will be reduced by any unrecovered capital and interest repayments from the beneficiaries of the loans. The write down of repayable capital grant represents the reduction in the liability for the write-offs and impairment losses incurred on the loans as well as the reduction/increase in the liability for the fair value adjustment on initial recognition of the loans and the subsequent amortisation of this adjustment.

Notes to the financial statements for the year ended 31 March 2022 (continued)

2. Summary of significant accounting policies (continued)

(e) Taxation

(i) Current and deferred tax
The tax expense represents the sum of current and deferred tax.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Current and deferred tax are recognised in the Statement of Comprehensive Net Income, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and other financial institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

(g) Financial instruments

Financial assets and financial liabilities are recognised in the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, less directly attributable transaction costs, except for the transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss which are recognised immediately in the Statement of Comprehensive Net Income.

(i) Financial assets
Financial assets include trade and other receivables and cash at bank and these are initially recognised at the transaction price and subsequently measured at amortised cost using the effective interest rate method.

Loans to entrepreneurs are financial assets with fixed or determinable payments and are not quoted in an active market. Loans are recognised when cash is advanced to the entrepreneurs and initially recognised at fair value and subsequently measured at amortised cost over the term of the loan.

Loans are derecognised when the right to receive cash flows from the asset have expired, usually when all amounts outstanding have been repaid by the entrepreneurs or the loan has been written off.

Notes to the financial statements for the year ended 31 March 2022 (continued)

2. Summary of significant accounting policies – (continued)

(ii) Fair value at initial recognition
Loans originated through the Company's Start Up Loan programme have been classified as amortised cost financial instruments. The Company charges a single rate of interest (6%) to Start Up Loans customers that is independent of the credit quality of the customer. This interest rate is not sufficient to compensate for the expected losses for the Start Up Loans scheme which are forecast to be between 30% and 40%, reflecting the non-commercial nature of the scheme. Therefore, the transaction value of a Start Up Loan will not equal its fair value.

The future expected cash flows are risk adjusted and discounted using an appropriate discount rate, which has been calculated by taking the average 5-year median corporate debt rate for Caa/C rated loans, in order to calculate the fair value.

In accordance with IFRS 9 the fair value adjustment at initial recognition, which is the difference between the transaction value of the loans and their fair value would usually be deferred and either amortised or recognised when a gain or loss was crystallised. However, the Directors have determined that it is appropriate in this circumstance to apply a true and fair override, and consequently any fair value adjustment arising on the Start Up Loans loan book will be recognised immediately through the Statement of Comprehensive Net Income because this reflects the commercial position more appropriately.

(iii) Impairment of financial assets
The Company assesses on a forward-looking basis, the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost. At initial recognition, financial assets are categorised as 'stage 1' and an impairment provision is made for ECLs resulting from default events projected within the next 12 months ('12-month ECL').

Subsequently, financial assets are considered to be in 'stage 2' when their credit risk has increased significantly since initial recognition, at which point it is considered appropriate to recognise lifetime ECL. The Company assesses assets to be in stage 2 using a combination of non-statistical, qualitative information as well as quantitative, statistical information, including when accounts are more than 30 days past due or there has been a significant relative increase in the lifetime probability of default ('PD') compared to initial recognition, where the PD is derived based on the customer's credit quality, including analysis of behaviour score and other account characteristics.

Financial assets are included in 'stage 3' when there is objective evidence that the asset is credit impaired, with expected credit losses still calculated on a lifetime basis. Assets which are more than 90 days past due are in default and are considered by the Company to be credit impaired.

ECLs are calculated using three main components, PD, a loss given default ('LGD') and the exposure at default ('EAD'). The LGD represents losses expected on default, taking into account the time value of money. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the reporting date to the default. Discounting of the expected cashflows is performed using the effective interest rate of the loan.

Notes to the financial statements for the year ended 31 March 2022 (continued)

2. Summary of significant accounting policies (continued)

The calculation of probability of default (PD)
The PD of each underlying loan or credit facility provided by the Company is a key assumption for the IFRS 9 ECL calculation and this is reliant on rating assessments undertaken by external and internal PD models. Where account level ratings are not available the average PD derived from the same cohort of lending is applied.

The calculation of loss given default (LGD)
LGD assesses the loss potential in case of a default and is estimated using internal models which consider observed loss data, cure rates or external benchmarks where appropriate.

The calculation of exposure at default (EAD)
Exposure at default (EAD) is estimated for each month for the contractual lifetime of each financial instrument. This is either based on the contractual maturity profile of each loan or an internal estimate of the exposure value based on expected repayment profiles based on historical information.

(iii) Impairment of financial assets
Changes in the carrying amount of assets arising as a result of impairment are recognised in the Consolidated Statement of Comprehensive Net Income. Loans remain on the balance sheet, net of associated provisions, until they are deemed to have no reasonable expectation of recovery. Loans are generally fully written off where the offering of any forbearance measures has proved unsuccessful in the borrower being able to meet the revised repayment schedule, there is a continued pattern of non-payment and it is assessed that there is no realistic prospect of any further recovery. Loans are partially written off from an accounting perspective where the borrower is unable to repay the loan in full and the loan has been subject to forbearance such that the original amounts due are no longer expected to be fully recovered.

Any loss incurred by the Group on extinguishing the debt is written off against the provision for loan impairment. Any subsequent recoveries of amounts previously written off are recognised through the Consolidated Statement of Comprehensive Net Income.

(iv) Financial liabilities
Financial liabilities include trade and other payables and loans and other borrowings.

(v) Trade and other payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Notes to the financial statements for the year ended 31 March 2022 (continued)

2. Summary of significant accounting policies (continued)

(vi) Loans and repayable capital grant

The Company has received two types of funding from BEIS:

- A capital grant: the agreement does not have a maturity date and carries an interest rate of zero. The capital grant may become repayable on demand, in whole or in part, if at the absolute discretion of BEIS certain conditions arise that affect the Scheme adversely.
- Term facilities: the terms of these agreements are unsecured and carry an interest rate of zero.

The Company has also entered into a term facility agreement with British Business Finance Limited at an interest rate of 2.525%. Further details are provided in note 12.

The Company initially measures the loans and capital grant as the amount received. For the loans the Directors have determined that the amount received is a reasonable estimation of fair value based on the terms of these loans. For the capital grant, the amount received is equivalent to the fair value at initial recognition because the capital grant is repayable on demand. Subsequently the Company will adjust the amount recorded with any interest payable or repayments made and in respect of the capital grant, any amounts the Company believes will not be recoverable from the entrepreneurs.

3. Critical accounting judgements and estimation uncertainty

In preparing the Financial Statements, the Directors are required to make judgements and estimates. Judgements involve an interpretation of requirements to decide how to allocate, value or recognise an item. Estimates arise from using assumptions which result in a range of possible outcomes. The most important judgements and estimates used in preparing these Financial Statements are described below. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Accounting Judgement:

Funding from BBFL and BEIS

The Company is dependent on continuing to receive further funding from BBFL and BEIS and has a letter of support from BEIS stating it will provide sufficient funding to enable the Company to meet its liabilities as and when they fall due for a period of not less than twelve months of the date of approval of the financial statements. This funding is conditional on the Company continuing to meet the principles and conditions communicated to it.

Notes to the financial statements for the year ended 31 March 2022 (continued)

3. Critical accounting judgements and estimation uncertainty (continued)

The assessment of fair value on initial recognition for SUL.
There is uncertainty in both the expected cash flows and the Effective Interest Rate (EIR) used to calculate the fair value at initial recognition for Start Up Loans to entrepreneurs. The EIR is subsequently used in the calculation of interest income recognised in the Statement of Comprehensive Income as the fair value adjustment amortises.

The cash flows comprise four main components: principal, interest, expected loss on principal and expected loss on interest. For each individual account and for each period, the expected loss on principal and the expected loss on interest are assessed by taking the outstanding contractual amounts and adjusting for the marginal PDs and LGD.

EIR is calculated using the risk adjusted cash flows discounted using a derived market rate which references to the 5-year median yield for Caa/C rated corporate debt applicable at the year of origination.

The fair value of SUL is sensitive to changes in the discount rate and to changes in expected cash flows arising from the actual and future expected performance of the loans. A 2% increase in the discount rate as a result of movements in corporate debt rates for Caa/C rated loans or SONIA would have led to an approximate £1.2m decrease in the fair value recognised at inception for the loans newly originated during the year.

Sources of estimation uncertainty

The estimate that risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is the assessment of ECL impairment allowances against assets held at amortised cost and financial assets.

The assessment of ECL impairment allowances against amortised cost financial assets

The calculation of impairment provisions is inherently uncertain and requires the Company to make a number of assumptions and estimates.

Where there has been a significant relative increase in the probability of default (PD) compared to initial recognition, based on the customer's credit quality, the account is assessed as being in 'stage 2'. The SUL loans to entrepreneurs are not re-rated after origination and so, a percentage of the performing portfolio is assumed to be in Stage 2 based on industry analysis and timing of origination.

Notes to the financial statements for the year ended 31 March 2022 (continued)

3. Critical accounting judgements and estimation uncertainty (continued)

Economic scenarios and associated probability weightings
IFRS 9 requires the calculation of ECLs to account for multiple forward-looking macroeconomic scenarios that are plausible. The ECL model adopted by the Group uses a range of forward-looking projections of UK liquidation rates generated by a macroeconomic regression model based on 3rd party base case forecasts of Consumer Price Index growth rates, interest rates, and unemployment rates, and then under two better and two worse scenarios. The selection of variables was reviewed in 2021-22 to ensure their continued suitability as independent variables within the regression model.

To account for the volatile nature of the UK economic environment, the Group has continued to engage with our third-party forecaster throughout the year to provide independent economic forecasts for use within the IFRS 9 ECL models. They provide five economic scenarios of varying severity as input to the macroeconomic regression model, and the weightings associated with each are reviewed, challenged and adjusted on a quarterly basis. As at 31 March 2022, adjustments to the scenario weightings have been applied to increase the probability of a downside scenario.
The Company has considered post-model overlays to reflect the increase in credit risk that is not accounted for due to the lack of behavioural credit scores that reflect the pre-Covid-19 pandemic base case view. A post-model overlay for LGD has been applied which stresses the LGD to 90%. The impact of this overlay on the provision was an increase of £3.8m.

4. Income

4.1 Interest Income

	2022 £'000	2021 £'000
Contractual interest from Amortised Cost Investments	12,208	7,376
Amortisation of fair value adjustment on initial recognition from Amortised Cost Investments	16,377	18,847
Effective Interest rate income	**28,585**	**26,223**

The Company charges a contractual interest rate of 6% to customers regardless of the credit quality of the customer. The amortisation of the fair value adjustment on initial recognition represents the difference between the contractual interest rate and the effective interest rate applicable on these loans.

4.2 Grant Income

Grant income relates to the Resource Grant received from BEIS under the terms of the 'Grant Offer Letter'. The grant income funds the operating expenses of the Company and any amount in excess is recorded as a deferred scheme income liability (note 11). A cash amount of £5m was received from BEIS in the form of a Resource Grant for the financial year ending 31 March 2022 (2021: £6m).

4.3 Net losses on investment assets

	2022 £'000	2021 £'000
Impairment losses and other finance partner write-offs	20,854	63,225
Fair value adjustment on initial recognition of Amortised Cost assets	31,002	32,905
Net losses on investment assets	**51,856**	**96,160**

The impairment losses and other finance partner write-offs relates to the derecognition of loans where they are assessed to have no reasonable prospect of any further recoveries. When a loan is derecognised, there is also a reduction in the provision for expected credit losses which partially offsets the impact on net income. The reduction in the provision during the year for derecognised loans was £110.9m (2021 £43.9m).

Notes to the financial statements for the year ended 31 March 2022 (continued)

4.4 Net gain on write down of repayable capital grant

The Company receives a Capital Grant from BEIS under the terms of the 'Grant Offer Letter' between BEIS and SUL for the purpose of extending loans to entrepreneurs at below market rate (see note 12). On expiry of the grant period (31 March 2025), SUL will repay to BEIS the amount of cash held in its bank accounts representing capital and interest repayments from entrepreneurs. The repayable capital grant will be reduced by any unrecovered amounts from the beneficiaries of the loans. The gain on write-down of repayable capital grant represents the reduction in the capital grant liability for the write-offs and impairment losses incurred on the loans to entrepreneurs in the period as well as the reduction/increase in the capital grant liability for the fair value adjustment on initial recognition and the subsequent amortisation of this adjustment.

5. Operating expenditure

5.1 Staff costs

Direct staff costs	2022	2021
	£'000	£'000
Wages and salaries	2,537	2,290
Social security costs	254	229
Other pension costs	298	264
Total staff costs	**3,089**	**2,783**

5.2 Other operating expenditure	**2022**	2021
	£'000	£'000
Professional fees - Operational	177	77
Information Technology	82	6
Delivery partner fees	8,282	8,666
Staff related costs, including training and travel	22	12
Other purchase of goods and services	6,722	4,891
Total other operating expenditure	**15,285**	**13,652**

The Company is part of the British Business Bank plc group, certain functions are provided centrally with a management fee cost recharged to the company. This recharge is shown within Other purchase of goods and services.

Notes to the financial statements for the year ended 31 March 2022 (continued)

6. Employees and Directors

(i) Employees

The average monthly number of persons (including Executive and Non-Executive Directors) employed by the Company during the year was:

	2022	2021
Executive Directors	-	-
Non-Executive Directors	2	2
Permanent, fixed term and seconded employees	58	54
	60	**56**

(ii) Executive and Non-Executive Directors' emoluments

There were no directors' emoluments (short term, long term and post-employment benefits) in the current or prior financial year. The two directors who served during the financial year ended 31 March 2022 (2021: two) were employed by British Business Bank plc and did not receive remuneration for their services to the Company. Their remuneration is disclosed in the consolidated financial statements of British Business Bank plc.

Notes to the financial statements for the year ended 31 March 2022 (continued)

7. Tax on result/profit on ordinary activities

(a) Tax expense included in result

	2022 £'000	2021 £'000
Current tax:		
UK Corporation tax on profits for the year	(51)	127
Total current tax	**(51)**	**127**
Deferred tax:		
Origination and reversal of temporary differences	(8)	(120)
Total deferred tax	**(8)**	**(120)**
Tax on result on ordinary activities	**(59)**	**7**

(b) Reconciliation of tax charge

	2022 £'000	2021 £'000
Result on ordinary activities before tax	**263**	40
Tax on profit at standard UK tax rate of 19% (2021: 19%)	**50**	8
Effects of:		
- Adjustment from previous periods and tax rate changes	1	(1)
Tax charge for the year	**51**	**7**

(C) Deferred taxation

	2022 £'000	2021 £'000
Opening balance at 1 April	**200**	**80**
Movement in the year	8	120
Deferred tax as at 31 March 2022	**208**	**200**

Notes to the financial statements for the year ended 31 March 2022 (continued)

8. Trade and other receivables

	2022 £'000	2021 £'000
Trade receivables	-	132
Prepayments and accrued income	10	42
Other receivables	823	724
Amounts owed by group undertakings	-	379
	833	**1,277**

9. Amortised cost Investments

	Notes	2022 £'000	2021 £'000
Opening balance at 1 April		**157,365**	**127,877**
Additions		130,748	137,385
Fair value adjustment on initial recognition	**4.3**	(31,002)	(32,905)
Capital repayments		(102,275)	(82,755)
Accrued contractual interest	**4.1**	12,208	7,376
Amortisation of fair value adjustment on initial recognition	**4.1**	16,377	18,847
Impairment losses and other finance partner write offs	**4.3**	(20,854)	(63,255)
Expected credit loss allowance		16,264	44,795
As at 31 March		**178,831**	**157,365**

The fair value adjustment on initial recognition represents the difference between the face value of loans written and the future expected cash flows discounted using an appropriate discount rate. The fair value adjustment as a ratio to gross lending advanced was 23.7% during the year (2021: 24.0%).

Notes to the financial statements for the year ended 31 March 2022 (continued)

10. Trade and other payables

Amounts falling due within one year:

	2022 £'000	2021 £'000
Other accruals	1,941	1,902
Trade and other payables	194	156
Taxation and social security	61	277
Amounts owed to group undertakings	961	380
	3,157	**2,715**

The Directors consider that the carrying value of trade and other payables approximates their fair value.

11. Deferred scheme income

Grant income, not recognised in the profit and loss account, has been deferred for furtherance of the Scheme in future years in accordance with the terms set out in the BEIS Grant Offer letters.

12. Loans and capital grant repayable

	2022	2021
	£'000	**£'000**
BEIS Unsecured loans – falling due within one year	-	14,894
BBFL Unsecured loan – falling due within one year	53,835	15,266
BEIS Repayable capital grant – falling due within one year	130,055	92,663
Falling due within one year	**183,890**	**122,823**
BBFL Unsecured loan – falling due after one year	-	37,300
Falling due after one year	**-**	**37,300**
Total loans and capital grant repayable	**183,890**	**160,123**

The unsecured loans from BEIS were repaid in December 2021. As per the going concern disclosure in note 2, BEIS continue to support the company and have committed to continue to provide financing.

The loan facilities with BBFL carry an interest rate of 2.525%. This comprises of two facilities repayable on 31 March 2023.

During the year the Company received capital grants from BEIS of £60m (2021: £68m) and wrote down the value of capital grants by £20.6m (2021: £36.6m). The repayable capital grant has been classified as a current liability as it may become repayable on demand, in whole or in part, under certain conditions (see note 2 (g)(vi)).

During the year repayments of £nil (2021: £nil) were made against the unsecured loans from BBFL.

Notes to the financial statements for the year ended 31 March 2022 (continued)

13. Financial Instruments and Risk Management

13.1 Financial Instruments

The following table analyses the Company's financial assets and liabilities in accordance with the categories of financial instruments in IFRS 9.

At 31 March 2022	Note	Amortised cost assets £'000	Amortised cost liabilities £'000	Non-financial items £'000	Total £'000
Assets					
Property, plant and equipment		-	-	2	2
Intangible assets		-	-	12	12
Amortised cost investments	9	178,831	-	-	178,831
Trade and other receivables	8	823	-	-	823
Prepayments	8	-	-	10	10
Cash and cash equivalents		8,300	-	-	8,300
Deferred tax		-	-	208	208
Total assets		**193,514**	**-**	**232**	**188,186**
Liabilities					
Trade and other payables		-	(4,070)	(61)	(4,131)
Loans and other borrowings	12	-	(183,890)	-	(183,890)
Total liabilities		**-**	**(187,960)**	**(61)**	**(188,021)**
Net assets		**193,514**	**(193,520)**	**171**	**165**

Notes to the financial statements for the year ended 31 March 2022 (continued)

13. Financial Instruments and Risk Management (continued)

At 31 March 2021	Note	Amortised cost assets £'000	Amortised cost liabilities £'000	Non-financial items £'000	Total £'000
Assets					
Property, plant and equipment		-	-	26	26
Intangible assets	10	-	-	220	220
Amortised cost investments	9	157,365	-	-	157,365
Trade and other receivables	8	1,235	-	-	1,235
Prepayments	8	-	-	42	42
Cash and cash equivalents		4,104	-	-	4,104
Deferred tax		-	-	200	200
Total assets		**162,704**	**-**	**488**	**163,192**
Liabilities					
Trade and other payables		-	(2,848)	(65)	(2,913)
Loans and other borrowings	13	-	(160,123)	-	(160,123)
Total liabilities		**-**	**(162,971)**	**(65)**	**(163,036)**
Net assets		**162,704**	**(162,971)**	**423**	**156**

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The carrying amounts and fair values of the Company's financial assets and financial liabilities measured at amortised cost are generally equivalent, the exception being the loans measured at amortised cost as detailed in the table below.

	Carrying value 2022 £'000	Fair Value 2022 £'000	Carrying value 2021 £'000	Fair Value 2021 £'000
Financial assets at amortised cost				
Amortised cost				
- Start Up Loans	178,831	192,266	157,365	169,259
	178,831	**192,266**	**157,365**	**169,259**

Notes to the financial statements for the year ended 31 March 2022 (continued)

13. Financial Instruments and Risk Management (continued)

Start Up Loans

Start Up Loans to entrepreneurs are financial assets with fixed or determinable payments and are not quoted in an active market. Loans are recognised when cash is advanced and initially recognised at fair value and subsequently measured at amortised cost over the term of the loan.

For the estimation of fair value at the reporting date, the Company has utilised a future expected cash flow model which is based on the recent past performance for similar loans. The future expected cash flows derived from the model are discounted using an appropriate discount rate which has been calculated by taking the 5-year median corporate debt rates for Caa / C rated loans. This information has been sourced from Moody's market analysis. Start Up Loans are classed as Level 3 assets based on the valuation techniques used to determine the fair value at the reporting date. The fair value of Start Up Loans is sensitive to changes in the discount rate and to changes in the expected cash flows arising from the actual and future expected performance of the loans.

Other financial assets and liabilities

The fair value of cash & bank, other receivables, trade payables and delivery partner accrual are measured at carrying value due to the short-term nature of these assets.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. All of the Company's other financial assets and financial liabilities are classed as Level 3 assets and liabilities. This means that they are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying value and fair value of unsecured loan stock reflects the amount at which the Company expects to settle this liability with the Secretary of State for Business, Energy and Industrial Strategy.

The carrying value and fair value of capital grants is equivalent because the grants have no maturity and may become repayable on demand, in whole or in part, under certain conditions (see note 2 (g)(vi)).

Notes to the financial statements for the year ended 31 March 2022 (continued)

13. Financial Instruments and Risk Management (continued)

13.2 Financial risk management

The Company has exposure to several financial risks through the conduct of its operations. Details of the Company's risk management structure are provided below. This note presents information specifically about the nature and extent of the Credit and Investment risk arising from the financial instruments.

Credit and Investment risk
Credit and investment risk is the risk of loss to the Company from the failure of clients, customers or counterparties to fully honour their obligations to the Company, including the whole and timely payment of principal, interest and other receivables. Credit risk may arise in any of the Company's assets where there is the potential for default including loans and receivables with a contractual repayment.

Assessment of credit and investment risk is carried out as part of the loan approval process and is revisited on an ongoing basis as part of the Company's portfolio management process. With respect to Start Up Loans, all loans to entrepreneurs are on an unsecured basis and the credit risk is the risk that an entrepreneur will default on their contractual obligations to make repayments resulting in financial loss to the Company. To manage this, Management approves the lending standards for Start Up Loans and all changes to it. All loan applications are assessed with reference to the lending standards in force at the time. Subsequently loans are regularly reviewed for any factors that may indicate that the likelihood of repayment has changed. During the year there have been no noteworthy changes in the credit risk management procedures.

Credit risk exposure

	2022	2021
	£'000	£'000
Cash and cash equivalents	8,300	4,104
Trade and other receivables	824	856
Amortised cost investments	217,869	212,666
Total	**226,993**	**218,005**

The credit risk exposure is the gross carrying value of the financial assets in the Statement of Financial Position as no collateral is held against any of the assets and investments. If these loans were to default, the overall net loss recorded in the income statement would be lower due to the ECL provision held against the amortised cost investments.

Notes to the financial statements for the year ended 31 March 2022 (continued)

13. Financial Instruments and Risk Management (continued)

Trade and other receivables
Impairment on trade and other receivables has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. An expected credit loss on trade and other receivables has not been recognised in the accounts as it is not material.

Assets held at amortised cost
The Company produces credit risk ratings for its loan based upon the output of internal and external PD models.

The following table presents an analysis of credit quality of assets held at amortised cost. It indicates whether assets were subject to a 12-month Expected Credit Loss ("ECL") or lifetime ECL allowance, and whether they were credit-impaired.

Notes to the financial statements for the year ended 31 March 2022 (continued)

13. Financial Instruments and Risk Management (continued)

13.2 Financial risk management (continued)

Assets held at amortised cost (continued)

	Not credit-impaired				Credit impaired		Total	
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL			
	Gross carrying amount £'000	Allowance for ECL £'000	Gross carrying amount £'000	Allowance for ECL £'000	Gross carrying amount £'000	Allowance for ECL £'000	Gross carrying amount £'000	Allowance for ECL £'000
As at 1 April 2021	**140,184**	**(9,948)**	**36,774**	**(12,994)**	**35,708**	**(32,358)**	**212,665**	**(55,301)**
Transfer to 12-month ECL	4,622	(3,015)	(2,391)	1,421	(2,231)	1,594	-	-
Transfer to lifetime ECL	(16,528)	5,069	20,637	(6,433)	(4,109)	1,364	-	-
Transfer to credit-impaired financial asset	(5,867)	371	(3,230)	1,754	9,097	(2,125)	-	-
New financial assets originated or purchased	130,748	(10,993)	-	-	-	-	130,748	(10,993)
Fair value adjustment on initial recognition (new lending)	(31,002)	-	-	-	-	-	(31,002)	-
Financial assets that have been derecognised during the period (including write-off)	(72,978)	268	(18,930)	521	(19,013)	1,913	(110,921)	2,702
Changes to risk parameters	-	6,997	-	5,723	-	11,835	-	24,555
Amortisation	12,580	-	2,768	-	1,029	-	16,377	-
As at 31 March 2022	**161,759**	**(11,252)**	**35,629**	**(10,009)**	**20,481**	**(17,777)**	**217,869**	**(39,038)**
Carrying amount as at 31 March 2022		**150,507**		**25,620**		**2,074**		**178,831**

Notes to the financial statements for the year ended 31 March 2022 (continued)

13. Financial Instruments and Risk Management (continued)

13.2 Financial risk management (continued)

Assets held at amortised cost (continued)

	Not credit-impaired				Credit impaired		Total	
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL			
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2020	**123,742**	**(19,430)**	**33,149**	**(11,669)**	**51,864**	**(49,778)**	**208,755**	**(80,877)**
Transfer to 12-month ECL	688	(580)	(486)	378	(202)	202	-	-
Transfer to lifetime ECL	(23,709)	7,090	23,948	(8,013)	(239)	923	-	-
Transfer to credit-impaired financial asset	(22,456)	8,948	(6,204)	3,383	28,660	(12,331)	-	-
New financial assets originated or purchased	137,385	(20,206)	-	-	-	-	137,385	(20,206)
Fair value adjustment on initial recognition (new lending)	(32,905)	-	-	-	-	-	(32,905)	-
Financial assets that have been derecognised during the period (including write-off)	(56,605)	1,591	(15,722)	1,068	(47,090)	41,200	(119,417)	43,859
Changes to risk parameters	-	12,639	-	1,859	-	(12,574)	-	1,924
Amortisation	14,044	-	2,088	-	2,715	-	18,847	-
As at 31 March 2021	**140,184**	**(9,948)**	**36,773**	**(12,994)**	**35,708**	**(32,358)**	**212,665**	**(55,300)**
Carrying amount as at 31 March 2021		**130,236**		**23,779**		**3,350**		**157,365**

Notes to the financial statements for the year ended 31 March 2022 (continued)

13. Financial Instruments and Risk Management (continued)

13.2 Financial risk management (continued)

The Company has undertaken sensitivity analysis of the key inputs to ECL impairment provision models. Due to the current benign economic environment, this analysis has concentrated on the downside impact on ECL provision levels:

- The potential impact of ascribing 100% probability to the worst-case economic scenario could increase provisions by £3.4 million.
- The potential impact of inaccurately modelled PD input with a sensitivity of a 1-notch downgrade on a granular PD rating scale, equating to 1.5x multiple on all the performing loan PD inputs, could increase provisions by £4.3 million.
- The potential impact of changing the LGD from 90% to 100% post overlay could increase provisions by £2.5 million.

Cash and cash equivalents

The cash and cash equivalents are held with banks and financial institutions which are rated AA- to AA+ based on S&P ratings. The Company considers that cash and cash equivalents have a low credit risk based on the external credit ratings of the holding parties. As such, an expected credit loss has not been recognised in the accounts.

Interest rate risk

The following table shows the average interest rates received or charged applicable to relevant financial assets and financial liabilities.

	2022		2021	
	Amount £'000	**Contractual Average interest rate**	**Amount £'000**	**Contractual Average interest rate**
Financial Assets				
Start Up Loans	178,831	6%	157,365	6%
Financial Liabilities				
Loans and repayable capital grant from the Secretary of Business, Energy and Industrial Strategy	135,615	0%	107,557	0%
Loans from British Business Finance Limited	53,835	2.525%	52,566	2.525%

The interest rate applicable to Start Up loans to entrepreneurs is fixed at a rate of 6% per annum. No interest is payable on borrowings from BEIS and 2.525% interest is payable on borrowings from BBFL. Therefore, a consistent margin is maintained between interest receivable and interest payable. As a result, the trading performance for the year is not sensitive to changes in reference rates and no sensitivity analysis is presented.

Notes to the financial statements for the year ended 31 March 2022 (continued)

13. Financial Instruments and Risk Management (continued)

13.2 Financial risk management (continued)

Liquidity risk

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

The Company manages its liquidity risk management as part of its cash and operational risk management processes and ensures that sufficient funds in liquid form are maintained at all times to meet liabilities as they fall due.

It should be noted loans to entrepreneurs have an average maturity of up to 5 years.

The capital grant funding received from BEIS has no maturity and may become repayable on demand, in whole or in part, under certain conditions (see note 2(g)(vi)), if at the absolute discretion of BEIS, certain conditions arise that affect the Company adversely. The maturity profile of the Term Facility Agreements with BEIS and the loan from British Business Finance is given in note 12. The Company has received a letter of support from BEIS stating it will provide sufficient funding to enable the Company to meet its liabilities as and when they fall due for a period of not less than twelve months from the date of approval of these financial statements, on the basis that the Company continues to meet the principles and conditions communicated to it.

Other than the capital grants, liquidity risk is not deemed significant to the Company as it is 100% Government funded, with all programmes pre-approved.

14. Share capital

The Company is limited by Guarantee and BBFL is the sole member of the Company. BBFL is a wholly owned subsidiary of the British Business Bank plc.

15. Contingent liabilities

The Company does not have any contingent liabilities.

Notes to the financial statements for the year ended 31 March 2022 (continued)

16. Related party transactions

Key Management Personnel

Key management personnel refer to the Directors of the Company. Key management personnel compensation is disclosed in note 6 to the financial statements.

Trading Transactions

The Company receives funding from BEIS and BBFL which is part of the British Business Bank plc Group as disclosed in note 12 to the financial statements. The Company also receives grant income from BEIS to cover its operating expenses as disclosed in note 4.2. During the year the Company entered into the following related party transactions:

Income

	2022 £'000	2021 £'000
Grant Income – BEIS	4,224	6,861
Write down of repayable capital grant received – BEIS	22,608	36,619
Total income	**26,832**	**36,542**

Expenditure

	2022 £'000	2021 £'000
Recharges – British Business Bank plc	(6,174)	(4,163)

Capital

	2022 £'000	2021 £'000
Repayable capital grant received - BEIS	60,000	68,000
Repayment of loans to BEIS	(14,894)	-
Total capital	**45,106**	**68,000**

Interest Expense

	2022 £'000	2021 £'000
Repayable loan funding at 2.525% - BBFL	1,269	1,270

Notes to the financial statements for the year ended 31 March 2022 (continued)

16. Related party transactions (continued)

Amounts outstanding at the end of the year

Related party deferred scheme income and loans and borrowings outstanding at the end of the year are shown in the Statement of Financial Position and related notes.

At 31 March 2022 there was a £6,000 receivable from British Business Financial Service Ltd in respect of the recharge of operating expenses and other amounts settled (2021: £379,000).

At 31 March 2022 an amount of £967,000 was payable to British Business Bank plc in respect of recharges and other amounts settled by British Business Bank plc on behalf of the Company (2021: £380,000).

During the year, £Nil was paid to BBFL in lieu of the interest charged on the repayable loans advanced by BBFL (2021: £Nil).

17. Ultimate parent undertaking and controlling party

In the opinion of the Directors, the Company's parent company is BBFL and the ultimate controlling party is the British Business Bank plc shareholder, BEIS. The consolidated financial statements of BEIS are available from the Government departments' website at GOV.UK. Copies of the group financial statements of the British Business Bank plc and the financial statements of British Business Finance Limited are available from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ.

18. Events after the end of the reporting year

There have been no post reporting date events that require disclosure.