propel

Financial Statements

Annual Report and Financial Statements for the Year Ended

31st December 2021

Propel Finance No1 Limited

10003271

PROPEL FINANCE NO 1 LIMITED

COMPANY INFORMATION

Directors	R J McDougall E H McNeill A Williams M A Tweed M Catton
Registered number	10003271
Registered office	Unit 5 Langstone Business Village Langstone Park Langstone Newport NP18 2LH
Independent auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor 6th Floor 3 Callaghan Square Cardiff CF10 5BT
Bankers	NatWest High Street Newport NP20 1GG
Solicitors	Addleshaw Goddard LLP 3 Sovereign Square Sovereign Street Leeds LS1 4ER

PROPEL FINANCE NO 1 LIMITED

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STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their report and the financial statements of the company for the year ended 31 December 2021.

Principal activity

The principal activity of the company is the provision of tailored leased finance products to UK based small and medium sized enterprises (SMEs). The company has several specialisms across industries, asset classes and equipment types, supporting customers and suppliers, operating through strategic partnerships, direct customer channels and long-standing vendor partnerships.

Review of the business and future developments

Business review: Summary

Propel's 2021 financial results are testament to the significant investment and change delivered since the Group's origins as a pure-play origination broker model. The Group is now well positioned as UK SME lender of choice with a market leading proposition and technology platform from which to scale. Recognised as an originator, a lender and a servicer, the directors believe this provides diversification and a higher quality of earnings. The business model is further de-risked via the addition of alternative funding sources and a strategic equity investment from Barclays Bank.

Origination: A record year

It has been a record year for deal flow. A re-organisation of our distribution teams and channels resulted in more effective coverage of the market both in terms of skills and geography. We have strengthened partnerships and deepened relationships, and launched new origination channels as well as rationalising others, all of which has driven a higher quantity and a better quality of deal flow.

Our Partnership channel continues to go from strength to strength. Key to this channel is our dual branded commercial partnership with Barclays Bank, whereby Propel provides Asset Finance product solutions into Barclays 1 million SME customers. Both through and post the disruptions of Covid, Propel and Barclays have worked closely together to support customers requiring finance for capital investment.

The potential to further drive scale from our platform is evidenced by a new multi-year commercial agreement with Azets, one of the UKs leading accounting and business advisory practices. This is an exciting opportunity for Propel to provide Asset Finance solutions into their 50,000+ UK SME customers.

The Group has also expanded its reach with the introduction of its Intermediaries channel. To facilitate speed and quality of service to the end customer and enable automated lending decisions via this route, the Group has designed and built a market-leading broker portal. It is expected this will launch in H1 2022.

Additionally, we continue to on-board a number of high-profile partners to the platform in our Vendor channel. All of these partners, including several global players point to the technology differential we have developed as well as the capability within the team.

The Group continues to prioritise customer service. Customer service levels have been excellent throughout the year and are expected to improve to best in class following the successful deployment of our Microsoft Dynamics CRM system. This has been fully integrated into our proprietary loan origination system (Propeller). Benefits experienced to date include improved customer reporting, colleague productivity and enhanced process and controls.

Financial performance:

The success of our partnerships, new distribution channels and new asset specialisms are demonstrated within our key performance indicators for the year:

	31/12/2021	31/12/2020
Net investment finance leases	**213,995,209**	103,974,044
Total amounts receivable	**251,758,653**	122,217,523
Less interest allocated to future periods	**(37,763,444)**	(18,243,479)
(Loss) before tax	**(6,869,369)**	(4,341,719)

The monthly performance of the company and its forecasts are regularly reviewed in detail. Should there be an unforeseen and material adverse change in any of the key sensitivities impacting on the company's forecasts, the directors would seek to mitigate the impact by adopting different operating strategies. It is likely that these would be focused on market sector mix and credit sanctioning policies.

Capital & Funding: Increased capacity and diversified sourcing

Capital and liquidity management remain key to our business plan. Maintaining close relationships with our funders, diversifying funding options, and the close monitoring of funding capacity as well as day to day liquidity management are crucial to support origination growth.

The British Business Bank ('BBB') continue to support Propel under the ENABLE Funding Scheme. During 2021, the BBB increased our facility capacity under the ENABLE Funding programme by approving increases to the facility size during the year in order to furher support the provision of asset finance solutions to SMEs. The Group has also introduced additional funding sources to enable growth and de-risk the business model. These include receivables funding programmes with various mainstream lenders, whereby Propel acts to originate, process and service lease agreements but transfer the risk and rewards to third party funders, whilst retaining an element of the economics.

Demonstrating confidence and support in the Group business plan, and in build of our partnership, Barclays UK Investments Limited ('Barclays') invested capital to become a strategic minority investor in the Group. Post the year-end, Barclays invested further to increase its minority stake in Propel Group Finance Limited. Cabot Square Capital Partners IV SC2, L.P. also introduced additional equity capital in 2021 to support our growth aspirations, through subscription for Preference Shares. Post the year-end, Cabot Square Capital Partners IV SC2, L.P. also subscribed for additional Preference Shares.

Technology Platform: A platform fit for scale

The Group has now completed an upgrade of each of its core operating systems. This significant investment programme, commenced back in 2019, has delivered enhancements to each of the proprietary origination, lease administration and CRM systems. Delivering a seamless customer experience and improved service levels, our technology platform truly differentiates the Propel proposition in the UK asset finance market.

Facilitating partner integrations and allowing Propel to be responsive and agile to customer needs, the technology platform is expected to enable originations growth into 2022. Combined with streamlined processes and the resulting productivity gains the directors expect revenue growth to further outpace overheads growth in 2022.

Post Covid-19:

The Group is proud to have supported our colleagues and customers throughout the pandemic.

Delivering to our core vision of supporting sustainable investment across the UK SME market, the Group offered multiple forbearance options during 2020. At its peak, 11% of the Group's customer base had opted for forbearance on repayments. Working in partnership and ensuring fair customer outcomes, it was in September 2021 that the last agreement under a Covid forbearance plan was successfully managed back to normal course.

The Group has switched to a hybrid working environment post Covid-19. Accordingly, operational risks have been reviewed and controls adapted as result of hybrid working. This included a complete review of the cyber security control environment by a specialist third party.

People: Dedicated and committed 'Propellers'

The Board would like to make special mention and thank all colleagues who have continued to work tirelessly and flexibly throughout the Covid-19 pandemic. The continued commitment and dedication of our 'Propellers' has enabled strong business development and has ensured the continued support of our SME customers during these unprecedented times.

The Board also welcomes its new Director of Propel Group Finance Limited, Michael Hartig. As a representative of the Barclays minority investment in the Group, and with over 30 years in financial services, Michael will bring significant expertise to the Board.

We are very proud of the community in which we operate and our contribution to that community. Through various initiatives, we have supported local sports and cultural activities, in addition to several employee nominated charities. We are proud to be accredited by Stonewall as an employer actively promoting inclusivity in the workplace. We also continue to actively participate in the Welsh Financial Services & Data Science Graduate Programmes, providing work-based placements as part of a wider consortium.

Outlook:

The directors are confident that without further disruption from the Covid-19 pandemic, our 2022 financial year will deliver a record level of originations and underlying year-on-year earnings growth.

Financial and Operational Risk Management Objectives and Policies, Including Principal Risks and Uncertainties

The company's activities expose it to a number of financial risks including credit risk, interest rate risk, pricing risk, liquidity risk and conduct risk. The key financial and operational risks and the company risk management strategies are outlined below, the directors do not believe there have been significant changes in the key risks compared to the prior period.

The directors continue to monitor the impact of Brexit; however, to date there has been no significant impact on the company and the directors do not currently expect any significant change in the performance of the business arising from Brexit.

Credit risk

The company's principal financial assets comprise bank balances and cash, trade and other debtors and finance lease and hire purchase debtors.

Credit risk is one of the principal risks the company faces. The company's credit risk is primarily attributable to its trade and finance lease debtors. Credit risk at inception of new lending is controlled by means of Credit Policy and delegated mandate structure. In addition, arrears and other default-related information is monitored and discussed regularly by the directors, and mitigating actions are taken in a timely manner where appropriate. Additional governance around credit risk is provided by the Credit Committee, a formal sub-committee of the Board.

The amounts presented in the Statement of Financial Position are net of allowances for doubtful receivables. An allowance for bad debt is made where there is an identified loss event which, based on previous experience is evidence of a reduction in the recoverability of the future cash flows.

The carrying value of finance receivables best represents our maximum exposure to credit risk without taking into account any collateral or other credit risk mitigations. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Reputational risk

Damage to the company's reputation and competitive pressure are continuing risks. The company mitigates these risks by providing added value services to its customer's, having fast response times not only in the supply of services but in handling customer queries and by maintaining strong relationships. The company acknowledges that customers are at the heart of what it achieves and continually assesses that all are treated fairly. The directors ensure that information is transparent and the product being offered is relevant to the customer's needs, expectations are managed through every stage of the process and all queries or complaints are dealt with efficiently and sensitively.

Interest rate risk

The company's finance lease debtors are based on fixed interest rates. The price charged on fixed rate lending is dependent on the cost of funds the company faces in funding these loans at the point of inception as well as the risk profile of the customer. The company does not undertake any interest rate hedging activities, noting that the company, through some of its funding structures borrows on forward curve interest rates.

Price risk

The company is exposed to some degree of pricing risk which is dependent on market prices. The company diversifies into different asset types and industries, continuing to build out a broad and diversified customer base. Further, the directors believe that the risk is mitigated through a focus on best in class service provision and IT leadership through its Propeller software.

Liquidity risk

Liquidity risk is the risk of not being able to meet liabilities as they fall due. The company is financed at a level required to meet its liquidity needs, with cash flow proactively monitored by the directors in the normal course of business. The directors have sought to diversify its funding in terms of facility size, provider and structure during the course of the year. In addition, an Asset and Liability Committee has been established to monitor liquidity and associated risks.

Conduct & Regulatory risks

An inherent risk of the business is the creation of detriment to the company, its customers, clients or counterparties as a result of the inappropriate execution of our business activities. To mitigate against these risks materialising, the company has implemented appropriate systems and controls throughout the business.

The company continues to respond to the changing regulatory environment arising from the role of the Financial Conduct Authority (FCA). Regulatory principles are at the heart of every aspect of the business, across both regulated and non-regulated segments and embedded into staff training and development.

Cyber risk

Failure to adequately manage cyber threats and to continually review and update processes in response to new threats could result in operational disruption resulting from system downtime, financial loss, data loss, reputational damage and regulatory fines.

With increasing frequency, severity and sophistication of cyber-attacks on UK businesses in general, the Group continually monitors cyber threats using internal and external resources and where necessary implements changes to combat these threats. The Group utilises appropriate levels of industry standard information security solutions and best practice for critical systems. A third party review of our cyber protections was recently undertaken with all recommendations now fully implemented. Staff awareness training, internal and external vulnerability testing and a review of access rights are regular features within our business.'

Going concern

The company for the year ended 31 December 2021 recorded a net loss of £7,042,934 *(2020: loss: £4,432,111)* and had net liabilities of £13,548,132 *(2020: liabilities: £6,505,198)*.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the principal activity and review of the business section of the Strategic Report on pages 1 to 3. The principal risks and uncertainties on pages 3 to 5 include the Group's objectives, policies and processes for managing regulation; its staff; and its financial, credit and economic risks.

The financial statements are prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. In making this assessment the Board has considered predominantly, but not exclusively, the Group's closing net asset position, the FY22-24 business plan, access to credit markets and recent covenant performance.

The Group is now well positioned as UK SME funder of choice with a market leading proposition and technology platform from which to scale. The Directors are confident that without further disruption from the Covid-19 pandemic, our 2022 financial year will deliver a record level of originations and will deliver positive earnings, with revenue growth again accelerating far ahead of growth in overheads.

To deliver this plan, the Group is dependent upon continued access to credit markets. To accomodate forecast growth in the Group's Net investment in Finance Lease receivable balance additional debt capacity will be required within the next 12 months, for which funding workstreams are well underway. Forecasting and stress test analysis has been completed, with a number of assumptions used in those scenarios, which are predominantly based on levels of originations and funding mix. Capital and funding actions taken and being taken provides for the resources identified within the Group's forecasts.

The Group has secured approval in principal to increase its main funding facility as well as credit approved and documented terms for a new warehouse facility with a third party provider. This gives the Directors confidence of being able to fund future growth. The majority shareholder continues its commitment to the Group. The business model is further de-risked following the strategic equity investment from Barclays Bank.

The Group's Net investment in Finance Lease receivable stood at £246m as at 31 May 2022. As an asset financing business offering loans typically with a term of 4-5 years, the Group also has the benefit of its existing loanbook as a key source of future cashflow. In the worse case event of access to credit markets being restricted the Group is able to suspend originations, minimise overheads and use this cashflow to support operations. This further strengthens the Director's assumption on going concern. On this basis, the Directors have prepared the financial statements on a going concern basis.

This report was approved by the board on 14 June 2022 and signed on its behalf.

Mark Catton

M Catton
Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their report and the financial statements for the year ended 31 December 2021.

Principal activity

The principal activity of the company is the provision of tailored lease finance products to UK based small and medium sized enterprises (SMEs). The company has specialisms in Vendor, Retail and Asset Finance Segments, operating through both direct and vendor led routes to market.

Directors

The directors who served during the year were:

R J McDougall
E H McNeill
A Williams
M A Tweed
M Catton

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law 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, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and 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.

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.

Results and dividends

The loss for the year, after taxation, amounted to £7,042,934 *(2020 - loss £4,432,111)*.

No dividends were distributed for the year ended 31 December 2021 *(2020: £Nil)*.

Qualifying third party indemnity provisions

Director's and Officer's insurance cover has been established for all directors to provide appropriate cover for their reasonable actions on behalf of the company. A deed was executed in 2020 indemnifying each of the directors of the company and/or its subsidiaries as a supplement to the Director's and Officer's insurance cover. The indemnities, which constitute a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2002, were in force during the 2021 financial year and remain in force for all current and past directors of the company.

Matters covered in the Strategic Report

Where the disclosure requirements of the Directors' Report are of strategic importance they are covered within the Strategic Report.

Post statement of financial position events

On 25 January 2022 Barclays UK Investments Ltd ('Barclays'), CS Capital Partners IV L.P and the Group signed an agreement for Barclays to increase their minority stake investment in the business. This resulted in 16,700 Ordinary B shares in Propel Group Finance Limited being issued to Barclays and 3,300 Ordinary A shares being issued to Propel Finance Group Holdings Limited.

Subsequently 1,650,000 Preference A shares were issued by Propel Finance Group Holdings Limited to Cabot Square Capital Nominee Limited as well as 10,998 Ordinary A shares.

Disclosure of information to auditor

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 14 June 2022 and signed on its behalf.

Mark Catton

M Catton
Director

GrantThornton

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROPEL FINANCE NO 1 LIMITED

Opinion

We have audited the financial statements of Propel Finance No 1 Limited (the 'company') for the year ended 31 December 2021, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the company to cease to continue as a going concern.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

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

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

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

GrantThornton

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROPEL FINANCE NO 1 LIMITED (CONTINUED)

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROPEL FINANCE NO 1 LIMITED (CONTINUED)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to wider group and the company and determined that the most significant are those that relate to the financial reporting framework, being Financial Reporting Standard 102 and the Companies Act 2006, and also the Consumer Credit Acts 1974 and 2006, the particulars of the FCA Handbook and the Financial Services and Markets Act 2000;
- We have in addition identified areas of laws and regulation relating to financial crime, employment, health & safety, data protection that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector and through discussion with the Compliance and Conduct Risk Director of the group and the parent company;
- We have assessed compliance with laws and regulations throughout the engagement through inspection of Board meetings minutes and inspection of legal and regulatory correspondence as appropriate;
- We have assessed the susceptibility of the wider group and the company financial statements to material misstatement, including how fraud might occur. We considered the opportunity and incentives for management to perpetrate fraud, and the potential impact on the financial statements;
- We communicated relevant laws and potential fraud risks to all engagement team members and remained alert to any indicators of fraud or non-compliance with laws and regulations throughout the audit;
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the wider group and the company's operations, including the nature of its revenue sources, products, and services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement;
  - the wider group and the company's control environment;
  - the wider group and the company's relevant controls over areas of significant risks; and
  - the wider group and the company's business processes in respect of classes of transactions that are significant to the financial statements;
- Audit procedures performed by the engagement team included:
  - identifying the significant risk of fraud within revenue recognition and undertaking substantive testing to obtain sufficient and appropriate audit evidence;
  - testing manual journal entries, in particular journal entries relating to management estimates and entries determined to be large or relating to unusual transactions; and
  - identifying and testing related party transactions.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROPEL FINANCE NO 1 LIMITED (CONTINUED)

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;

- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included:
  - consideration of the engagement team's understanding of, and practical experience with, audit engagements of a similar nature and complexity;
  - appropriate training, knowledge of the industry in which the group and the parent company operates; and
  - understanding of the legal and regulatory requirement specific to wider group and the company.

Use of our report

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

Grant Thornton UK LLP

Rhian Owen BSc FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cardiff

14 June 2022

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £	2020 £
Turnover	4	**16,748,352**	*10,237,372*
Cost of sales		**(4,498,587)**	*(2,393,409)*
Gross profit		**12,249,765**	*7,843,963*
Administrative expenses		**(14,375,096)**	*(9,330,729)*
Operating loss	5	**(2,125,331)**	*(1,486,766)*
Interest receivable and similar income	8	**413**	*6,573*
Interest payable and similar expenses	9	**(4,744,451)**	*(2,861,526)*
Loss before tax		**(6,869,369)**	*(4,341,719)*
Tax on loss	10	**(173,565)**	*(90,392)*
Loss for the financial year		**(7,042,934)**	*(4,432,111)*

There was no recognised gains and losses for 2021 or 2020 other than those included in the Statement of Comprehensive Income.

The notes on pages 17 to 32 form part of these financial statements.

PROPEL FINANCE NO 1 LIMITED
REGISTERED NUMBER:10003271

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Note		2021 £		2020 £
Current assets					
Debtors: amounts falling due after more than one year	11	**143,388,821**		*68,912,785*	
Debtors: amounts falling due within one year	11	**78,948,503**		*39,336,555*	
Cash at bank and in hand	14	**2,978,959**		*2,867,674*	
		225,316,283		*111,117,014*	
Creditors: amounts falling due within one year	15	**(117,173,980)**		*(58,312,776)*	
Net current assets			**108,142,303**		*52,804,238*
Total assets less current liabilities			**108,142,303**		*52,804,238*
Creditors: amounts falling due after more than one year	16		**(121,690,435)**		*(59,309,436)*
Net liabilities			**(13,548,132)**		*(6,505,198)*
Capital and reserves					
Called up share capital	20		**1**		*1*
Profit and loss account	21		**(13,548,133)**		*(6,505,199)*
			(13,548,132)		*(6,505,198)*

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 14 June 2022.

Mark Catton

M Catton
Director

The notes on pages 17 to 32 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2021	1	(6,505,199)	(6,505,198)
Comprehensive income for the year			
Loss for the year	-	(7,042,934)	(7,042,934)
Total comprehensive income for the year	-	(7,042,934)	(7,042,934)
At 31 December 2021	1	(13,548,133)	(13,548,132)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2020	1	(2,073,088)	(2,073,087)
Comprehensive income for the year			
Loss for the year	-	(4,432,111)	(4,432,111)
Total comprehensive income for the year	-	(4,432,111)	(4,432,111)
At 31 December 2020	1	(6,505,199)	(6,505,198)

The notes on pages 17 to 32 form part of these financial statements.

1. General information

Propel Finance No 1 Limited is a private company limited by shares & incorporated in England and Wales. Registered number 10003271. Its registered head office is located at Unit 5 Langstone Business Village, Langstone Park, Langstone, Newport, NP18 2LH.

2. Accounting policies

2.1 Basis of preparation of financial statements

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

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

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d).

This information is included in the consolidated financial statements of Propel Finance Group Holdings Limited as at 31 December 2021 and these financial statements may be obtained from Unit 5 Langstone Business Village, Langstone Park, Langstone, Newport, NP18 2LH.

2. Accounting policies (continued)

2.3 Going concern

The company for the year ended 31 December 2021 recorded a net loss of £7,042,934 *(2020: loss: £4,432,111)* and had net liabilities of £13,548,132 *(2020: liabilities: £6,505,198)*.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the principal activity and review of the business section of the Strategic Report on pages 1 to 3. The principal risks and uncertainties on pages 3 to 5 include the Group's objectives, policies and processes for managing regulation; its staff; and its financial, credit and economic risks.

The financial statements are prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. In making this assessment the Board has considered predominantly, but not exclusively, the Group's closing net asset position, the FY22-24 business plan, access to credit markets and recent covenant performance.

The Group is now well positioned as UK SME funder of choice with a market leading proposition and technology platform from which to scale. The Directors are confident that without further disruption from the Covid-19 pandemic, our 2022 financial year will deliver a record level of originations and will deliver positive earnings, with revenue growth again accelerating far ahead of growth in overheads.

To deliver this plan, the Group is dependent upon continued access to credit markets. To accomodate forecast growth in the Group's Net investment in Finance Lease receivable balance additional debt capacity will be required within the next 12 months, for which funding workstreams are well underway. Forecasting and stress test analysis has been completed, with a number of assumptions used in those scenarios, which are predominantly based on levels of originations and funding mix. Capital and funding actions taken and being taken provides for the resources identified within the Group's forecasts.

The Group has secured approval in principal to increase its main funding facility as well as credit approved and documented terms for a new warehouse facility with a third party provider. This gives the Directors confidence of being able to fund future growth. The majority shareholder continues its commitment to the Group. The business model is further de-risked following the strategic equity investment from Barclays Bank.

The Group's Net investment in Finance Lease receivable stood at £246m as at 31 May 2022. As an asset financing business offering loans typically with a term of 4-5 years, the Group also has the benefit of its existing loanbook as a key source of future cashflow. In the worse case event of access to credit markets being restricted the Group is able to suspend originations, minimise overheads and use this cashflow to support operations. This further strengthens the Director's assumption on going concern. On this basis, the Directors have prepared the financial statements on a going concern basis.

2. Accounting policies (continued)

2.4 Revenue

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Turnover comprises finance lease interest, hire purchase agreement interest, profits arising from arranged leases and fee income from other services, as follows:

Finance leases
Leases are accounted for as finance leases where substantively all the risks and rewards of ownership are transferred to the lessee.

The difference between the total minimum lease payments receivable and any attributed residual value and the fair value of the equipment on lease at inception represents finance income which is recognised over the period of the lease on an actuarial basis.

Hire purchase
Hire purchase contracts are leases where the lessee acquires legal title to the asset at the end of the lease period. These are accounted for in the same way as finance leases.

Arranged leases
Arranged leases are leases where the company sells the rental stream of the primary lease to a third party financial institution. The company retains its interest in the residual benefits of the leased equipment after the end of the primary lease period and income arising from this is accounted for within turnover. The company has accounted for these sales as an agent and only recognised the commission element earn on these sales within turnover.

Costs that are incremental and directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease and hire purchase agreement receivable and reduce the amount of income recognised over the lease.

2.5 Net investments in finance leases and hire purchase contracts

The investment in finance leases and hire purchase contracts is stated at the total of the minimum lease payments receivables under such leases and hire purchase contracts plus attributed residual value less finance income allocated to future periods. The company reviews the lease and hire purchase debtors for impairment by reviewing the number of days the agreement has been delinquent. The provision is generated by applying the percentage applicable to the number of days delinquent against the principal value outstanding.

The company does not recognise the lease debtor where they determine all the risks and rewards of ownership have been transferred.

2.6 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2. Accounting policies (continued)

2.7 Cash and cash equivalents

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

2.8 Financial instruments

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or in case of an out-right short-term loan that is not at market rate, the financial asset or liability is measured, initially at the present value of future cash flows discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost, unless it qualifies as a loan from a director in the case of a small company, or a public benefit entity concessionary loan.

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

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.9 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2. Accounting policies (continued)

2.10 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.11 Borrowing costs

All borrowing costs are recognised in the Statement of Comprehensive Income in the year in which they are incurred.

2.12 Provisions for liabilities

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the company becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

2.13 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

2.14 Operating leases: the company as lessee

Rentals paid under operating leases are charged to profit or loss on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2. Accounting policies (continued)

2.15 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

2.16 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

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

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

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

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

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

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made include:

Provisions

Provisions have been made for trade debtors. These provisions are an estimate of the actual costs and the timing of future cash flows is dependent on future events. The difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

The company provisioning policy is applied on individual agreements based on the number of days that the agreement has been delinquent. The provision is generated by applying the percentage applicable to the number of days delinquent against the principal value outstanding.

4. Turnover

All turnover arose within the United Kingdom.

5. Operating loss

The operating loss is stated after charging:

	2021 £	*2020 £*
Exchange differences	**41,499**	*(11,164)*

6. Auditor's remuneration

The company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the group accounts of the parent company.

The audit fee is accounted for within the company's sister company Propel Finance Plc. Amounts are recharged between each company within the management fee charged.

7. Employees

The company outsources all operational management to Propel Finance Plc. As a result it has no employees other than the directors, who did not receive any remuneration *(2020: £Nil)*. A management charge of £13,846,350 *(2020: £9,090,678)* has been charged from Propel Finance Plc.

8. Interest receivable

	2021 £	*2020 £*
Other interest receivable	**413**	*6,573*

9. Interest payable and similar expenses

	2021 £	*2020 £*
Interest on other loans	**4,741,726**	*2,861,526*
Other interest payable	**2,725**	*-*
	4,744,451	*2,861,526*

10. Taxation

	2021 £	*2020 £*
Corporation tax		
Adjustments in respect of previous periods	**(337,609)**	*261,349*
Total current tax	**(337,609)**	*261,349*
Deferred tax		
Origination and reversal of timing differences	**242,941**	*(170,957)*
Adjustments in respect of prior periods	**335,599**	-
Effect of tax rate change on opening balance	**(67,366)**	-
Total deferred tax	**511,174**	*(170,957)*
Taxation on loss on ordinary activities	**173,565**	*90,392*

Factors affecting tax charge for the year

The tax assessed for the year is higher than *(2020 - higher than)* the standard rate of corporation tax in the UK of 19% *(2020: 19%)*. The differences are explained below:

	2021 £	*2020 £*
Loss on ordinary activities before tax	**(6,869,369)**	*(4,341,719)*
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% *(2020: 19%)*	**(1,305,180)**	*(824,926)*
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	-	*9,890*
Adjustments to tax charge in respect of prior periods	**(337,609)**	*261,349*
Adjustments to tax charge in respect of previous periods - deferred tax	**335,599**	-
Difference in deferred tax rates	**(696,964)**	*(44,467)*
Deferred tax not recognised	**2,177,719**	*688,546*
Total tax charge for the year	**173,565**	*90,392*

10. Taxation (continued)

Factors that may affect future tax charges

The standard rate of UK corporation tax currently is 19% and this took effect from 1 April 2017. Accordingly, this rate is applicable in the measurement of deferred tax assets and liabilities at 31 December 2020. Deferred tax had been provided at 19% being the rate at which temporary differences are expected to reverse.

The 2021 Spring Budget included an announcement to increase the standard rate of corporation tax rate from 19% to 25% from 1 April 2023. Since the proposal to increase the rate was substantively enacted prior to the year end at the Statement of Financial Position date Deferred tax was provided at 25% at 31 December 2021. The impact on the opening position of restating the Deferred tax balance was £173,345, which was recognised in the Statement of Comprehensive Income.

11. Debtors

	2021	*2020*
	£	*£*
Due after more than one year		
Net investments in finance leases and hire purchase contracts (note 12)	**143,388,821**	*68,912,785*

	2021	*2020*
	£	*£*
Due within one year		
Trade debtors	**210,561**	*2,735*
Amounts owed by group undertakings	**800,587**	*800,587*
Other debtors	**6,250,339**	*2,260,360*
Prepayments and accrued income	**184,158**	*183,970*
Net investments in finance leases and hire purchase contracts (note 13)	**70,606,388**	*35,061,259*
Tax recoverable	**858,718**	*478,718*
Deferred taxation (note 19)	**37,752**	*548,926*
	78,948,503	*39,336,555*

An impairment loss of £Nil *(2020: £Nil)* was recognised against trade debtors.

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

12. Debtors due after more than one year

	2021 £	*2020* *£*
Net investment in hire purchase contracts		
Total amounts receivable in respect of hire purchase contracts	**88,702,953**	*29,027,489*
Less interest allocated to future periods	**(17,672,400)**	*(2,900,138)*
	71,030,553	*26,127,351*

	2021 £	*2020* *£*
Net investments in finance leases		
Total amounts receivable in respect of finance leases	**82,507,550**	*49,565,229*
Less interest allocated to future periods	**(10,149,282)**	*(6,779,795)*
	72,358,268	*42,785,434*

13. Debtors due within one year

	2021 £	*2020* *£*
Net investment in hire purchase contracts		
Total amounts receivable in respect of hire purchase contracts	**40,643,349**	*13,850,543*
Less interest allocated to future periods	**(5,916,748)**	*(2,435,835)*
	34,726,601	*11,414,708*

	2021 £	*2020* *£*
Net investments in finance leases		
Total amounts receivable in respect of finance leases	**39,904,801**	*29,774,262*
Less interest allocated to future periods	**(4,025,014)**	*(6,127,711)*
	35,879,787	*23,646,551*

14. Cash and cash equivalents

	2021 £	2020 £
Cash at bank and in hand	**2,978,959**	*2,867,674*

15. Creditors: Amounts falling due within one year

	2021 £	2020 £
Other loans	**57,309,370**	*32,925,081*
Trade creditors	**401,762**	*128,475*
Amounts owed to group undertakings	**58,906,173**	*24,919,969*
Corporation tax	**-**	*27,956*
Other creditors	**59,087**	*12,280*
Accruals and deferred income	**497,588**	*299,015*
	117,173,980	*58,312,776*

At the Statement of Financial Position date, other loans compromise an asset finance facility between the company and the British Business Bank, who have charges over all rights, title and interest in and to the debts and goods purchased together with the full benefit of all contract rights including all guarantees and securities.

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

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

	2021 £	2020 £
Other loans	**121,690,435**	*59,309,436*

At the Statement of Financial Position date, other loans compromise an asset finance facility between the company and the British Business Bank, who have charges over all rights, title and interest in and to the debts and goods purchased together with the full benefit of all contract rights including all guarantees and securities.

The aggregate amount of liabilities repayable wholly or in part more than five years after the Statement of Financial Position date is:

	2021 £	2020 £
Repayable by instalments	**8,100,179**	*2,267,171*

17. Credit risk, Collateral, Market risk and Capital Management

Credit Risk

The company's principal financial assets comprise of bank balances and cash, trade and other debtors, finance lease and hire purchase lease debtors.

The company's risk is primarily attributable to trade and finance lease debtors.

The risk of financial loss to the company is if a customer fails to meet their contractual obligations and arises principally from the company's receivables from customers. The directors seek to mitigate this risk through appropriate underwriting criteria and portfolio analysis. Swift follow up action is taken on delinquent payers, arrears and other default information is monitored and discussed regularly by directors and mitigating actions are taken in a timely manner where appropriate. The company establishes an allowance for impairment that represents its estimate of incurred losses in respect of specific loans and other receivables.

The amounts represented in the Statement of Financial Position are net of allowance for doubtful debts. The net charge to the Statement of Comprehensive Income in respect of bad debts was £3,218,763 *(2020: £1,736,954)* and the year end provision for allowance for doubtful debts was £1,552,518 *(2020: £1,995,766).*

The company mainly accepts proposals from approved vendors. Customers are underwritten using Credit Safe, Experian reports as well as Delphi scores. Credit policies and scorecards are in place which have specific requirements for all types of businesses and are adhered to at the underwriting phase. Risk based pricing techniques are used to determine the rates charged to the customer.

The credit quality of the financial assets is strong, due to the management of risk before an agreement is approved. As a result defaults and writes offs are within business appetite. The historical performance of financial assets remains strong with the majority of financial assets reaching full term.

17. Credit risk, Collateral, Market risk and Capital Management (continued)

Analysis of financial assets that are past due as at the end of the reporting period but not impaired:
Due to the groups specific provisioning policy impairments of financial assets that are less than 60 days in default are not provided for. Historical records show that most of these defaults are cured within this period.

< 30 days	£1,956,240 *(2020: £1,320,523)*
30 days - 60 days	£670,068 *(2020: £230,647)*

Collateral
The company seeks to obtain personal guarantees, director's guarantees or cross company guarantees, which are enforced once the directors have decided that there is a risk that the customer will not repay the outstanding balance on an agreement and all normal routes of recovery have been exhausted.

Market risk
The company does not have significant exposure to currency risk or interest rate risk. The company's finance lease debtors are based on fixed interest rates. The price charged on fixed rate lending is dependent on the cost of funds the company faces in funding these loans at the point of inception as well as the risk profile of the customer. The company does not undertake any interest rate hedging activities, noting that the company, through some of its funding structures borrows on forward curve interest rates.

As the forward curve interest rate is applied at the portfolio borrowing rate management believes that the risk of significant volatility is low. If economic circumstances shift materially, management would take the appropriate actions in order to reduce volatility and interest rate risk.

Capital Management
The company's capital management strategy focuses on ensuring that capital is utilised in the most effective and efficient manner in support of the wider strategic aims of the company. Capital management routines take the form of several key processes including business planning/reforecasting, 3 month forward look on cash/capital requirements updated on a daily basis, close monitoring of origination pipeline and tracking of unfunded balances. These and other activities are overseen through an Asset and Liability Committee (ALCO), established as a formal sub-committee of the Board.

18. Financial instruments

	2021 £	2020 £
Financial assets		
Financial assets measured at amortised cost	**225,094,373**	*110,384,118*
Financial liabilities		
Financial liabilities measured at amortised cost	**(238,864,415)**	*(117,594,256)*

Financial assets measured at amortised cost comprise cash and cash equivalents, trade debtors, amounts owed by group undertakings, other debtors, total amounts receivable in respect of finance leases and hire purchase contracts and tax recoverable.

Financial liabilities measured at amortised cost comprise other loans, amounts owed to group undertakings, trade creditors, other creditors and accruals.

19. Deferred taxation

	2021 £	2020 £
At beginning of year	**548,926**	*377,969*
Charge to profit or loss	**(511,174)**	*170,957*
At end of year	**37,752**	*548,926*

The deferred tax asset is made up as follows:

	2021 £	2020 £
Accelerated capital allowances	**20,768**	*548,926*
Short term timing differences	**16,984**	*-*

There are £11,465,063 *(2020: £2,096,924)* of unused tax losses. A deferred tax asset has not been recognised on the unused tax losses.

20. Share capital

	2021	*2020*
	£	*£*
Allotted, called up and fully paid		
1 *(2020 - 1)* Ordinary share of £1	1	*1*

There is a single class of ordinary shares. There are no restrictions on dividends and the repayment of capital.

21. Reserves

Profit and loss account

Includes all current and prior period retained losses.

22. Related party transactions

Propel Finance Group Holdings Limited
As at the year end, the company was owed £800,587 *(2020: £800,587)* by Propel Finance Group Holdings Limited. The amounts owed are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Propel Group Finance Limited
As at the year end, the company owed £31,910,000 *(2020: £11,910,000)* to Propel Group Finance Limited. The amounts owed are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Propel Finance Plc
As at the year end, the company owed £26,996,173 *(2020: £13,009,969)* to Propel Finance Plc. The amounts owed are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

A management charge of £13,846,350 *(2020: £9,090,678)* has been charged to Propel Finance No 1 Limited by Propel Finance Plc. The recharge reflects the proportion of costs allocated to Propel Finance No 1 Limited which includes a proportion of the wages and salaries, social security costs and defined contribution scheme costs.

Barclays Bank UK Plc
On 22 September 2021, 13,000 B Ordinary shares were issued for £6,500,000 to Barclays UK Investments Limited by immediate parent company Propel Group Finance Limited. This created a non-controlling interest in the Propel Group.

During the 12-month period, Propel Finance No.1 Limited entered into certain transactions with other related parties of the shareholders and directors, in the normal course of business and on an arm's length basis. These companies are related to Propel Finance No.1 Limited on the basis of common directorship and/or shareholding. The names of the related parties, the nature of these transactions and their total value is shown below:

22. Related party transactions (continued)

The group paid Barclays Bank UK Plc, an indirect shareholder of Propel Group Finance Limited, commissions for the referral of certain customers entering into a finance agreement, relating to the purchase of equipment in the normal course of business. The total commission charged during the year was £583,700 and the total amount payable to Barclays as at 31 December 2021 was £111,981.

The group also received commissions from Barclays Bank UK Plc for the sale of receivables to certain finance agreements in the normal course of business. The total commission earned during the year was £118,711 and the total amount outstanding as at 31 December 2021 was £Nil.

23. Controlling party

The company is a 100% owned subsidiary of Propel Group Finance Limited, which itself is a subsidiary of Propel Finance Group Holdings Limited. Propel Finance Group Holdings Limited is both the largest and smallest group for which consolidated accounts are prepared. The consolidated accounts are available on Companies House or can be requested from the registered office as disclosed within the company information. The ultimate controlling related party is C S Capital Partners IV, LP.

propel

Boost your business

Propel Finance Group includes Propel Finance PLC and Propel Finance No.1 Limited. Propel Finance Plc is registered in Wales, Company no 04015132. Propel Finance No. 1 Limited is registered in Wales, Company no. 10003271 . Registered offices are at Unit 5, Langstone Business Village, Langstone Park, Newport, NP18 2LH, vat no. 252089996. Propel Finance Plc and Propel Finance No. 1 Limited are authorised and regulated by the Financial Conduct Authority.