Company Registration No. 11220957

INNOVATE UK LOANS LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2024

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COMPANY INFORMATION

For the Year Ended 31 March 2024

DIRECTORS:	I M Mukerjee (Chairperson) R E Elliot (Deputy Chairperson) (resigned 15 May 2023) L O Hazelden (appointed 11 April 2023) T C Murley S J O' Brien S Peters (appointed 13 May 2023) N T Phimister (resigned 15 July 2024) O G Purcell (appointed 1 July 2024) R D Shaw N M Walker
SECRETARY:	J A Jones (appointed 4 September 2023)
REGISTERED OFFICE:	Polaris House North Star Avenue Swindon Wiltshire SN2 1FL
REGISTERED NUMBER:	11220957 (England and Wales)
AUDITORS:	Comptroller and Auditor General National Audit Office 157-197 Buckingham Palace Road Victoria London SW1W 9SP
BANKERS:	National Westminster Bank Government Service Branch 2nd Floor 280 Bishopsgate London EC2 4RP
SOLICITORS	Mills & Reeve LLP 24 King William Street London EC4R 9AT

STRATEGIC REPORT

For the Year Ended 31 March 2024

The directors present their Strategic Report with the financial statements of the Company for the year ended 31 March 2024. This Strategic Report also includes relevant performance reporting requirements of HM Treasury's Financial Reporting Manual (FReM).

PRINCIPAL ACTIVITY

Innovate UK Loans Limited (IUKL) exists principally to deliver the Innovation Loans programme. Like all of Innovate UK's programmes, the role of innovation loans is to support business-led innovation to drive economic growth in the UK. The focus of innovation loans is on providing funding for later stage research and development projects with a clear route to commercial success for suitable, but credit-constrained, micro, small and medium sized enterprises (SMEs).

The programme is a response to the challenges faced by innovative SMEs in accessing finance to carry out specific innovation activities from which commercial and economic benefits might flow. As such the Company's appetite for innovation risk exceeds that typically seen in the private sector, even where other forms of Government support such as guarantees and co-investment might be available.

Where commercial lenders and private investors look for a commercial return, the return on innovation loans combines a financial return with the wider economic benefit to the taxpayer. Innovation loans are offered with terms that are intended to provide stimulus and support for innovative SMEs within the scope of UK Subsidy Control frameworks under registered schemes SC10698 (innovation loans) and SC10699 (defence innovation loans) within the streamlined approach set out for research and development and innovation. The Company focuses on accepting credit risk where this results from businesses having taken on highly innovative activities targeting unproven markets.

PERFORMANCE ANALYSIS AND KEY PERFORMANCE INDICATORS

The purpose of this performance analysis section is to set out the progress the Company has made against its purpose and objective. This section is structured as follows: an overview of results, a summary of the Company's objective, how the Company has developed and delivered its programme and indicators to measure performance.

In the 2023/24 accounts, a pre-tax operating loss of £1,325 thousand is disclosed (2022/23 operating loss £325 thousand, 2021/22 operating profit £1,240 thousand). Lending activities have been managed within the set budget and performance monitored with an emphasis on full year forecasts to take timely appropriate action and the Company's business is on track.

The Company will typically report losses in a financial year when new irrevocable commitments and provisions on these commitments increase. Conversely, in financial years when new irrevocable commitments and hence provisions on commitments decrease, the Company will typically report a profit. This is because operating losses arise at the point that a loan commitment is entered into as the Company is required to recognise a financial liability. This loss is reversed, at the point the commitment is extinguished by a loan advance, as the replacement Expected Credit Loss (ECL) provision on loan advances is itself offset by a write down of the repayable capital grant financial liability that funds the loan advance.

The Company's objective, as set out above, is to stimulate and support innovative UK SMEs by making loans on subsidised terms. As a consequence, the performance of the Company is driven primarily by new lending activities and by impairments in its existing loans portfolio. As the portfolio matures, repayments will increase, and the Company has already received early repayments in full from businesses that have achieved successful exits and thus no longer require innovation loans. The wider benefit to the UK economy of innovation loans activity is not reflected in the financial statements of the Company. To meet its objectives, the Company must balance the volume of new lending within its ability only to fund R&D activity with the potential losses from its risk exposure to highly innovative, risky and often relatively early stage businesses that have yet to exploit the outputs of their innovation activities that are otherwise credit constrained. In doing this, the Company must balance its appetite for innovation risk and aims to deliver economic growth with its obligations to manage public money appropriately and with its requirement to be a responsible lender.

It is too early at this stage for economic benefits to the UK economy to be unequivocally demonstrated, although early indications shown in independent interim evaluations of the pilot programme were positive. The Company will continue to report on the evaluation of innovation loans as further evidence emerges. The position set out in its accounts should be considered alongside this evaluation to give a fuller picture of overall impact.

The Company is continuing to develop new and innovative forms of support for innovation in the UK economy and to deliver programmes through application processes with regular rounds of funding.

- In previous years a total of £100 million funding for an extended pilot programme was allocated (including up to £5 million for the Women in Innovation programme) and from 2020/21 the COVID-19 support package of innovation continuity loans (ICLs) of £74.6 million was advanced.
- In 2021/22 a joint initiative for defence innovation loans with DASA (Defence and Security Accelerator, part of the Ministry of Defence- MOD) was launched with up to £10 million funding from DASA. By 31 March 2024 £5.3 million was committed in the defence innovation loans programme.
- HM Treasury agreed innovation loan funding of up to £150m for the Spending Review Programme from 2022/23 to 2024/25, thus securing the Company's medium term lending capability. Since 10 March 2022 when the first round of this new programme was launched with the Innovation Loans Future Economy Competition, a further 15 funding rounds have followed and £41.0 million was committed by 31 March 2024.

During the year, the Company lent £22.7 million in new innovation loan advances (2022/23: £19.7 million) and had £18.2 million of irrevocable commitments outstanding at 31 March 2024 (2022/23: £17.5 million). Early capital repayments of £1.2 million were received in 2023/24 (2022/23 £4.3 million).

The Company has developed several indicators to measure performance. These indicators include:

- New loan commitments:
  - This is to ensure delivery of programmes using funding allocated for this purpose by HM Treasury in the Spending Review.
  - Although new applications since inception of innovation loans have now reached almost 1,000, in both 2022/23 and in 2023/24, the Company has committed £41.6m against the £150m for Future Economy innovation loans in the current Spending Review period, indicating continued challenges in attracting suitable applicants to the programme.
- Average innovation scores of the R&D projects to be undertaken by successful borrowers:
  - This is to ensure that funding is allocated to support high quality innovation that drives economic impact and that would not be supported by commercial lenders or private investors without public sector subsidy.
  - In both 2022/23 and 2023/24, the average project scores of successful applicants exceeded the target of 75%, indicating a continued high quality of innovation supported.
- Credit ratings at origination of innovation loans:
  - This is to ensure that new lending is undertaken within the Company's approved risk appetite.
  - In both 2022/23 and 2023/24, over 95% of new innovation loans were in the Company's target risk ratings of B- to BBB+ at origination, indicating that the Company maintained its risk appetite, despite the high level of applications and challenges in attracting suitable borrowers.
- Default rates of loans in the innovation loans portfolio:
  - This is to ensure that historic lending has been undertaken within the Company's approved risk appetite and budgets allocated by HM Treasury for losses.
  - The cumulative default rates of all innovation loans at 31 March 2024 stood at 16.6%. The default rate of active loans was 16.9% at 31 March 2024 compared to 9.3% at 31 March 2023.
  - These default rates are currently below the long-run target of 35%. However, the Company's portfolio cannot yet be considered to be mature, since most of its loans are for terms in excess of 5 years and can be as long as 10 years. Given the structure of innovation loans, with an R&D phase and a commercialisation phase that together can be for as long as 5 years, before the start of repayments, loans in the Company's portfolio from its initial extended pilot programme are only now reaching this repayment period. It can be expected that borrowers

may start to encounter challenges in repayments as they seek to exploit the results of the innovations funded by the innovation loan. Default rates can therefore be expected to increase in the coming years.

- Portfolio company increase in private investment:
  - This measure is an initial indicator of an important driver of future economic growth, as innovation loans increase and accelerate the level of private investment to support R&D and commercial exploitation of innovation by borrowers in the portfolio.
  - Internal data from self-reported quarterly management information by borrowers indicates private equity within innovation loans has grown by 21% on 2023/24 compared to 24% growth in 2022/23.
- Portfolio company revenue growth:
  - As an initial indicator of longer-term economic impact, this measure seeks to ensure that innovation loans promote and increase sustainable economic growth through increased productivity and firm level performance.
  - Internal data from self-reported quarterly management information by borrowers indicates that aggregate and average revenues of borrowers in the innovation loans have grown at 6.7% in 2023/24 (23.3% in 2022/23).

PRINCIPAL RISKS AND FUTURE DEVELOPMENT OF THE COMPANY

As a wholly–owned subsidiary of UKRI, the Company recognises that effective risk management is essential to enabling us to deliver against its strategy. The Company's goal, through early identification and active management of risks, is to ensure that any impacts to the delivery of identified priorities are identified, that mitigations are planned, and that issues are more effectively managed should they arise. UKRI has identified four important areas of risk, which also apply to the Company:

- Delivery of intended strategic impact
- Major external challenges
- Internal control framework
- Organisational capabilities

Management, the Company's Audit and Risk Committee and the Board of Directors review and update the Company's risk register on a quarterly basis. At the time of writing the principal risks (those scoring a medium or higher risk) within the context of the high level risks set out by UKRI on our risk register are as follows:

- Delivery of intended strategic impact:
  - Volume and quality of applications (not within risk appetite): this creates the risk of underspend and an inability to deliver loans that will deliver economic growth in the UK through supporting business-led innovation. This risk is mitigated through active engagement with innovative businesses throughout the UK, including outside the 'Golden Triangle' of Oxford, Cambridge and London and with businesses founded and led by entrepreneurs from under-represented groups that frequently receive low levels of capital from commercial lenders and investors. The Company works directly with businesses, in conjunction with all other parts of Innovate UK (including Domains, Place, Innovate UK Business Connect, Innovate UK Business Growth and Catapults) and also through other intermediaries both in the public sector (for example the British Business Bank) and in the private sector (for example investment organisations and business networks).The Company undertook a review of the suitability of the innovation loans product and of its Reach & Engagement strategies in May 2024 and put in place additional actions to bring the risk back in line with target, these were; an accelerated pathway into the programme utilising referrals from the Innovate UK System, notably the Investor Partners and follow on for Innovate UK grant beneficiaries, in addition to this documented communications and marketing plan with campaign delivered through FY2425.
  - Credit loss (within risk appetite): this may lead to financial loss beyond our appetite. This risk is mitigated through the Company's Credit Committee, which has a balance of skillsets and experience and a quarterly review of decisions as second line of defence and through reviews of decision-making in line with risk appetite by the Company's Audit and Risk Committee. In addition, policies, including Credit and Delegated Authority policies, are reviewed and updated regularly.
- Major external challenges:
  - Affordability risk for borrowers (within risk appetite): the current challenging economic and investment climates create risks that borrowers will not be able to repay loans. This risk is mitigated through ensuring that there is evidence of growth potential to enable borrowers

to repay in the future within the Company's Credit Policy. The Credit Committee is an important second line of defence in initial lending decisions and in decisions on offers of flexibility, forbearance and restructuring of borrowers facing challenges in servicing or repaying loans. The Credit Committee conducts regular reviews of borrowers in default and on a watchlist of borrowers considered to be at significant risk of default. In addition, policies including the Treating Customers Fairly policy, are reviewed and updated regularly.

- Internal control framework:
  - Reliance on third party systems (not within risk appetite): the use of a single supplier of critical loan management systems creates risk of inadequate record-keeping, reporting and borrower collections in the event of unsatisfactory performance. This risk is mitigated through internal interest forecasting and tracking of weekly repayment receipts and drawdowns together with regular review of management information and error investigation. During the year, the Company has also implemented a new loan management system with a new supplier to act as an alternative.
  - Isolation of data to prevent insider trading and market abuse (within risk appetite): since the Company shares certain systems with Innovate UK, there is a risk that sensitive information relating to a small number of borrowers with listed securities may be accessible. This risk is mitigated through the use of stop and insider lists and stop notices issued to staff with access to this information. In addition, access to application data is limited to credit specialists and operations staff materially involved. Further systems enhancements are planned. In addition, policies including the Insider Trading and Market Abuse policy, are reviewed and updated regularly. Specific training will also be delivered.
- Organisational capabilities:
  - Recruitment, development and retention of staff (within risk appetite): the specialist nature of lending activity to highly innovative SMEs creates risk if suitable staffing cannot be maintained. This risk is mitigated through active recruitment, both internally and externally. A skills matrix identifies gaps in the team and supports career development. The Company provides training and development opportunities for team members.

More information on financial risks is given in the Credit Risk Report on pages 16 to 27 and in Note 18 Risk Management and Control which describes the approach to managing credit risk, liquidity and funding risk, interest rate risk and repayment risk.

COMBINED COVERAGE RATIOS AND MEASUREMENT UNCERTAINTY

The combined coverage ratio for all Stage 1 to 3 amortised cost and FVTPL (fair value through profit & loss) loans recognised in the Statement of Financial Position at 31 March 2024, compared to the weighted average lifetime probability of default in the HMT approved Business Case, is set out in the following table. It should be noted that currently recognised expected credit losses could rise in future reporting periods as outlined in the Measurement Uncertainty section of this Report, beyond the possible range of future scenarios included in the ECL results reported in the Credit Risk Report.

Comparison of all innovation loans coverage ratio to Business case assumptions

31 March 2024	Amortised cost & FVTPL loans coverage ratio	Business Case Low lifetime PD	Business Case High lifetime PD
	%	%	%
Total	**24.04**	**31.95**	**39.40**

Comparison of all innovation loans coverage ratio to Business case assumptions

31 March 2023	Amortised cost & FVTPL loans coverage ratio	Business Case Low lifetime PD	Business Case High lifetime PD
	%	%	%
Total	**13.98**	**31.95**	**39.40**

MEASUREMENT UNCERTAINTY

The financial results of the Company comply with the requirements of UK adopted International Accounting Standards particularly International Financial Reporting Standards (IFRS) 9 *Financial Instruments*. The directors are mindful of the developing macroeconomic position, known or emerging, and the anticipated, if not yet objectively evidenced, specific credit risk events that may occur as a result of the highly innovative nature of the products and services under development and the subsequent market risk to reach a successful commercialisation to repay innovation loans.

More information on measurement uncertainty, future economic conditions and critical judgements and estimates contained within the financial results, is set out in the following sections of this Report and Financial Statements.

Issue	Location of further information
Inherent risk in all innovation loans and the evidence available at the reporting date in developing provisions for future credit losses – particularly as more loans enter their capital repayment phase.	Future developments of ECL methodology in the Credit Risk Report on pages 20 to 21.
Future economic uncertainty including the weak outlook for growth resulting from the economic consequences of the invasion of Ukraine, tensions in the Middle East and residual post COVID-19 impact.	Critical accounting judgements and the use of forward-looking economic information on pages 43 to 45 – this includes the use of a downside scenario for the potential worst case economic impact and sensitivity analysis (including the current economic outlook and residual post COVID-19 risks). The Company's analysis of the credit risk exposure to UK economic and international tensions is on page 16.
Accounting for ICLs with FVTPL classification including being out of scope of IFRS 9 expected credit loss provisioning.	Supplementary information to the Credit Risk Report; which is not included in the financial results of this Company - see pages 25 to 27 on additional credit risk.

EVENTS AFTER THE REPORTING DATE

Information on material events that occurred from 31 March 2024 to the date of this report can be found in Note 25 on page 59: events after the reporting date.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS:

Indro Mukerjee

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I M Mukerjee – Chairperson

4 September 2024

REPORT OF THE DIRECTORS

For the Year Ended 31 March 2024

The directors present their report with the financial statements of the Company for the year ended 31 March 2024. This Directors' Report also includes relevant accounting reporting requirements of HM Treasury's Financial Reporting Manual (FReM).

BACKGROUND

Innovate UK Loans Limited is a wholly-owned subsidiary of UK Research and Innovation (UKRI), a non-departmental public body funded by grant-in aid from the UK Government. The Company is managed by staff employed by UKRI, who work for Innovate UK (IUK), a Council of UKRI, working with UKRI and IUK systems and controls. As such Innovate UK Loans Limited is a non-regulated lender with its financial products outside the scope of the NCCP (National Consumer Credit Protection Act 2009). In April 2023 external consultants reviewed IUKL's position with regards to the Financial Conduct Authority, it was concluded that they are not required to submit an application (or registration) for authorisation, the directors will continue to monitor this position as the scope of the Company's functions expands and its business model evolves. The Company's Statement of Financial Position and results are audited by the National Audit Office.

On 7 February 2023, the Prime Minister announced a major machinery of government change which redistributed the activities of several existing government departments, including Department for Business, Energy and Industrial Strategy (BEIS), and created three new departments, the Department for Business and Trade, the Department for Digital, Science, Innovation and Technology (DSIT), and the Department for Energy Security and Net Zero. UKRI has been designated to DSIT with accounting officer responsibilities formally transferred from 1 April 2023.

The Company's funding for innovation loans is through its repayable capital grant from DSIT (formerly BEIS), via UKRI. This repayable capital grant is written down for fair value adjustments and credit impairment which offsets the Company's financial exposure to loan defaults. This means the Company is only required to repay DSIT to the extent that it recovers loan repayments and so does not have financial exposure to loan defaults. As a consequence, the results of the Company are not directly comparable to those of a commercial lender with more traditional source of funding.

Staff working for Innovate UK Loans Limited are employed directly by UKRI and are assigned to work with the Company.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK adopted International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006. 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 financial year. 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;
- State that the financial statements comply with UK adopted International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006;
- 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 have taken all the steps that ought to have been taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. So far as the directors aware, there is no relevant audit information of which the auditors are unaware.

The directors confirm that Annual Report and Accounts as a whole is fair, balanced and understandable and take responsibility for Annual Report and Accounts and the judgements required for determining that it is fair balanced and understandable.

2023-24 GOVERNANCE STATEMENT

Scope of Responsibility

This Governance Statement, for which the Board takes responsibility, describes the dynamics of the Company, its governance, risk and internal control arrangements, and how successfully the Company has coped with the challenges and opportunities presented this financial year.

This Statement explains how the Company has maintained a sound system of governance and has taken significant steps to enrich internal control. It is the Board's responsibility to ensure sound governance underpins the achievement of the Company's policies, aims and objectives whilst safeguarding public funds and the Company's assets.

Governance Framework

The Company's constitution consists of its Articles of Association and the Governance Framework between the Company and its Shareholder. IUKL has also agreed a Financial Framework with HM Treasury that outlines how the Company should manage aspects of the financial treatment and budgeting of its activities.

IUKL have a Board in line with good standards of Corporate Governance and Corporate Governance in Central Government Departments: Code of Good Practice, as far as appropriate. The Board are accountable for ensuring the Company is administered prudently and economically and that resources are applied in accordance with HM Treasury's Managing Public Money guidance and the responsibilities assigned by DSIT. The Board is also accountable for ensuring the Annual Report and Accounts is fair, balanced and understandable.

Key accountabilities and responsibilities of the Board, together with the matters reserved to the Shareholder itself are set out in Articles of Association and the UKRI Scheme of Delegation. The Board is supported by its committees; the Audit and Risk Assurance Committee (ARC) and the Credit Committee, including Independent and Non-Executive Members and a Shareholder Representative, with The Company Secretary in regular attendance at each Board and Committee meeting.

Risk and Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to achieving the policies, aims and objectives of the Company, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently and effectively. IUKL follows UKRI's risk management framework and the requirements of HMT Government's Orange Book. In practice the Board is responsible for reviewing and addressing key financial and other risks supported by the ARC who review and report to the Board on the adequacy and effectiveness of risk management on a quarterly basis. The IUKL Senior Leadership Team review the risks monthly, utilising UKRI's Risk and Assurance Management System. Further information is provided in the Principal Risks and Future Developments section of the Strategic Report on page 6 and 7.

Company Board Overview

The IUKL Board's responsibilities are set out in the terms of reference, the role of the board is to govern IUKL and deliver in accordance with the objectives and powers of the Company and their statutory, regulatory and common-law duties and complying with their delegated authority under the UK Research and Innovation Frameworks. The Board consists of 8-10 members, currently including one other non-executive director and a Shareholder representative.

The directors shown below have held office during the financial year to the date of this report, unless otherwise stated.

Directors	Board Attendance (Attended/ Possible)
I M Mukerjee (Chairperson)	7/7
R E Elliot (Deputy Chairperson) (resigned 15 May 2023)	1/1
L O Hazelden (appointed 11 April 2023)	5/7
T C Murley	7/7
S J O' Brien	7/7
S Peters (appointed 13 May 2023) (UKRI Chief Financial Officer)	6/6
N T Phimister (resigned 15 July 2024)	7/7
R D Shaw	6/7
N M Walker	7/7

All Board and committee members are required to declare any personal or business interests which may influence their judgement in discharging their obligations, or which may be perceived to do so.

The Board met seven times in the year and key areas discussed included;

- FCA regulatory position and the outcome of a review by external advisors
- System developments and requirements with a focus on the loan management system and customer relationship management system. The increase in a key supplier risk with regards to our loan management system with additional actions agreed to mitigate against.
- Quality of loan applications and a pilot to support businesses with their financials
- Loans outreach and engagement approach to date
- Portfolio and financial performance against targets
- Report and recommendation from the audit and risk committee, noting the improvement in the risk, governance and control framework.
- Recruitment campaign, launched in March 2023, for an additional non-executive director and Chair of the Audit and Risk Committee.

Audit and Risk Assurance Committee

The Company has put in place its own Audit and Risk Committee (ARC) which is chaired on an interim basis by S Peters, who is the UKRI Shareholder Representative. ARC meets quarterly with the first formal meeting held on 9 October 2023. The committee has independent members who are UKRI Group ARC members or employees R Weerasekera (joint UKRI Group ARAC chairperson), C Lindsay (UKRI Deputy Director Governance and Assurance) and R Viggers (UKRI Deputy Director Risk and Assurance).

The role of ARC is to support the Board and IUK CEO by reviewing the comprehensiveness and reliability of assurances on governance, risk management, the control environment, performance information and the integrity of financial statements. To do this ARC constructively reviews and challenges the reports of management as well as the Company's internal and external auditors. Meetings are attended by the National Audit Office (NAO) and the Government Internal Audit Agency (GIAA).

ARC held three full meetings in 2023/24 and in the period up to the approval of this year's Annual Report and Financial Statements to provide independent challenge on these accounts. The Committee has reviewed the accounting judgements policy and held discussions on particular areas of focus, these include;

- The valuation of and provisions for innovation loans.
- The market equivalent interest rate used in determining the fair value of loans.

During the year the Committee has focused particularly on:

- The Company's corporate governance framework and corporate risk, management assurance and risk appetite, and any raised concerns.
- Findings from the internal audit programme for the year.
- Monitoring the implementation of significant audit recommendations from the NAO including standing observations for annual review.
- Review of the policies and lending manual with focus on how FCA standards could be applied to an unregulated entity.
- The adequacy of the Company's second line of defence and recommendations to improve this.

Credit Committee

The Credit Committee is a sub-Committee of the IUKL Board. Through the governance framework agreed with UKRI, the committee has specific responsibilities in making credit decisions and in doing so with appropriate separation from the Board. The Company's Credit Committee is chaired by the Chief Investment Officer and is supported by a Deputy Chair, the Deputy Director of Innovation Finance Ecosystems and the Deputy Director of Lending and Investor Partnerships. The committee has 12 independent members with a diverse background and expertise in business, lending and investment. The Credit Committee has continued to meet on a frequent basis (twice weekly) to review and approve:

- New loan application approvals including the assessment of credit risk at the time of a loan's origination.
- Regular credit assessments of innovation loans' performance and assessment of performing loans.
- Applications for change requests from innovation loans borrowers.
- The monitoring and assessment of innovation loans Watchlist and Default list including the monitoring of the performance of a loan from default to formal extinguishment of a loan up to and including any write-off cases.

A competition was launched in January 2023 to find additional members to supplement the existing pool, with the aim of ensuring at least two external members at each Committee to balance the input of executive members of the team. In April 2024 the Board approved the appointment of an additional 6 independent members to strengthen the breadth and coverage of the Committee.

Counter Fraud

IUKL is committed to high standards of integrity and ethical behaviour with regards to its lending activity. IUKL has therefore established and maintains adequate policies and procedures with the aim to avoid unlawful and improper practices and with a view to protecting IUKL's, and the wider Group's reputation. Money laundering and financial crime pose a risk to the effective functioning of financial markets; appropriate management of these risks is a key objective for IUKL and will be facilitated by the IUKL Board in conjunction with the Credit Team, Lending Operations Team customer due diligence (KYC -Know Your Customer , AML -Anti- Money Laundering) and the UKRI Fraud Team.

All staff complete a certified training course on Customer Due Diligence as part of their onboarding. In January 2024 the Company reviewed its suite of policies, one of which was the Financial Crime policy, to ensure it encapsulated best practice within the industry.

During 2023-24 there was 1 instance of fraud detected on a loan commitment of £1m, IUKL's current exposure of £0.63m. This case has been referred to FRP Advisory for investigation.

Review of Effectiveness

The directors are responsible for ensuring that the Company maintains a sound system of internal control. In 2023-24 the Board looked to its ARC, Credit Committee, the audit services provided by GIAA and the comments made by the NAO as our external auditors in their management letter and other reports to inform the Board's view. IUKL completed the self-assessment for the year 2023-24, following UKRI's Integrated Governance Risk and Assurance framework (IGRAF), this was subject to review by Innovate UK's Chief Executive, Chair of the Board and the Chief Investment Officer, Executive Director of the Board. The 2023–24 Executive Accountability Exercise provided an overall medium level of assurance against the legal, regulatory and government requirements of Innovate UK Loans Ltd. The overall statement supporting the level of assurance is that IUKL currently meet all regulatory requirements under the Companies Act. The Governance has improved due to the establishment of a Governance Function and Audit and Risk Committee. Last year advice was sought on FCA regulation confirming that the Company is exempt from being registered or authorized, however policies have been updated in line with best practice and approved by the Board. The Board approved plans recommended by ARC to strengthen the second line of defence and a role for a Compliance and Assurance Manager is now being recruited. This along with some areas which are currently operating outside of the Board risk appetite has led to a medium level of assurance rating.

GIAA provide internal audit services to UKRI to provide objective assurance and consulting, designed to add value and improve UKRI's operations and achievement of objectives. IUKL features as part of GIAA's annual audit plan, based on the Risk Control Framework (Part II of the Orange Book) and being one of the business units within UKRI.

Internal Audit Services

GIAA has undertaken two audits in the year with the following opinions;

- Third party supplier outsourcing arrangements (Moderate opinion) noting some improvements are required to enhance the adequacy and effectiveness of the governance framework, risk management and controls. Recommendations will be taken forward in conjunction with UKRI Commercial to enhance documentation, division of responsibilities and the contracts repository.
- Data quality and security (Limited opinion) noting the level of maturity of data governance within the Company and improvements required to address significant weaknesses which could become inadequate or ineffective. The recommendations which will be addressed focus on developing the core components of data governance, such as a tailored access control policy, documenting processes, formally assigning responsibilities, and implementing other measures to improve data quality and security practices over time.

Systems and Data

The quality of our data is critical to our day-to-day operations and to our stakeholders that use the information. The audit services report on data quality and security from GIAA provides assurance and recommendations to improve on the controls in place to manage risks to data quality and data security relevant to data processed by the Company.

The systems utilised by IUKL are an integral part of ensuring data quality, one of the key risks highlighted is the Loan management system. There is a mixture of IUKL, IUK and third-party applications used by IUKL when conducting its end-to-end lending activities and work is underway to deliver a more integrated system to process, administer and monitor loans and transfer to an in-house model delivered by our lending operations team.

A monitoring and reporting policy has been created and implemented by Deputy Head of Portfolio, to support the reports provided to the Senior Leadership Team, Committees and Board to ensure that they are of sufficient quality and responsibility within the teams is clearly defined. There is ongoing work to improve the quality of information to ensure effective decision making and monitoring against targets with recruitment for extra resource.

The Company recognises and fully supports the need for effective information governance in protecting its information assets and the information entrusted to it in the course of its business. No personal data breaches were assessed to have met the Information Commissioners' Office (ICO) reporting requirements in 2023-24.

Whistleblowing

The Company, as part of the UKRI Group, follows the UKRI Whistleblowing procedure. Whistleblowing and the 'Freedom to Speak Up' is viewed by UKRI as a positive act, which can make a valuable contribution to UKRI's efficiency and long-term success. The UKRI policy encourages and enables employees to speak out when they encounter or suspect malpractice. Internal avenues for raising concerns are also supported by an external advice line. Concerns are investigated properly, sensitively and in confidence, and individuals are protected from any detrimental reprisals as a result of raising a concern in good faith, in line with the Public Interest Disclosure Act (PIDA). Further details are contained in the UKRI 2023/24 Annual Report and Accounts.

Conclusion of Governance Statement

The directors have considered the accounts and evidence provided by colleagues provided across the UKRI Group in the production of this Governance Statement as well as independent advice and assurance provided by the Company's ARC.

Based on the review above, the directors have concluded that the Company has a sound system of governance, risk management and internal control that supports the Company's aims and objectives for 2023-24.

Accountability Report - Audited Information

Losses and special payments

The Company has not incurred any reportable losses or special payments other than write offs of loans. The Company did incur loan write-offs that exceeded the reporting threshold of £300 thousand but these loans had full provisions and/or fair value write downs in previous reporting periods, so no additional losses were incurred at the time of write-off. Amortised cost loans totalling £1,840 thousand (2022/23 £841 thousand) are reported in Note 12 and FVTPL loans of £2,400 thousand (2022/23 £530 thousand) are reported in Note 20.

GOING CONCERN

The Company's business activities together with factors likely to affect its future development, financial position and exposure to risk are considered in the Strategic Report.

The Company is fully funded by grant income for its lending activities and operational expenses from DSIT through UKRI. These sources of funding will continue to fund the Company's activities for the foreseeable future. The foreseeable future is considered for this purpose to be a period for at least 12 months from the date of approval of the financial statements. Taking this into account the directors have a reasonable expectation that the Company has adequate resources to continue in business for the foreseeable future.

IMPACT OF CLIMATE CHANGE AND ENVIRONMENTAL SUSTAINABILITY STRATEGY

The Company, as part of the UKRI Group, has a responsibility to minimise the negative environmental impact of its activity and to support the wider innovation sector to do the same. This responsibility is reflected in the UKRI Group's Environmental Sustainability Strategy which commits the Group and the Company to:

- The efficient use of resources and to protect and enhance the natural environment.
- Achieve net zero greenhouse gases (GHG) emissions from the UKRI Group's owned operations by 2040.
- Act as agents of change and support an environmentally sustainable innovation sector.

Further details are contained in the UKRI Group Environmental Sustainability Report in their 2023/24 Annual Report and Accounts.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

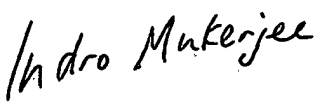
So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any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

AUDITORS

The auditor, National Audit Office, will be proposed for reappointment in accordance with Section 485 of the Companies Act 2006.

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

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS:



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I M Mukerjee – Chairperson

4 September 2024

CREDIT RISK REPORT

Credit risk Overview

The terms of innovation loans have evolved from original pilot through to the current programme. Loans are currently offered normally between £100 thousand and £2 million (although in exceptional circumstances can be higher) to SMEs to fund up to 100% of the eligible project costs of highly innovative later stage research and development (R&D) projects with the best game-changing and/or disruptive ideas or concepts. Borrowers need to be suitable to take on a long-term loan commitment, need to show a clear route to commercialisation and economic impact from their R&D project and are required to show a need for public funding for their project.

Innovation loans are made on non-commercial terms, including with a low rate of interest, and were offered originally under Innovate UK's notified State Aid exemption for support for R&D now offered under the UK Government's subsidy control regime. These non-commercial terms are offered because the Company anticipates generating positive returns for the UK economy from the innovation loans advanced. This offering of non-commercial terms is in line with the stated objectives of the Company as determined by its shareholder and its sponsors. Since the Company is only required to repay DSIT to the extent that it recovers loan repayments it does not have financial exposure to loan defaults. As a consequence, the results of the Company are not directly comparable to those of a commercial lender with more traditional sources of funding.

Under IFRS 9, impairment provisions on financial assets are calculated on an expected credit loss (ECL) basis for assets held at amortised cost which include Competition 1 to 5 and 6 to 7 innovation loan cohorts and new funding initiatives announced in 2021/22 – Competition 8 (including Women in Innovation) and the joint initiative with DASA and the new Future Economy Competitions which was announced in March 2022 and run since then. In 2020/21, cohort of innovation continuity loans (ICLs) was approved as part of the UK Government's response to COVID-19, with a classification of fair value through profit and loss (FVTPL). FVTPL loans are outside the scope of the IFRS 9 impairment requirements, so no ECL provisions are provided for this classification of loans. Details are given in a separate section at the end of this Credit Risk Report on how to compare amortised cost and FVTPL loan cohorts on a consistent basis.

The UK economy, international tensions and credit losses

Since the emergency from the COVID-19 pandemic, there have been significant challenges for the UK economy despite UK Government and Bank of England measures to reduce the economic effects of the pandemic and the inflationary impact of the Russian invasion of Ukraine and tensions in the middle east. Businesses are faced with depressed economic sentiment, sustained increases in energy input costs and supply chain challenges and increased interest rates indicating a weak outlook for economic growth.

ECL provisions in the 2023/24 Statement of Profit or Loss and Other Comprehensive Income reflect the Company's forward-looking view of the macroeconomic position as a result of the current outlook of the economy including current indicators such unemployment, inflation and interest rates on innovation loan borrowers in. Further details are contained in the use of forward- looking economic information in the critical accounting judgement note to these financial statements.

The war in Ukraine and conflict in the middle east had economic and severe humanitarian consequences. The macroeconomic impact on our lending cohorts is reflected through scenario modelling and reflects the application of industry standards to the Moody's Impairment Studio model. The Company has reviewed the portfolio for links to the participants in the conflict including the identification of the impact on supply chains.

The situation remains potentially volatile, so the directors will continue to monitor and take account of the impact on the Company's lending exposures.

Measuring credit losses

ECLs represent the present value of expected cash shortfalls following the default of a loan or undrawn financial commitment. A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the loan and the cash flows that the Company expects to receive.

The allowance for ECLs is based on an assessment of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), discounted at the effective interest rate to give a net present value. The estimation of ECLs is unbiased and probability weighted, taking account all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes.

This report summarises:

- The maximum exposure to credit risk;
- The stage distribution of loans and provisions;
- Credit quality;
- Other risk factors and concentrations;
- The impact on the FVTPL ICL loans if they had been classified as amortised cost. This information is included in the Supplementary Information section of this report and includes data that is not included in the financial results of the Company but has been disclosed for comparison purposes with the amortised cost cohorts.

Maximum exposure to credit risk
(Audited)

	31 March 2024					
	Gross balances (note i)	Less impairment provisions	Carrying value	Commitments	Less provisions on commitments	Maximum credit risk exposure (note ii)
	£'000	£'000	£'000	£'000	£'000	£'000
Innovation loans – contractual advances amortised cost	93,013	(18,266)	74,747	14,830	(2,270)	87,307
Innovation loans – contractual advances FVTPL	47,692	-	47,692	-	-	47,692
Commitments over 12 months – Innovation loans – contractual advances amortised cost	-	-	-	3,331	(279)	3,052
Total	140,705	(18,266)	122,439	18,161	(2,549)	138,051

Gross balances of amortised cost loans of £93,013 thousand plus gross balances of FVTPL loans of £47,692 thousand total £140,705 thousand innovation loans (2023: £77,428 thousand gross balances of amortised

cost loans plus gross balances of FVTPL loans of £62,717 thousand, total £140,145). The total innovation loans carrying value in the Statement of Financial Position is £122,439 thousand (2023: £129,690 thousand). This balance includes innovation loans classified as amortised cost of £74,747 thousand and ICLs of £47,692 thousand (2023: amortised cost £66,973 thousand and ICLs of £62,717 thousand). Further details on the ICL FVTPL classification are given on pages 25 and 39 to 40.

Maximum exposure to credit risk
(Audited)

	31 March 2023					
	Gross balances (note i)	Less impairment provisions	Carrying value	Commitments	Less provisions on commitments	Maximum credit risk exposure (note ii)
	£'000	£'000	£'000	£'000	£'000	£'000
Innovation loans – contractual advances amortised cost	77,428	(10,455)	66,973	15,989	(815)	82,147
Innovation loans – contractual advances FVTPL	62,717	-	62,717	-	-	62,717
Commitments over 12 months – Innovation loans – contractual advances amortised cost	-	-	-	1,474	(96)	1,378
Total	140,145	(10,455)	129,690	17,463	(911)	146,242

Note:
i) The gross balances amount is stated at amortised cost or FVTPL including a fair value adjustment on initial recognition.
ii) Maximum credit exposure is calculated by adding innovation loans carrying value after provisions to commitments less provisions.

Commitments

Irrevocable undrawn commitments to lend are within the scope of IFRS 9 provision requirements.

These commitments are not recognised in the Statement of Financial Position until the loans are advanced. IFRS 9 requires provisions on irrevocable commitments for below market rate loans classified as amortised cost stated at the higher of the estimated fair value decrease that will be written down when the loan is advanced or the ECL calculated on a probability weighted basis. The fair value calculation is made on the same basis as the calculation for loans advanced.

The provision for irrevocable commitments is included within provisions for liabilities and charges in the Statement of Financial Position.

Contractual terms of an innovation loan

The loan term is for a maximum of 10 years (seven years for loans entered into since 2020, including innovation continuity loans) with a period for research and development of up to three years (availability period), and a time to establish a clear route to market and commercialisation of up to two years (extension period). Interest only is paid in the availability and extension periods. There then follows a period for repayment of capital with interest of up to five years. This means that the outstanding balance (EAD) only starts to be repaid when this repayment period begins, unless a default event triggers an early start to the repayment period, or a borrower chooses to repay their loan early.

For innovation loans competitions 1 to 5 interest is paid quarterly at a contractual rate of interest of 3.7% per annum on the amount borrowed.

For all other innovation loans, a total contractual interest rate of 7.4% is payable. During the availability and extension periods, interest is paid quarterly at 3.7% per annum and a further 3.7% interest per annum is deferred and accrued on the amount borrowed. The accrued interest is deferred to the first day of the repayment period when it is added to the principal amount. During the repayment period, interest is payable quarterly at 7.4% on the amount outstanding.

The year ended 31 March 2024 was the Company's sixth year of activity and so the current innovation loan book is still relatively immature. It is feasible that a higher incidence of future credit risk events may be identified as the loan cycle progresses and innovation loans enter into their extension and repayment of capital phases. At the moment the Company's experience of arrears and default is still relatively low.

FVTPL innovation loans (the ICL cohort and one convertible loan note) are outside the scope of the IFRS 9 impairment requirements and therefore are not disclosed in the Staging table below.

Staging

Impairment provisions are calculated using a three stage approach depending on changes in credit risk since original recognition of the assets:

- an asset that is not credit impaired on initial recognition is classified in Stage 1, with a provision equal to a 12 month ECL (losses arising on default events expected to occur within 12 months);
- where a loan's credit risk increases significantly, it will be moved into Stage 2. The provision recognised will be equal to the loan's lifetime ECL (losses on default events expected to occur at any point during the life of the asset); and
- if a loan meets the definition of credit impaired, it will be moved to Stage 3 with a provision equal to its lifetime ECL.

Unlike Stage 1 and Stage 2 loans where interest income is calculated on the gross contractual balance of the innovation loans, Stage 3 loans interest income is recognised in the Statement of Profit or Loss and Other Comprehensive Income, on the innovation loan balance net of ECL provision.

Amortised cost innovation loans staging analysis
(Audited)

31 March 2024	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross balances				
Innovation Loans	**62,113**	**21,669**	**9,231**	**93,013**
Total	**62,113**	**21,669**	**9,231**	**93,013**
Provisions				
Innovation Loans	**3,013**	**6,022**	**9,231**	**18,266**
Total	**3,013**	**6,022**	**9,231**	**18,266**
Provisions as a % of total balance	**%**	**%**	**%**	**%**
Innovation Loans	**4.85**	**27.79**	**100.00**	**19.64**
Total	**4.85**	**27.79**	**100.00**	**19.64**

The Company's ECL modelling approach is run on Moody's Impairment Studio, a cloud-based software application. This model generated results to fully provide for 17 Stage 3 credit impaired loans (2023: 11 loans). In Management's view, the Company is unlikely to receive any further repayments of capital or interest towards the extinguishment of these loans.

Amortised cost innovation loans staging analysis
(Audited)

31 March 2023	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Gross balances				
Innovation Loans	62,116	9,795	5,517	77,428
Total	62,116	9,795	5,517	77,428
Provisions				
Innovation Loans	2,576	2,362	5,517	10,455
Total	2,576	2,362	5,517	10,455
Provisions as a % of total balance	%	%	%	%
Innovation Loans	4.15	24.11	100.00	13.50
Total	4.15	24.11	100.00	13.50

For loans advanced at a commercial interest rate the coverage ratio (ECL divided by the gross carrying amount of the loans) gives a useful benchmark of the size of provisions for comparability between stages, lending portfolios and peer group lenders. In the case of loans on non-commercial terms, there is the additional reduction of carrying values as the result of day 1 fair value adjustments. Amortised cost innovation loan advances at 31 March 2024 of £94,461 thousand (2023: £78,478 thousand) adjusted for redemptions and capital repaid had a total accumulated fair value adjustment on initial recognition of £9,207 thousand (2023: £6,196 thousand) giving a FV writeback ratio of 9.75% (2023: 7.89%). This ratio has slightly increased due to recent lending being at a higher contractual interest rate of 7.40%.

Credit quality

The nature of innovation loans is such that this lending is expected to have a relatively higher credit risk profile compared to lower risk commercial lending secured on a range of tangible and intangible assets at market interest rates that private sector financial institutions typically offer. The Company adopts robust credit risk management policies designed to recognise and manage the risks arising from the portfolio. At 31 March 2024 there were 26 innovation loans with a significant increase of credit risk and 17 loans that were credit impaired (defaults) (at 31 March 2023 there were 17 innovation loans with a significant increase of credit risk and 11 loan that were credit impaired). It is expected that given the higher credit risk profile of the loans the Company will experience loans transferring into Stage 2 and 3 in future years.

Future developments of ECL methodology

The directors recognise the need to develop further the provisions methodology in future accounting periods for Stage 1 innovation loans, where there has not been a significant increase in credit risk since origination, as more loans enter their capital repayment period. The conditions under which the Company is currently making its ECL estimate is based on the best available evidence, but this estimate is inherently uncertain, due to the lack of repayment experience, given the immaturity of the portfolio and the lack of close comparators in the lending industry. When more loans start to enter the repayment of capital phase further evidence in credit risk and default is expected to become available. The existing monitoring and watchlist process looks at credit information currently available but with limited information on loan performance in the repayment of capital

phase. More information will become available in 2024/25 as 55 innovation loans were due to start repayments of capital at 31 March 2024 (31 March 2023: 85 loans were due to start payment of which 39 loans have successfully started to repay capital in 2023/24 – other cases have rescheduled repayment terms, are in Stage 2 or 3 or were early redemption cases). The directors will look at the earliest opportunity to enhance the modelled results as soon as there is evidence to support such an approach.

The table below shows the amortised cost loan balances and provisions for innovation loans for amortised cost loans, by risk grade. Risk grades are initially determined as part of the innovation loans application assessment and approval processes using Moody's risk assessment software. Risk grades of innovation loans are regularly reviewed by the Credit Committee as part of the monitoring and assessment of borrowers' regular management information submissions.

Amortised cost loan balance and provisions by risk grade

(Audited)

31 March 2024

	Loan balance				Provisions				
Risk grade	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	%
Strong (AAA to A-)	-	-	-	-	-	-	-	-	-
Good (BBB+ to BBB-)	**3,917**	**-**	**-**	**3,917**	**25**	**-**	**-**	**25**	**0.64%**
Satisfactory (BB+ to BB-)	**22,643**	**-**	**-**	**22,643**	**522**	**-**	**-**	**522**	**2.31%**
Weak (B+ to B-)	**35,123**	**8,230**	**-**	**43,353**	**2,378**	**1,245**	**-**	**3,623**	**8.36%**
Bad/Financial difficulties (CCC+ and below)	**430**	**13,439**	**-**	**13,869**	**88**	**4,777**	**-**	**4,865**	**35.08%**
Default/credit impaired (D)	**-**	**-**	**9,231**	**9,231**	**-**	**-**	**9,231**	**9,231**	**100.00%**
Total	**62,113**	**21,669**	**9,231**	**93,013**	**3,013**	**6,022**	**9,231**	**18,266**	**19.64%**

Further details on the risk grades of FVTPL ICLs are given in the section below on ICLs and the financial impact if the loans had been classified as amortised cost is disclosed on page 27.

Amortised cost loan balance and provisions by risk grade

(Audited)

31 March 2023

	Loan balance				Provisions				
Risk grade	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	%
Strong (AAA to A-)	-	-	-	-	-	-	-	-	-
Good (BBB+ to BBB-)	3,776	-	-	3,776	30	-	-	30	0.79%
Satisfactory (BB+ to BB-)	34,308	972	-	35,280	818	43	-	861	2.44%
Weak (B+ to B-)	23,971	3,754	-	27,725	1,717	581	-	2,298	8.29%
Bad/Financial difficulties (CCC+ and below)	61	5,069	-	5,130	11	1,738	-	1,749	34.09%
Default/credit impaired (D)	-	-	5,517	5,517	-	-	5,517	5,517	100.00%
Total	62,116	9,795	5,517	77,428	2,576	2,362	5,517	10,455	13.50%

Credit risk concentration

Innovation loan balances by industry sector and region
(Audited)
31 March 2024

	Greater London	Central England	Northern England	South East England	South West England	Scotland	Wales	Northern Ireland	Total	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	%
Stage 1 and 2 amortised cost loans										
Digital, software, technology	7,382	3,975	1,963	1,537	1,684	742	174	-	17,457	12.4
Healthcare	1,502	940	1,225	-	502	-	-	738	4,907	3.5
Manufacturing	4,118	9,196	2,308	2,626	8,452	-	830	1,448	28,978	20.6
Other (Note i)	7,535	7,100	4,740	5,159	1,569	2,833	971	2,533	32,440	23.1
Stage 3 loans										
Digital, software, technology	1,349	-	-	651	2,415	-	-	582	4,997	3.6
Healthcare	-	400	-	-	-	-	-	-	400	0.3
Manufacturing	1,419	-	966	400	439	-	-	-	3,224	2.3
Other (Note i)	-	-	610	-	-	-	-	-	610	0.4
Total amortised cost	23,305	21,611	11,812	10,373	15,061	3,575	1,975	5,301	93,013	66.1
FVTPL loans Stage 1 and 2										
Digital, software, technology	4,984	1,901	1,241	1,872	1,397	1,207	398	387	13,387	9.5
Healthcare	1,586	1,633	-	-	-	519	319	-	4,057	2.9
Manufacturing	1,613	3,904	2,428	1,945	-	-	1,919	-	11,809	8.4
Other (Note i)	3,808	2,593	-	5,738	1,191	1,379	1,140	2,590	18,439	13.1
Total FVTPL	11,991	10,031	3,669	9,555	2,588	3,105	3,776	2,977	47,692	33.9
Total Geographic concentration	35,296	31,642	15,481	19,928	17,649	6,680	5,751	8,278	140,705	100.0

Note:
i) The other category comprises professional, scientific and technical activities along with management consultancy, other information services and educational support activities.

Innovation loan balances by industry sector and region

(Audited)

31 March 2023

	Greater London	Central England	Northern England	South East England	South West England	Scotland	Wales	Northern Ireland	Total	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	%
Stage 1 and 2 amortised cost loans										
Digital, software, technology	6,609	2,644	1,831	2,540	2,971	735	-	-	17,330	12.4
Healthcare	655	2,065	1,225	-	-	-	-	845	4,790	3.4
Manufacturing	3,609	8,487	3,400	2,802	7,696	-	873	819	27,686	19.7
Other (Note i)	4,788	3,809	4,268	2,972	1,103	1,853	1,117	2,195	22,105	15.8
Stage 3 loans										
Digital, software, technology	1,520	-	-	-	560	-	-	581	2,661	1.9
Healthcare	-	400	-	-	-	-	-	-	400	0.3
Manufacturing	859	988	-	-	-	-	-	-	1,847	1.3
Other (Note i)	-	-	508		101	-	-	-	609	0.4
Total amortised cost	18,040	18,393	11,232	8,314	12,431	2,588	1,990	4,440	77,428	55.2
FVTPL loans										
Stage 1 & 2										
Digital, software, technology	5,326	1,924	2,321	2,607	1,759	1,191	1,824	386	17,338	12.4
Healthcare	2,375	1,774	-	700	-	520	371	-	5,740	4.1
Manufacturing	2,544	4,701	4,244	1,924	863	-	2,333	-	16,609	11.9
Other (Note i)	5,507	2,587	1,772	6,631	1,185	1,463	1,178	2,707	23,030	16.4
Total FVTPL	15,752	10,986	8,337	11,862	3,807	3,174	5,706	3,093	62,717	44.8
Total Geographic concentration	33,792	29,379	19,569	20,176	16,238	5,762	7,696	7,533	140,145	100.0

Note:

i) The other category comprises professional, scientific and technical activities along with management consultancy, other information services and educational support activities.

Innovation loans by payment status and interest payment holidays

The impact of arrears and payment holidays on ECL staging is described in the accounting policies: impairment of financial assets and Note 3 critical accounting judgements. At 31 March 2024 there were £2,213 thousand arrears (25 cases) due to borrower late payments on the innovation loan balances (31 March 2023 there were £795 thousand arrears – 20 cases). It was reported last year that it was expected that arrears levels will increase as loans become more mature and enter their repayment of capital phase. 13 of the 25 arrears cases are Stage 3 credit impaired loans which are fully provided for (2023 eight of 20 arrears cases).

As at 31 March 2024 there were 9 loans active cases where borrowers had requested interest payment holidays and £124 thousand interest deferred for the period up to 31 March 2024 (31 March 2023 there were 12 loans where borrowers had requested interest payment holidays and £192 thousand interest deferred).

Forbearance

Forbearance occurs from concession events that potentially apply to all lending, including impaired exposures and borrowers subject to enforcement and recovery action. Modifications which may be considered as forbearance are those which alter a borrower's terms and conditions such that the new contract is more favourable to the borrower than the existing contract. The concessions are driven by the borrower's inability to comply with the existing terms and the following concession events are included within forbearance reporting:

- Extension/alteration: repayment terms amended to interest only, granting of a repayment holiday or general deferral/term extension.
- Forgiveness: partial debt forgiveness whereby part of the loan is written off and is no longer payable by the borrower. This is subject to separate approval from the Department for Science, Innovation and Technology (DSIT) and HM Treasury.
- Waivers/amendments: covenant re-set or waiver/other conditions waived or amended. This is subject to Credit Committee discretion.
- Capitalisation: the ad hoc addition of past due arrears amounts to the principal of the loan.
- Combination: the application of multiple types of forbearance mentioned above.

An additional type of potential forbearance in the future is for ICLs, which have a defensive conversion to equity contractual term. If, at the end of the extension period commercialisation of the project has not been achieved by the borrower, or if at any time default seems likely, the Company may give notice to commence consultation with the borrower to convert the principal of the loan and accrued interest into shares with a view to sales of such shares to complete the repayment of the loan. The intention being to recover only outstanding capital and interest and to avoid any unnecessary insolvencies. Further details are given in the accounting policy section of the notes on innovation continuity loan classification. To date there have been no cases of this type of forbearance.

Extension of terms

Innovation Loans contractual terms envisage that refinements of plans are a normal part of the development of the new product particularly in the availability and extension periods of the project. Hence a drawdown change request (DCR), or a project change request (PCR) are not automatically an indication that the borrower's financial position is stressed or that a concession event has occurred.

During the year 44 loans had extensions of their final redemption dates with a range of three to 24 months (2023: 32). Interest will continue to be paid at the contractual interest rate on the principal outstanding over the extended life of the loan.

Supplementary information to the Credit Risk Report: not included in the financial results of the Company.

FVTPL loans and the financial impact had these loans been classified as amortised cost

ICLs are a cohort of innovation loans which were first offered and advanced in 2020/21. ICLs have the same contractual features as Competition 6 to 8 loans with one exception – a defensive conversion to equity contractual feature.

The consequence of the equity conversion feature is that ICLs do not meet the test to show that the IFRS 9 cash flow characteristics are solely payments of principal and interest to be classified as amortised cost loans and therefore these loans have been classified as FVTPL. The result of this accounting classification is that FVTPL is outside the scope of ECL provisions and provisions for irrevocable commitments.

The Company manages the credit risks of ICLs on the same basis as other innovation loans and are exposed to the same risks of default. Therefore, the tables below disclose the ECLs that would have been provided for ICL loans advanced and provisions if the loans had been classified in the same way as the rest of the portfolio. The figures in the tables below have not been posted to the Company's 2023/24 results.

Stage 3 ICL Gross loan balances and ECLs have not been include in the tables below because this would not disclose additional information as these loans are deemed irrecoverable under both FVTPL and amortised cost valuation methodologies, so would either be fair valued at £Nil as FVTPL or fully impaired at amortised cost. At 31 March 2024, there were 19 ICL loans that had Stage 3 characteristics with a FV exposure of £15,506 thousand whose fair value carrying value has been written down to £Nil (31 March 2023: ten loans with a carrying value of £6,850 thousand written down to £Nil).

FVTPL loans – the impact of alternative amortised cost classification (not included in the Statement of Financial Position) on loans advanced

(Audited)

31 March 2024	Stage 1	Stage 2	Total
	£'000	£'000	£'000
Gross balances ICLs classified as amortised cost			
FVTPL Innovation Loans if reclassified as amortised cost (Note 1)	**34,573**	**13,119**	**47,692**
Total	**34,573**	**13,119**	**47,692**
Additional provisions if FVTPL loans classified as amortised cost			
Innovation Loans classified as FVTPL (Note 2)	**1,500**	**2,287**	**3,787**
Total	**1,500**	**2,287**	**3,787**
FVTPL provisions as a % of total balance if FVTPL loans classified as amortised cost	%	%	%
Innovation Loans classified as FVTPL	**4.34**	**17.43**	**7.94**
Total	**4.34**	**17.43**	**7.94**

Note 1: FVTPL gross balance is the balance sheet carrying value of £47,692 thousand (2023: £62,717 thousand) which has been used as the exposure (EAD) figure in the ECL calculation which has been reduced by cumulative day 1 and FV at reporting date adjustments of £27,237 thousand (2023 £12,718 thousand). The gross balance of ICL figure in the supplementary Staging table above is stated as per the value in Note 12 innovation loans to show the linkage with the value in the Statement of Financial Position and to reflect the way loan values for ICL ECLs are monitored by Management. If the ICL loans were actually restated as amortised cost, the FV changes subsequent to the amortised Day 1 FV adjustments, would also need to be taken into account.

Note 2: ICLs classified as FVTPL are outside the scope of IFRS 9 impairment requirements so do not have ECL provisions.

Audited)

31 March 2023	Stage 1	Stage 2	Total
	£'000	£'000	£'000
Gross balances ICLs classified as amortised cost			
FVTPL Innovation Loans if reclassified as amortised cost (Note 1 above)	58,336	4,381	62,717
Total	58,336	4,381	62,717
Additional provisions if FVTPL loans classified as amortised cost			
Innovation Loans classified as FVTPL (Note 2 above)	2,746	1,358	4,104
Total	2,746	1,358	4,104
FVTPL provisions as a % of total balance if FVTPL loans classified as amortised cost	%	%	%
Innovation Loans classified as FVTPL	4.71	31.00	6.54
Total	4.71	31.00	6.54

The table below shows the loan balances and provisions for ICLs by risk grade if these loans had been classified as amortised cost.

Loan balance and provisions of FVTPL loans if were classified as amortised cost by risk grade

(Audited)

31 March 2024

	Loan balance				Provisions				
Risk grade	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	%
Strong (AAA to A-)	-	-	-	-	-	-	-	-	-
Good (BBB+ to BBB-)	**4,538**	**-**	**-**	**4,538**	**34**	**-**	**-**	**34**	**0.75%**
Satisfactory (BB+ to BB-)	**10,446**	**1,140**	**-**	**11,586**	**230**	**66**	**-**	**296**	**2.55%**
Weak (B+ to B-)	**19,294**	**6,409**	**-**	**25,703**	**1,178**	**758**	**-**	**1,936**	**7.53%**
Bad/Financial difficulties (CCC+ and below)	**295**	**5,570**	**-**	**5,865**	**58**	**1,463**	**-**	**1,521**	**25.93%**
Default/credit impaired (D)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (Note 1)	**34,573**	**13,119**	**-**	**47,692**	**1,500**	**2,287**	**-**	**3,787**	**7.94%**

Note 1: FVTPL gross balances would be £15,506 thousand more than the FVTPL gross balance of £47,692 thousand as the fair value adjustment at reporting date would be reversed.

31 March 2023

	Loan balance				Provisions				
Risk grade	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	%
Strong (AAA to A-)	-	-	-	-	-	-	-	-	-
Good (BBB+ to BBB-)	5,928	-	-	5,928	38	-	-	38	0.64%
Satisfactory (BB+ to BB-)	17,618	-	-	17,618	359	-	-	359	2.04%
Weak (B+ to B-)	34,790	778	-	35,568	2,349	100	-	2,449	6.89%
Bad/Financial difficulties (CCC+ and below)	-	3,603	-	3,603	-	1,258	-	1,258	34.92%
Default/credit impaired (D)	-	-	-	-	-	-	-	-	-
Total (Note 1)	58,336	4,381	-	62,717	2,746	1,358	-	4,104	6.54%

Note 1: FVTPL gross balances at 31 March 2023 would have been £4,696 thousand more than the FVTPL gross balance of £62,717 thousand as the fair value adjustment at reporting date would be reversed.

Irrevocable commitments – impact on provisions on FVTPL loans if classified as amortised cost

ICL irrevocable commitments at 31 March 2024 totalled £Nil thousand (31 March 2023: £Nil thousand). The IFRS 9 FVTPL classification means that provisions for these financial liabilities cannot be made on a consistent amortised cost classification basis with irrevocable commitments despite having the same contractual features except for the equity conversion clause. The table below discloses the provisions that would have been made for ICL loans irrevocable commitments if this cohort had been classified at amortised cost.

(Audited)

Irrevocable commitments provisions that would have been made	**2024 £'000**	2023 £'000
At 1 April	-	120
Provisions utilised	-	-
FV provisions on irrevocable commitments reflected in financial statements (made)	(-)	(39)
Additional ECL provisions on irrevocable commitments if ICLs were classified as amortised cost	-	-
Release for the period	(-)	(81)
Net Statement of Profit or Loss (credit)/charge	(-)	(120)
At 31 March provisions on ICLs would have been	-	-

Net assets if FVTPL loans were classified as amortised cost

The total impact on net assets for the Company at 31 March 2024, if ICLs were classified at amortised cost, would be a further change of net assets of £Nil thousand (2023: £66 thousand increase) to net liabilities of £1,947 thousand) (2023: net assets £887 thousand).This calculation takes account of the consequential additional increase of write down of repayable capital grant and the tax credit of additional losses that would result. There is nil impact this financial year as there were no FVTPL irrevocable commitments released in 2023/24.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INNOVATE UK LOANS LIMITED

Opinion on financial statements

I have audited the financial statements of Innovate UK Loans Limited for the year ended 31 March 2024 which comprise the Innovate UK Loans Limited:

- Statement of Financial Position as at 31 March 2024;
- Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2024;
- Statement of Changes in Equity for the year ended 31 March 2024; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In my opinion the financial statements:

- give a true and fair view of the state of Innovate UK Loan Limited's affairs as at 31 March 2024 and its loss for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs) (UK), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (2022)'*. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report.

Those standards require me and my staff to comply with the Financial Reporting Council's *Revised Ethical Standard 2019*. I am independent of Innovate UK Loans Limited in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Innovate UK Loans Limited's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Innovate UK Loans Limited'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.

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

Other Information

The other information comprises information included in the Annual Report, but does not include the financial statements and my auditor's report thereon. The directors are responsible for the other information.

My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which I report by exception

In the light of the knowledge and understanding of Innovate UK Loans Limited and its environment obtained in the course of the audit, I have not identified material misstatements in the Strategic Report, the Report of the Directors, the Credit Risk Report and the Supplementary Information to the Credit Risk Report.

I have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires me to report to you if, in my opinion:

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

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities Statement, the directors are responsible for:

- maintaining proper accounting records;
- providing the C&AG (Comptroller & Auditor General) with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within Innovate UK Loans Limited from whom the auditor determines it necessary to obtain audit evidence.
- ensuring such internal controls are in place as directors determine are necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error;
- preparing financial statements, which give a true and fair view, in accordance with the Companies Act 2006;
- preparing the Annual Report in accordance with the Companies Act 2006 and Government Financial Reporting Manual; and
- assessing the Innovate UK Loan's Limited's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and report on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs (UK)).

My 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 a report that includes my 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.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I:

- considered the nature of the sector and control environment and operational performance including the design of Innovate UK Loans Limited's accounting policies and key performance indicators and performance incentives.
- inquired of management, Innovate UK Loans Limited's internal audit provider (provided under agreement with Innovate UK Loans Limited's parent, UK Research and Innovation) and those charged with governance, including obtaining and reviewing supporting documentation relating to Innovate UK Loans Limited's policies and procedures in respect on:
    - identifying, evaluating and complying with laws and regulations;
    - detecting and responding to the risks of fraud and;
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including Innovate UK Loans Limited's controls relating to the Companies Act 2006 and Managing Public Money.
- inquired of management, Innovate UK Loans Limited's internal audit provider (provided under agreement with Innovate UK Loans Limited's parent, UK Research and Innovation) and those charged with governance whether:
    - they were aware of any instances of non-compliance with laws and regulations; and
    - they had knowledge of any actual, suspected, or alleged fraud.
- discussed with the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within Innovate UK Loans Limited for fraud and identified the greatest potential for fraud in the following areas: posting of unusual journals, complex transactions and bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override.

I also obtained an understanding of Innovate UK Loans Limited's framework of authority as well as other legal and regulatory frameworks in which Innovate UK Loans Limited operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of Innovate UK Loans Limited. The key laws and regulations I considered in this context included Companies Act 2006, Managing Public Money, employment law and or pensions legislation and/or tax Legislation and Innovate UK Loans Limited's Management Framework.

Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above as having direct effect on the financial statements;
- I enquired of management and the Audit and Risk Committee concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board and internal audit reports;
- I addressed the risk of fraud through management override of controls by testing the appropriateness of journal entries and other adjustments; assessing whether the judgements on estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

I communicated relevant identified laws and regulations and potential risks of fraud to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my 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 my report.

Other auditor's responsibilities

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control I identify during my audit.

Susan Clark (Senior Statutory Auditor)

9 September 2024

for and on behalf of

Comptroller and Auditor General (Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Statement of Profit or Loss and Other Comprehensive Income

	Note	2024 £'000	2023 £'000
Grant income	4	499	12
Write down of repayable capital grant received	5	22,558	9,824
Interest receivable (EIR method and other)	6	8,326	6,935
Total revenue and other income		31,383	16,771
Administrative expenses	8.1	(5,436)	(4,362)
Fair value adjustment on initial recognition	12	(3,149)	(787)
Net fair value loss on FVTPL loans	8.2	(12,371)	(7,713)
Impairment losses on loans	11	(9,651)	(3,235)
Provisions on irrevocable loan commitments	17	(1,638)	(323)
Surrender of receipts to Consolidated Fund	9	(463)	(676)
Operating result		(1,325)	(325)
Tax credit for the year	10	331	62
Loss for the year		(994)	(263)
Other comprehensive income		-	-
Total comprehensive expenditure		(994)	(263)

The Company has no recognised gains or losses, other than those set out above. The notes on pages 35 to 59 form an integral part of the financial statements.

Statement of Financial Position at 31 March 2024	Note	2024 £'000	2023 £'000
Assets			
Non-current assets			
Innovation loans	12	122,439	129,690
Equity investments	13	-	-
Current assets			
Cash and cash equivalents	14	8,581	3,943
Debtors and prepayments	15	478	178
Total assets		131,498	133,811
Liabilities			
Non-current liabilities			
Repayable capital grant		(124,943)	(128,413)
Current liabilities			
Trade and other payables	16	(5,953)	(5,440)
Provisions for liabilities and charges	17	(2,549)	(911)
Total liabilities		(133,445)	(134,764)
Net liabilities		(1,947)	(953)
Capital and reserves			
Share capital	22	-	-
Retained losses		(1,947)	(953)
Total capital and reserves		(1,947)	(953)
Total capital		(1,947)	(953)

The notes on pages 35 to 59 are an integral part of these financial statements. This report has been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

The financial statements on pages 32 to 34 were approved and authorised for issue by the Board of Directors on 4 September 2024 and were signed on its behalf by:

Indro Mukerjee

I M Mukerjee
Chairperson
4 September 2024

Statement of Changes in Equity	2024			2023		
	Share capital £'000	**General reserve £'000**	**Total equity £'000**	Share capital £'000	General reserve £'000	Total equity £'000
At 1 April 2023/2022	**-**	**(953)**	**(953)**	**-**	(690)	(690)
Share capital	-	-	-	-	-	-
Total comprehensive expenditure for the year	-	**(994)**	**(994)**	**-**	(263)	(263)
At 31 March 2024/2023	-	**(1,947)**	**(1,947)**	**-**	(953)	(953)

The notes on pages 35 to 59 are an integral part of these financial statements.

1. STATUTORY INFORMATION

Innovate UK Limited is a private company, limited by shares, registered in England and Wales. The Company's registered number and registered office address can be found on the Company Information page.

The principal activity of the Company is disclosed on page 4.

2. ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) in conformity with the requirements of the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101). The financial statements have been prepared under the historical cost convention, with Competitions 1 to 5, Competitions 6 to 8, Future Economy innovation loans and defence innovation loans initially recognised at fair value and subsequently measured at amortised cost over the term of the loan, and the going concern basis. ICLs have been classified as FVTPL.

Comparatives for the twelve months of the 2022/23 Financial Year are disclosed.

The financial statements are presented in pound Sterling, the primary currency in which the Company operates. The financial statements are rounded to the nearest whole thousand pounds (£'000) except where otherwise stated.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of International Accounting Standard (IAS) 7 *Statement of Cash Flows*.
- The requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member.

The Company has made an accounting policy decision to apply relevant requirements of HM Treasury's Financial Reporting Manual (FReM) when preparing the financial statements, to the extent this is consistent with the Companies Act.

Going concern

The Company's ultimate parent is UK Research & Innovation (UKRI). UKRI is dependent on funding from the Department for Science, Innovation and Technology (DSIT) to meet liabilities falling due within future years. UKRI has reason to believe that future funding will be forthcoming beyond the current spending review period, particularly given the commitment in the Spending Review of October 2021 to increase public R&D investment to £20 billion per year by 2024/25, including a commitment for overall funding for Innovate UK to exceed £2.4 billion in the two financial years for 2022/23 to 2024/25. In addition, HM Treasury have agreed three years' innovation loan funding starting in 2022/23 and including £50 million in 2023/24 and £60 million in 2024/25, thus securing the Company's medium term lending capability. HM Treasury and DSIT as Sponsor have agreed in principle that the loan programme continue to make commitments to 2027-28 in order to deliver the spend profile given at the Spending Review 2021. Any commitments that result in spend beyond 2024-25 are taken at the Shareholder and Sponsors Risk.

Funding for drawndown innovation loan balances have been financed by the repayable capital grant facility from DSIT via UKRI which is written down for any impairment losses and reductions in FV (see Note 5). The Company's ability to pay its operating costs is covered by contractual interest received on innovation loans as set out in the financial framework from the sponsor DSIT and HMT (see additional background in Note 9).

Therefore, the directors of the Company consider it is appropriate to adopt a going concern basis for the financial statements of the Company. The Company monitors future levels of commitment to ensure they remain within the anticipated budget. Further details of the liquidity and funding risk of the Company are contained in Note 18.

Change of accounting estimate

During the financial year, the Company has updated its proxy for an arm's length commercial interest rate estimate from using EU risk finance guidelines and reference rates. Following the publication of UK subsidy control guidance which replaced EU risk guidance, the Board commissioned an independent expert report to advise on the use of a market-based approach to set commercial interest rates. The new approach adopted from this financial year is consistent with the principles of UK subsidy control guidance.

Adopting this approach is a revision of the application of the Company's existing accounting policy of calculating fair values of innovation loans at origination where an interest rate is offered at below market-rate and for innovation loans classified as FVTPL at the latest reporting date. Accordingly, the Board have refined their critical accounting judgements as detailed in Note 3.

During the review of the independent report certain assumptions have been refined which are described in the critical accounting judgements note below. This change of accounting estimate under IAS 8 has resulted in a one-off change to new innovation loans classified as amortised cost originated in the current financial year as a reduction of £579 thousand at initial recognition. The impact on FVTPL innovation loans at the 31 March 2024 reporting date is a £804 thousand reduction in carrying value. In line with the accounting treatment of a change in accounting estimates, this change has been applied prospectively, comparatives have not been adjusted. The impact of this change of assumptions on the fair value of amortised cost and fair value of FVTPL loans at reporting date has been disclosed in Notes 19 and 20 respectively.

Adoption of new and revised IFRSs

The Company has adopted the following standards with effect from 1 April 2023:

IFRS 17 Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard and replaces the previous standard IFRS 4 Insurance Contracts. The new standard has not had an impact on the Company because the Company does not enter into arrangements within the scope of this standard.

Future accounting developments

IFRS 18 Presentation and Disclosure in Financial Statements

On 9 April 2024 the International Accounting Standards Board (IASB) published a new accounting standard - IFRS 18 Presentation and Disclosure of Financial Statements which will be effective from accounting periods beginning or after 1 January 2027 (i.e., the 2027/28 financial year). The purpose on the new standard is to provide more transparent and comparable information between reporting entities on financial performance, however, it is not expected that the new guidance will have a material impact on the Company's results. The Company will carry out an assessment of the impact of this new standard nearer the time of its adoption. IFRS 18 is subject to endorsement by the UK Endorsement Board (UKEB) which is expected by the end of 2025 at the earliest.

IFRS 19 Subsidiaries without Public Accountability: Disclosures

On 9 May 2024 the International Accounting Standards Board (IASB) published a new accounting standard - IFRS 19 Subsidiaries without Public Accountability which will be effective from accounting periods beginning or after 1 January 2027 (i.e., the 2027/28 financial year). A subsidiary without public accountability is defined as an entity that, has a parent that produces consolidated financial statements available for public use, which complies with IFRS Accounting Standards. The purpose of the new standard is to reduce the costs of preparing subsidiaries financial statements while maintaining the usefulness of information for users of their financial statements. The new standard is optional for eligible subsidiaries. It is not expected that the new guidance will have a material impact on the Company's results. The Company will carry out an assessment of the impact of this new standard nearer the time of its adoption. IFRS 19 is subject to endorsement by the UKEB – the formal endorsement project is due to start in early 2025.

Amendments resulting from Annual Improvements

A number of amendments and improvements to accounting standards have been issued by the International IASB with an effective date from 1 April 2023. The IASB has also issued a number of minor amendments to IFRSs that become effective from 1 January 2024 or subsequent years. These amendments are not expected to have a significant impact on the financial statements for the Company.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these accounts are set out below.

Grant income

Grant income for the Company's lending activities and operating costs receivable from the Department of Science, Innovation and Technology (DSIT) via UKRI for their sponsored innovation loans has been recognised in income to run the 2023/24 programme and is non-repayable. Grant income is reduced by the contractual interest received on innovation loans (excluding Future Economy loans contractual interest received which is a surrender of receipts to HM Treasury's Consolidated Fund). In addition, the Company receives grant income from DASA towards operational costs for running the joint initiative for defence innovation loans with DASA/MOD.

Write down of repayable capital grant received

The Company measures the capital grant funding from DSIT via UKRI as a financial liability at the amount initially received. This financial liability is located in the Statement of Financial Position and is classified as being measured at amortised cost. This funding is used to advance innovation loan lending to borrowers. Subsequently the Company adjusts the funding for repayments made and with amounts that the Company believes will not be recoverable from borrowers. The write down of the liability equals the unamortised portion of the fair value adjustment on initial recognition of the innovation loans and the impairment losses for the underlying innovation loans and the further fair value movement on loans classified as FVTPL from initial recognition to the reporting date. The carrying value of the funding financial liability reflects the amount that the Company expects to settle the liabilities with DSIT via UKRI. This means the Company is only required to repay DSIT to the extent that it recovers loan repayments and so does not have financial exposure to loan defaults. As a consequence, the results of the Company are not directly comparable to those of a commercial lender with more traditional sources of funding.

Interest receivable

For financial instruments measured at amortised cost the effective interest rate (EIR) method is used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

To calculate the EIR for loans offered at a below market-rate, an adjustment is made for an arm's length commercial interest rate. Over the life of a loan the commercial interest rate less the fair value on initial recognition will net back to the contractual interest rate (i.e., the below market interest rate) for amortised cost loans.

Interest income is calculated by applying the EIR to the gross carrying amount of non-credit impaired loans. For amortised cost credit impaired loans, the interest income is calculated by applying the EIR to the amortised cost of the credit impaired loans (i.e., net of the allowance for ECLs – known as the net EIR approach). No loans have been recognised as credit impaired at origination.

FVTPL loans are outside the scope of IFRS 9 EIR requirements. FVTPL commercial interest income accrued is disclosed as part of the FV gain or loss on FVTPL loans calculation. FVTPL contractual interest received is treated as part of interest receivable.

Surrender of receipts to Consolidated Fund

The surrender of receipts to consolidated fund is the surplus of contractual interest received over management expenses incurred in the financial year that will be refunded by UKRI after the yearend to HM Treasury as part of the financial framework agreement between the Shareholder (UKRI), the sponsor (DSIT) and HMT to finance IUKL's activities.

Taxation

The Company is subject to corporation tax on taxable profits. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to HM Revenue and Customs, based on tax rates and laws that are enacted or substantively enacted by the reporting date.

Cash and cash equivalents

Cash and cash equivalents comprise cash deposits and other short-term liquid investments which are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have an original maturity of three months or less. Any bank overdraft amounts without the right of offset are included within trade payables and other liabilities.

Financial instruments

Recognition and derecognition

The Company recognises and measures financial instruments in accordance with IFRS 9 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. For innovation loans recognition and derecognition is accounted for at the trade date when the Company has authorised the third-party administrators to pay the loan advance as at that point the Company is contractually committed.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

The Company derecognises a financial asset when the contractual rights to receive future cash flows from the financial asset expire or it transfers all of the risks and rewards of ownership in a transaction including the rights to receive the future contractual cash flows and it does not retain control of the financial asset. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. On derecognition of a financial asset or liability any remaining balances are removed via the Statement of Profit or Loss and Other Comprehensive Income.

Classification and measurement

The classification and subsequent measurement of financial assets is based on an assessment of the Company's business models for managing the assets and their contractual cashflow characteristics. Innovation loans are valued at fair value at initial recognition. IFRS 9 allows the following three classification categories:

Amortised cost

In accordance with IFRS 9 Financial Instruments, a financial asset must subsequently be held at amortised cost if it meets the business model test, where the objective of the Company's business model is to hold the financial asset to collect the contractual cash flows, and the cash flow characteristics test, where the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Interest income is calculated using the effective interest method and is recognised in the interest receivable line of the Statement of Profit or Loss and Other Comprehensive Income.

Fair value through other comprehensive income (FVOCI)

Financial assets held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and where the contractual cash flows comprise SPPI, are classified as FVOCI. The Company currently does not hold any financial assets with this classification.

Fair value through profit or loss (FVTPL)

Financial assets measured at FVTPL have contractual cash flow characteristics which do not meet the SPPI criteria. The contractual terms for these cash flows include returns that are not only interest and capital repayments such as returns based on increases in value on equity instruments. This change of fair value, including FVTPL commercial interest income, is recognised in the net fair value loss or gain, as appropriate, line in the Statement of Profit or Loss and Other Comprehensive Income.

Innovation loans

Fair value at initial recognition of innovation loans and application of a true and fair override

In accordance with IFRS 9 the fair value adjustment at initial recognition, which is the difference between the transaction value of the innovation loans and their fair value, if based on a valuation technique that does not only use data from observable markets, would usually be deferred and amortised over the life of the loan. However, the directors have determined that it is appropriate in this circumstance to apply a true and fair override, and consequently a fair value adjustment arising on the innovation loan book will be recognised immediately through the Statement of Profit or Loss and Other Comprehensive Income because this reflects the commercial position more appropriately.

This fair value adjustment for innovation loans is required because the Company charges a rate of interest which is a below market rate (non-commercial terms) that does not reflect the credit risk of the borrower. This means that the future expected cash flows from these loans discounted by an appropriate discount rate, does not equate to the nominal value (transaction cost) of the amount advanced on the loan.

UK adopted International Financial Reporting Standard 13 *Fair Value Measurement* (IFRS 13) requires an entity to disclose at fair value by applying a hierarchy that reflects the significance of observable market inputs. A Level 3 valuation technique is where significant unobservable inputs are used. A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% of the valuation of a financial instrument. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques. The fair value adjustment for innovation loans uses Level 3 valuation techniques with significant unobservable inputs. More details on quantitative FV disclosures on amortised cost loans are contained in Note 19.

Innovation loans Competitions 1 to 5 and 6 to 8 and Future Economy and other schemes - amortised cost classification

The innovation loans from Competitions 1 to 5 and 6 to 8 and Future Economy, Women in Innovation and DASA loans which are held on the Company's Statement of Financial Position, as in previous financial years, met the business model test and the SPPI cash flow characteristics test; and therefore, these loans are held at amortised cost.

Innovation continuity loans classification and equity conversion feature - FVTPL classification

Innovation continuity loans (ICLs) have been separately assessed for the business model and SPPI cash flow characteristics tests. ICLs have the same contractual terms as the Competitions 6 to 8 loans with one additional feature, which is a defensive conversion to equity contractual term. If, at the end of the extension period commercialisation of the project has not been achieved by the borrower, or if at any time default seems likely, the Company may give notice to commence consultation with the borrower to convert the principal of the loan and accrued interest into shares with a view to sales of such shares to complete the repayment of the loan. The intention being to recover only outstanding capital and interest. Management and their advisers consider this as a form of forbearance.

The equity conversion feature does not meet the SPPI cash flow characteristics test, which results in the ICLs being classified as fair value through the profit and loss. However, the directors have made a judgement to provide additional disclosure in the Credit Risk Report on the impact that an amortised cost classification would have had on the ICLs. This reflects the way the loans are managed and enables comparison with the other innovation loans.

As at 31 March 2024, management have only started discussions on one ICL loan (2023 no cases) to negotiate applying the conversion to equity contractual term. This case has not yet concluded. Since there is no data available (because there have been no actual cases of the equity conversion contractual feature being applied and there is resulting estimation uncertainty) a judgement has been made that there is a nil value that would be applied to the right to convert loans into equity.

This view has been taken since:

- the right to convert will only be exercised when a business is otherwise at risk of imminent failure
- the clause does not provide any financial gain to the holder as there is no predetermined share price for conversion and that this would have to be agreed prior to conversion in exchange for the equivalent value in principal and interest and
- it is considered highly likely that, if the exercise condition of the conversion clause were met, a lender would be able to negotiate terms as least as preferable at the conversion terms given their ranking as a senior creditor and therefore, no rational investor would pay a premium to include the clause into the contract.

It is therefore not realistic to assume a value greater than simply retaining a senior secured position.

If the clause were to be invoked and the Company and the Borrower cannot jointly agree the financial valuation of the shares into which the loan will convert with a view to sale to facilitate the repayment of the loan, an independent valuation expert will be appointed to determine the valuation.

Irrevocable commitments provisions

Irrevocable undrawn commitments to lend are within the scope of IFRS 9 provision requirements. This provision for irrevocable commitments is included within provisions for liabilities and charges in the Statement of Financial Position.

These commitments are not recognised in the Statement of Financial Position until the loans are advanced. IFRS 9 requires provisions on irrevocable commitments for loans below market rate loans classified as amortised cost at the higher of the estimated fair value decrease that will be written down when the loan is advanced or the ECL calculated on a probability weighted basis. The fair value calculation is made on the same basis as the calculation for loan advances. In addition, the requirements for the classification of financial assets for below market rate loans also allows for provisions for commitments for FVTPL loans (i.e., on ICLs) on a FV basis only. Provisions on irrevocable commitments for loans classified as amortised cost that are assessed at commercial terms are calculated on an ECL basis.

When the loan commitment is drawn, the provision for irrevocable commitment is released and is replaced by either a FV adjustment and/or ECL provision on the drawn loan.

Impairment of financial assets

Financial assets within the scope of IFRS 9 expected credit loss (ECL) requirements comprise all financial debt instruments measured at either amortised cost or FVOCI. Financial assets that are measured as FVTPL are outside the scope of IFRS 9 ECL requirements.

ECLs represents the present value of expected cash shortfalls following the default of a financial asset. A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the financial asset and the cash flows that the Company expects to receive.

The allowance for ECLs is based on an assessment of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), discounted at the effective interest rate to give a net present value. The estimation

of ECLs is unbiased and probability weighted, taking account all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. For loans that are recognised in the Statement of Financial Position at amortised cost, the allowance for ECLs is offset against gross carrying values so that the amount presented is net of impairment provisions.

Forward looking economic inputs

ECLs are calculated by reference to information on past events, current conditions and forecasts of future economic conditions. Multiple economic scenarios are incorporated into the ECL calculation models. These scenarios are based on external sources where available and appropriate, and internally generated assumptions.

To capture any non-linear relationship between economic assumptions and credit losses, three economic scenarios have been adopted. This includes a base scenario which reflects the Company's view of the most likely economic conditions, together with an upside and a downside scenario representing alternative plausible views of economic conditions, weighted based on management's view of their probability. More information is set out in the use of forward-looking economic information section in Note 3.

Credit risk categorisation

IFRS 9 Financial Instruments outlines a three-stage model for impairment based on changes in credit quality after initial recognition. At each reporting date, loans are reviewed for changes in credit risk since the loans were initially recognised. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, a loss allowance equal to 12-month expected credit losses (based on the probability of default within the next 12 months) is recognised *(Stage 1)*. Where credit risk has increased significantly since initial recognition lifetime expected losses are recognised. In these circumstances, interest revenue is calculated on the gross carrying amount of the asset.

All innovation loans with payments falling 90 days past due or with other indications of default are assessed to be credit-impaired, where a lifetime expected credit loss is recognised and interest revenue is calculated on the net carrying amount (net of credit allowance).

Stage 2: significant increase in credit risk

A loan will be assessed as entering Stage 2 when there is a significant increase in credit risk. This is determined by either:

- Loan payments being more than 30 days past due but less than 90 days past due;
- The risk banding has shifted by more than three notches from when assessed at loan origination e.g., BBB down to BB-;
- Concession events such as capital or interest payment holidays or
- The Credit Committee determining that a loan is Stage 2 using a watchlist approach where the borrower is experiencing difficulties which may threaten their ability to fulfil their credit obligations including covenant breaches, slowdowns in business activities, the project is significantly off track as reported by the monitoring officer or an adverse trend in operations that signals a potential weakness in the financial strength of the borrower.

Stage 3: credit impaired (or defaulted) loans

Stage 3 reflects the point at which an underperforming loan asset become credit impaired. As a backstop, all loans with payments falling 90 days past due will be moved automatically to Stage 3. In addition, default can be classified at the discretion of the Credit Committee.

A loan can be moved to Stage 3 if there are other indications that the borrower is unlikely to pay, such as signs of financial difficulty, probable bankruptcy, breaches of contract and concession events which have a detrimental impact on the present value of future cashflows; or if the loan is otherwise considered to be in default or evidence is discovered that indicates a business failure has – or is likely to – occurred, for example:

- Notice of insolvency;
- Cross-default; or
- Significant deterioration in the financial performance and/or standing of the borrower

Interest income on Stage 3 credit impaired innovation loans is recognised in the Statement of Profit or Loss and Other Comprehensive Income on the loan balance net of the ECL provision.

Transfers between stages

Transfers from Stage 1 to 2 occur when there has been a significant increase in credit risk and from Stage 2 to 3 when credit impairment is indicated as described above. In both cases the ECL provision is adjusted to reflect the transfer.

For assets in Stage 2 or 3, loans can transfer back to Stage 1 or 2 once the criteria for a significant increase in credit risk or impairment no longer apply. In both cases the ECL provision is adjusted to reflect the transfer. For loans subject to concession events such as forbearance, accounts must first be up to date for a period of 6 months before they can transfer back to Stage 1 or 2.

Write-offs

Innovation loans will be written off at the point when the Credit Committee determines that any further recoveries are unlikely or become uneconomical to pursue. At this point, it is written off against the related provision for loan impairment once all necessary procedures have been completed, including any realisation of proceeds of collateral, and the amount of the loss has been determined. Any subsequent recoveries of amounts previously written off decrease the value of impairment losses recorded in the Statement of Profit or Loss and Other Comprehensive Income. The commercial decision taken by the Credit Committee, that future recoveries are unlikely, are distinct from partial debt forgiveness where explicit DSIT and HM Treasury approval is required.

Modifications

An instrument that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms (such as renegotiations of innovation loans).

Where an instrument is renegotiated and not derecognised (for example forbearance), the change is considered a modification of contractual terms. Where this arises and there is a modification that would result in a gain or loss on a time value basis, the gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows, discounted at the loan's original effective interest rate. Any gain or loss on recalculation is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income. The ECL provision would reflect the modified contractual terms and risk characteristics of the modified loan.

Further details on modifications are included in the Credit Risk Report under the heading extension of terms.

Investments – equity shares

Investments in equity instruments are measured at fair value through profit and loss. Changes in the fair value of investments are recognised in the revaluation of investments in the Statement of Profit or Loss and Other Comprehensive Income.

Unlisted investments are stated at Fair Value in accordance with IFRS 9. The Company assesses the fair value of investments in accordance with IFRS 13 using Level 3 inputs not based on observable market data.

Financial liabilities

Financial liabilities such as trade payables and other payables are measured initially at fair value less transaction costs. These financial liabilities are subsequently measured at amortised cost using the effective interest method.

Trade and other payables

Trade and other payables are recognised in the period in which related money, goods or services are received or when a legally enforceable claim against the Company is established or when the corresponding assets or expenses are recognised.

Repayable capital grant

The Company has received funding from DSIT via UKRI for a repayable capital grant for the innovation loan advances. This agreement does not have a maturity date and carries an interest rate of zero. This repayable capital grant may become repayable on demand, in whole or in part, if at the absolute discretion of DSIT certain conditions arise that affect the principal activities of the Company adversely. However, the directors expect that the funding would normally remain in place for the contractual life of the individual innovation loans that have been financed by this funding. The funding is recognised in non-current liabilities. Credit losses on the loan advances of the Company are offset by a write down of the repayable capital grant financial liability that funds the loan advance. This means the Company is only required to repay DSIT to the extent that it recovers loan repayments and so does not have financial exposure to loan defaults.

3. CRITICAL ACCOUNTING JUDGEMENTS

The Company's principal accounting policies are set out above. Management is required to exercise significant judgement and make use of estimates and assumptions in the application of these policies.
Areas which management believes to require the most critical accounting judgements are:

- the approach to applying the staging requirements – identifying significant increases in credit risk and identifying credit impaired loans and the definition of default;
- the basis of forward-looking information and multiple economic scenarios and the application of weightings of ECL models for the sensitivity of systemic risk factors;
- the approach of calculating a fair value at origination of an innovation loan including discount rate (including a 2-notch credit rating adjustment - see page 46 below);
- the approach to calculating a fair value at the reporting date for loans classified as FVTPL and amortised cost (including a 2-notch credit rating adjustment - see page 46 below).

The Company's approach to these judgements is described in more detail below:

Identifying significant increases in credit risk (Stage 2)

The identification of significant increases in credit risk for the innovation loans is expected to be the most judgemental element of the staging criteria. Management monitors the Company's loans to determine whether there have been changes in credit risk. Indicators of a significant increase in credit risk are:

- Objective criteria - loan payments being more that 30 days past due but less than 90 days past due and/or the risk banding has shifted by more than three notches from when assessed at loan origination e.g., BBB down to BB;
- Judgemental criterion - the Credit Committee can determine that a loan is Stage 2 using a watchlist approach to identify that the borrower is experiencing difficulties which may threaten their ability to fulfil their credit obligations. This includes covenant breaches, slowdowns in business activities, or if a project is significantly off track or indicates adverse trends in operations that signal a potential weakness in the financial strength of the borrower.

Identifying credit impaired loans and the definition of default (Stage 3)

The identification of credit impaired loans and the definition of default is another important judgement within the IFRS 9 staging approach. A loan is credit impaired when the arrears status has increased to 90 days past due or there are other indications that the borrower is unlikely to pay such as signs of financial difficulty, probable bankruptcy, breaches of contract and concession events that have a detrimental impact on the present value of future cashflows; or that the loan is otherwise considered to be in default.

Use of forward-looking economic information

Forward looking information is incorporated into provisions as an input to the calculation of ECL and as a factor in assessing the staging of a loan. Expectations of future economic conditions are included through the modelling of multiple economic scenarios (MES).

The use of MES ensures that the calculation of ECL captures a range of possible outcomes. This includes the risk of non-linearity in the relationship between credit losses and economic conditions, with provisions increasing

more in unfavourable conditions (particularly severe downturns) than they reduce in favourable economic conditions.

The Company has adopted three economic scenarios, a baseline scenario, an upside scenario and a downside scenario which includes consideration of a downturn cliff edge to take account of potential non-linearities. The projection period for forecasting used is 2024 to 2028.

The baseline scenario is expected to be the more likely economic outturn compared to the other scenarios run. As part of the implementation of the Moody's Impairment Studio model during the year the macroeconomic assumptions were changed from being based on Moody's Analytics eurozone macroeconomic outlook baseline and alternative scenarios to Moody's Analytics UK forecasts as a more appropriate measure. The baseline scenario was assigned a probability weighting of 40% as at 31 March 2024 with the upside and downside scenarios having each been assigned 30% probabilities (there have been no changes in probabilities assigned during the year).

The key macroeconomic assumptions that are built into the Moody's Analytics UK outlook in the model are:

Economic variables (average %)

31 March 2024	**Baseline scenario**	**Upside scenario**	**Downside scenario**
GDP growth	**1.07%**	**1.83%**	**0.17%**
Unemployment	**4.64%**	**4.04%**	**6.70%**
10 year Government Bond Yield	**3.82%**	**3.89%**	**2.52%**

Economic variables (average %)

31 March 2023	Baseline scenario	Upside scenario	Downside scenario
GDP growth	0.97%	1.43%	-0.04%
Unemployment	4.41%	3.81%	6.47%
10 year Government Bond Yield	3.17%	3.23%	1.83%

The sensitivity of the amortised cost ECLs included in the primary financial statements to MES showing the impact of 100% weightings to the ECL provision for amortised cost innovation loans in the Statement of Financial Position (SOFP) is illustrated in the following table:

Sensitivity impact of multiple economic scenarios (SOFP)

31 March 2024	**Baseline scenario £'000**	**Upside scenario £'000**	**Downside scenario £'000**
ECL loans	**17,606**	**15,179**	**22,232**
Total	**17,606**	**15,179**	**22,232**

Sensitivity impact of multiple economic scenarios (SOFP)

31 March 2023	**Baseline scenario**	**Upside scenario**	**Downside scenario**
	£'000	**£'000**	**£'000**
ECL loans	9,597	8,426	13,628
Total	9,597	8,426	13,628

The ECL for each scenario multiplied by the scenario probability will not necessarily reconcile to the final probability weighted ECL, since the stage allocation of loans can vary in each scenario. In the probability weighted ECL, each loan is allocated to a discrete stage based on the weighted average PD under the economic scenarios.

For amortised cost innovation loans, the judgement of staging is the key assumption in estimating the ECL rather than the PD. The table below shows the sensitivity of provisions in the probability weighted scenario only as a change of 1 credit risk grade variation and transferring all loans to Stage 2 with no other changes to assumptions.

Sensitivity impact of single factor changes (SOFP)

31 March 2024	Probability weighted ECL	1 credit rating grade increase	1 credit rating grade decrease	All loans in Stage 2 or lifetime ECLs (note i)
	£'000	£'000	£'000	£'000
ECL loans	18,266	14,500	22,029	20,939
Total	**18,266**	**14,500**	**22,029**	**20,939**

Note:

i. Includes innovation loans assessed at the year end, as a Stage 3 credit impaired loan, at a lifetime Stage 3 ECL provision rather than a Stage 2 ECL provision.

Sensitivity impact of single factor changes (SOFP)

31 March 2023	Probability weighted ECL	1 credit rating grade increase	1 credit rating grade decrease	All loans in Stage 2
	£'000	£'000	£'000	£'000
ECL loans	10,455	8,815	12,745	13,572
Total	10.455	8,815	12,745	13,572

The impact of the sensitivity of moving credit rating grades up or down on the ECL provision is not linear. This is because the relationship between credit losses for a single company and the macro-economic variables are also non-linear. In this approach, forward looking credit rating grades (and the PDs that derived for different economic scenarios) are grouped in buckets and the impact of the one credit rating grade shift will have a different effect on the ECLs of individual loans. This will depend on whether or not this shift will result in the forward-looking PD of the individual loans moving into the next bucket.

Application of weighting of ECL models for sensitivity of systemic risk factors

Systemic risk is the risk attached to the economy or the business sector a borrower operates in, rather than the borrower's specific credit risk. Moody's standard modelling methodology is to assign lower risk weightings (R squared correlations) to PDs for smaller companies. Larger companies are expected to be more highly exposed to macroeconomic conditions. However, a critical accounting judgement has been made that non-commercial terms innovation loans have higher systemic risks than standard commercial terms small businesses which would include more mature, profitable enterprises. This is because innovation borrowers are generally micro-companies /start-ups focused on innovative business ideas that are highly exposed to successfully finding new markets and therefore, would be very vulnerable to downturns in the economy and supply chain problems, with less likelihood of diversification and reserves to fall back on. The sensitivity of this judgement is that balance sheet ECL provision of £18,266 thousand (31 March 2023 £10,455 thousand) would reduce by £880 thousand (31 March 2023 £578 thousand) to £17,386 thousand (31 March 2023 £9,977 thousand) if a low systemic risk weighting was applied.

Fair value at origination of innovation loans including discount rate

A critical accounting judgement required is the adjustment for the credit rating of a borrower to calculate a fair value of an innovation loan at origination which is also used for the discount rate. Innovation loans are offered at below market-rates, which is independent of the credit quality of the borrower.

For loans originated up to 31 March 2023, a proxy for an arm's length commercial interest rate was estimated using EU risk finance guidelines and reference rate, The proxy rate was used due to a lack of historic information on loan performance for innovation lending. For loans originated from 1 April 2023 onwards, as a result of the Board commissioned an independent expert report to advise on setting a market-based approach to set commercial interest rates. The new approach adopted this financial year, applies to new loan originations, is consistent with the principles of UK subsidy control guidance. Both approaches incorporate a management decision to adjust for the level and nature of collateral and for potential subordination to other senior lenders and takes account of an individual borrower's credit rating. In the new approach a subjective management adjustment for 2-notches to the internal credit risk score is made to the market-based interest rate.

A cashflow projection is calculated for each loan over its life tracking drawdowns, contracted capital and interest repayments discounted back at the commercial interest rate calculated at the origination of the loan in order to estimate a fair value. The sensitivity of this fair value calculation is disclosed in Note 19: fair values of financial assets and liabilities measured at amortised cost. This commercial interest rate is also used for discounting ECL provisions.

The fair value of innovation loans is calculated using a credit adjusted interest rate used to calculate an arm's length commercial interest rate. Where the credit risk adjusted interest rate is below the contractual rate, the contractual rate has been applied. In such cases, mainly in Competitions 6 onwards and the ICLs cohorts, no day 1 FV adjustments have been made. This approach has been taken on the basis that the contractual interest rate is a market rate and recognising a gain over time through the use of the higher contractual rates better reflects the anticipated timing of economic benefits due to IUKL.

Fair value at reporting date for loans classified as FVTPL and amortised cost

The approach used to calculate the FV at origination of innovation loans including discount rates, and for measuring the FV of amortised cost loans for disclosure purposes, is refreshed for the recalculation of the FVs of loans classified as FVTPL and amortised cost at the reporting date. The assumptions for estimating the arm's length commercial interest rate taking account of an individual borrower's credit rating using a market-based approach to set commercial interest rates with a subjective management adjustment for 2-notches to the internal credit score which is made to the market-based interest rate. The new approach adopted this financial year is consistent with the principles of UK subsidy control guidance. The approach incorporates adjustments for the level and nature of collateral and for potential subordination to other senior lenders and takes account of an individual borrower's credit rating.

4. GRANT INCOME

	2024	2023
	£'000	£'000
Grant income received from DSIT via UKRI	**486**	-
Grant income received from DASA	**13**	12
Grant income	**499**	12

From 2022/23 contractual interest received from innovation loans has been used to fund administration expenses with the exception of contractual interest received from the Future Economy programme which will be surrendered to the Consolidated Fund after the yearend (see Note 9). Grant income to cover the shortfall pf operating costs for lending activities is receivable from DSIT via UKRI and is non repayable. In addition, the Company receives grant income from DASA towards operational costs for running the joint initiative for defence innovation loans with DASA/MOD.

5. WRITE DOWN OF REPAYABLE CAPITAL GRANT RECEIVED

	2024 £'000	2023 £'000
Write down of capital grant received	**22,558**	9,824

On the expiry of the capital grant funding from DSIT via UKRI, the Company will repay the amount of cash held in its bank accounts representing capital repaid from innovation loans. The repayable capital grant will be reduced by any unrecovered amounts from the beneficiaries of the innovation loans. The write down of repayable capital grant represents the reduction in the liability for write-offs and impairment losses incurred on the amortised cost innovation loans in the financial year as well as the reduction or increase in the liability for the fair value adjustment on the innovation loans on initial recognition of amortised cost with the subsequent amortisation of this adjustment and the FV movements of FVTPL innovation loans to the reporting date. The write down of the repayable capital grant is not adjusted for provisions on irrevocable commitments as the liability is not funded by the repayable capital grant until the commitment is extinguished by a loan advance.

6. INTEREST RECEIVABLE AND NET FAIR VALUE GAIN ON FVTPL LOANS

	2024 £'000	2023 £'000
Amortised cost commercial interest (EIR method)	**5,572**	4,358
Other interest:		
FVTPL contractual interest received	**2,697**	2,560
Bank interest	**57**	17
Interest receivable	**8,326**	6,935

Commercial interest is calculated using the effective interest rate income from innovation loans held at amortised cost. The Innovate UK Loans scheme is designed to stimulate innovation in order to drive productivity and growth in the UK economy. Hence innovation loans are offered at a below market-rate. Therefore, in order to calculate a fair value of the loans at recognition, an adjustment is made for an arm's length commercial interest rate. Over the life of a loan the commercial interest rate less the fair value adjustment on initial recognition will net back to the contractual rate of interest (i.e., the below market interest rate).

	2024 £'000	2023 £'000
Net fair value gain on FVTPL loans	**-**	-

Net fair value gain on FVTPL loans is a £Nil gain in the current financial year for the period to the 31 March 2024 reporting date (2023: £Nil thousand) excluding FVTPL contractual interest received. See Note 8.2 for details of a net FV loss for the current financial year.

7. EMPLOYEES AND DIRECTORS

There were no employees of the Company during the financial year to 31 March 2024 and it does not incur any expenses in respect of the services of its directors. No directors receive remuneration from the Company for their services as directors of the Company. These directors are remunerated for their other responsibilities through the Innovate UK Council within UK Research and Innovation.

8. ADMINISTRATIVE EXPENSES AND OTHER EXPENDITURE

Note 8.1 Administrative expenses

The loss before corporation tax is stated after charging the following administrative expenses:

	2024 £'000	2023 £'000
Recharged staff costs	**2,752**	1,995
Recharged business development costs	**396**	-
Auditor remuneration	**170**	126
Other professional fees	**1,978**	1,935
Marketing & media	**-**	52
Travel	**71**	52
External training	**69**	4
Other IT costs	**-**	198
Total	**5,436**	4,362

No remuneration was paid to the external auditors in respect of non-audit work in 2023/24 £nil (2022/23 £nil). Audit fees disclosed in the table above include VAT. The amount receivable by the auditor in 2023/24 is £142 thousand plus VAT (2022/23: £105 thousand plus VAT). Recharged business development costs have been charged by Knowledge Transfer Network Limited, trading as Innovate UK Business Connect, a subsidiary of UKRI for the promotion events and networks to develop the demand for IUKL loan products.

Note 8.2 Other expenditure

	2024 £'000	2023 £'000
Net fair value loss on FVTPL loans	**12,371**	7,713

Other expenditure is a £12,371 thousand FV loss on FVTPL loans for the period to 31 March 2024 reporting date (2023: £7,713) excluding FVTPL contractual interest received. FVTPL commercial interest accrued is disclosed as part of the fair value gain (see Note 6) or loss calculation. FVTPL contractual interest received is treated as part of interest receivable (see Note 6).

9. SURRENDER OF RECEIPTS TO CONSOLIDATED FUND

	2024 £'000	2023 £'000
Surrender of receipts to Consolidated Fund	**463**	676

The surrender of receipts to consolidated fund is the surplus of contractual interest received over the financial framework agreement between the Shareholder (UKRI), the sponsor (DSIT) and HMT to finance IUKL's activities. This financial obligation from the issuance of the financial framework started from 1 April 2022. The surrender of receipts to the Consolidated Fund is accrued as at 31 March 2024 and will be refunded via UKRI after the year end.

10. TAX ON LOSS ON ORDINARY ACTIVITIES

Tax credit in the Statement of Profit or Loss and Other Comprehensive Income	2024	2023
	£'000	£'000
Current tax:		
Group relief receivable	**(331)**	(62)
Tax charge	**-**	-
Tax credit for the year	**(331)**	(62)

The credit for the year can be reconciled to the loss per the Statement of Profit or Loss and Other Comprehensive Income as follows:

	2024 £'000	2023 £'000
Loss for the period - continuing activities	**(1,325)**	(325)
Tax credit on loss at standard UK tax rate of 25% (2023:19%)	**(331)**	(62)
Tax credit for the year	**(331)**	(62)

Factors that may affect future tax changes

Legislation has been passed to maintain the rate of corporation tax at 25% for profits over £250 thousand and small profits and taper rate for profits under that figure has been set with effect from 1 April 2023 (2022/23 19%).

11. IMPAIRMENT LOSSES ON INNOVATION LOANS

The following table sets out impairment losses charged to the Statement of Profit or Loss and Other Comprehensive Income which is deducted from the amortised cost innovation loan balance in the Statement of Financial Position. Loans that are classified as FVTPL are out of scope of the IFRS 9 impairment requirements – see additional information in the Supplementary information for the Credit Risk Report on page 25.

Impairment losses	2024 £'000	2023 £'000
Total innovation loans	**9,651**	3,235

12. INNOVATION LOANS

2024	Gross balances (note i, ii) £'000	Provisions (note iii) £'000	Total £'000
Amortised cost	**93,013**	**(18,266)**	**74,747**
FVTPL	**47,692**	**-**	**47,692**
At 31 March	**140,705**	**(18,266)**	**122,439**

Additional information on the breakdown of amortised cost ECL provisions is contained in the Credit Risk Report on pages 16 to 24.

2023	Gross balances (note i, ii) £'000	Provisions £'000	Total £'000
Amortised cost	77,428	(10,455)	66,973
FVTPL	62,717	-	62,717
At 31 March	140,145	(10,455)	129,690

Note:

i. Innovation loans held at amortised cost include a reduction of the value at loan origination for the below market rates of interest that are charged which do not reflect the credit risk of the borrower. The cumulative contractual value of the loans advanced up to 31 March 2024 was £94,461 thousand (31 March 2023: £78,478 thousand) adjusted for redemptions and capital repaid and the cumulative fair value adjustment on initial recognition totalled £9,207 thousand (31 March 2023 £6,195 thousand). FVTPL loans of £67,097 thousand were advanced up to 31 March 2024 (31 March 2023: £69,750 thousand) with a cumulative fair value adjustment of £19,405 thousand (31 March 2023: £7,033 thousand). The outstanding gross amortised cost loan balances disclosed in the above table and held on the Statement of Financial Position also includes the impact of commercial interest earned less contractual interest received.

ii. The innovation loan balance includes £653 thousand of loans that have been recognised on the Statement of Financial Position when the Company has become a party to the contractual provisions of the loan by 31 March 2024 (31 March 2023: £962 thousand) by instructing the Company's third-party administration company GC Business Finance to advance the loans as the performance of the contract is required. In these cases, the borrowers have not received funds until just after the yearend. This balance is all for loans held at amortised cost (31 March 2023: all loans held at amortised cost). The Company's cash and cash equivalent holdings have been reduced by an equivalent amount.

iii. The difference between cumulative Statement of Financial Position provisions of £18,266 thousand at 31 March 2024 and provisions at £10,455 thousand at 31 March 2023 is £9,651 thousand impairment losses on innovations charged to the Statement of Profit and Loss and Other Comprehensive Income in 2023/24 less write offs of amortised cost loans in 2023/24 of £1,840 thousand (2022/23 £841 thousand) that were provided in previous accounting periods.

Maturity analysis

The following table shows the residual maturity of the innovation loans, based on their contractual maturity:

Residual maturity of innovation loans	**2024 £'000**	2023 £'000
Repayable:		
In not more than three months	**4,921**	2,784
In more than three months but not more than one year	**19,883**	7,157
In more than one year but not more than five years	**111,941**	124,282
In more than five years	**3,960**	5,922
Impairment provisions	**(18,266)**	(10,455)
At 31 March	**122,439**	129,690

The maturity analysis is produced on the basis that each repayment instalment is treated as a separate repayment up to contractual maturity. No redemption level estimation is built into the analysis. There are no arrears to be taken into account which would have been spread across the remaining term of the loan.

Reconciliation of movements in gross balances and impairment provisions

The table below summarises the movements in gross loans held at amortised cost, including the impact of ECL provisions and excluding the fair value adjustment for non-commercial terms interest. The lines within the tables are an aggregation of the movements over the year.

	Non-credit impaired				Credit impaired			
	Subject to 12 months ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Total Gross balances	Total Provisions
31 March 2024	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 April 2023	62,116	(2,576)	9,795	(2,362)	5,517	(5,517)	77,428	(10,455)
Stage transfers:								
Transfers from Stage 1 to Stage 2	**(18,440)**	**623**	**18,440**	**(623)**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**-**	**-**	**(5,316)**	**1,129**	**5,316**	**(1,129)**	**-**	**-**
Transfers from Stage 2 to Stage 1	**1,064**	**(221)**	**(1,064)**	**221**	**-**	**-**	**-**	**-**
Transfers from Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage		**-**		**(4,387)**		**(4,187)**		**(8,574)**
Net movement arising from transfer of stage (note i)	**(17,376)**	**402**	**12,060**	**(3,660)**	**5,316**	**(5,316)**	**-**	**(8,574)**
Net assets originated (note ii)	**22,667**	**(999)**	**-**	**-**	**-**	**-**	**22,667**	**(999)**
Other items impacting the SOFP (note iii)	**(284)**	**-**	**(113)**	**-**	**(2)**	**2**	**(399)**	**2**
Repayments and changes in risk parameters (note iv)	**(3,704)**	**105**	**(73)**	**-**	**240**	**(240)**	**(3,537)**	**(135)**
Redemptions (note v)	**(1,306)**	**55**	**-**	**-**	**-**	**-**	**(1,306)**	**55**
Profit or loss charge for 2023/24								**(9,651)**
Decrease due to write offs	**-**	**-**	**-**	**-**	**(1,840)**	**1,840**	**(1,840)**	**1,840**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
31 March 2024	**62,113**	**(3,013)**	**21,669**	**(6,022)**	**9,231**	**(9,231)**	**93,013**	**(18,266)**
Net carrying amount		**59,100**		**15,647**		**-**		**74,747**

Notes:

i) The remeasurement of provisions arising from a change in stage is reported within the stage to which assets are transferred.

ii) Net assets originated include the fair value adjustment on original recognition. If a new loan is recognised in the month, the value is included in the closing gross balance and provisions for the month. New advances are normally included in Stage 1, except for advances on existing commitments on loans that that were originated in Stage 1 which have been subsequently transferred to Stage 2.

iii) Other items impacting the SOFP include the addition of commercial interest calculated on an arm's length commercial interest rate.

iv) This line comprises contractual interest received. This line includes capital repayments where the asset is not derecognised, changes in risk parameters, and changes to modelling inputs and methodology.

v) For any asset that is derecognised in the month, the value disclosed is the provision at the start of that month.

	Non-credit impaired				Credit impaired			
	Subject to 12 months ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3			
31 March 2023	Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000	Total Gross balances £'000	Total Provisions £'000
At 1 April 2022	54,080	(2,390)	6,681	(1,881)	3,790	(3,790)	64,551	(8,061)
Stage transfers:								
Transfers from Stage 1 to Stage 2	(6,084)	374	6,084	(374)	-	-	-	-
Transfers to Stage 3	-	-	(2,942)	705	2,942	(705)	-	-
Transfers from Stage 2 to Stage 1	-	-	-	-	-	-	-	-
Transfers from Stage 3	-	-	-	-	-	-	-	-
Net remeasurement of ECL arising from transfer of stage		-		(795)		(2,237)		(3,032)
Net movement arising from transfer of stage (note i)	(6,084)	374	3,142	(464)	2,942	(2,942)	-	(3,032)
Net assets originated (note ii)	17,459	(771)	120	(17)	-	-	17,579	(788)
Other items impacting the SOFP (note iii)	1,132	-	(11)	-	2	(2)	1,123	(2)
Repayments and changes in risk parameters (note iv)	(2,023)	97	(137)	-	(376)	376	(2,536)	473
Redemptions (note v)	(2,448)	114	-	-	-	-	(2,448)	114
Profit or loss charge for 2022/23								(3,235)
Decrease due to write offs	-	-	-	-	(841)	841	(841)	841
Other provision movements	-	-	-	-	-	-	-	-
31 March 2023	62,116	(2,576)	9,795	(2,362)	5,517	(5,517)	77,428	(10,455)
Net carrying amount		59,540		7,433		-		66,973

Notes:

i) The remeasurement of provisions arising from a change in stage is reported within the stage to which assets are transferred.

ii) Net assets originated include the fair value adjustment on original recognition. If a new loan is recognised in the month, the value is included in the closing gross balance and provisions for the month. New advances are normally included in Stage 1, except for advances on existing commitments on loans that that were originated in Stage 1 which have been subsequently transferred to Stage 2.

iii) Other items impacting the SOFP include the addition of commercial interest calculated on an arm's length commercial interest rate.

iv) This line comprises contractual interest received. This line includes capital repayments where the asset is not derecognised, changes in risk parameters, and changes to modelling inputs and methodology.

v) For any asset that is derecognised in the month, the value disclosed is the provision at the start of that month.

13. EQUITY INVESTMENT

The Company converted its innovation loan with Brilliant Planet Limited to a preferred fixed rate A Share on 31 January 2024 with an investment value according to the transaction terms sheet of £588 thousand. The loan advanced at that date was £588 thousand however, at the date of conversion the Statement of Financial Position carrying value was £Nil as an ECL provision of £451 thousand and an unamortised fair value write down at origination of £137 thousand had been previously recorded. Therefore, the innovation loan was derecognised at a £ Nil value and the equity investment was recognised at a £Nil value. This equity investment was fair valued at the 31 March 2024 reporting date at £Nil. The subscription price of this investment was £1.

Cost or valuation	2024 £'000
At 1 April 2023	-
Additions	-
Disposals	(-)
Revaluations	(-)
At 31 March 2024	-

14. CASH AND CASH EQUIVALENTS

Bank accounts	2024 £'000	2023 £'000
Bank account	**1,682**	3,148
Bank accounts operated by third party loan administrators	**6,899**	795
At 31 March	**8,581**	3,943

The bank accounts operated by the third-party loan administrators include £4,075 thousand held at 31 March 2024 on behalf of the Company by GC Business Finance, the trading name of The Enterprise Fund Limited, which is ring fenced for the use of managing the Company's innovation loan portfolio. In addition, £2,824 thousand was held in an account managed by Soar Tech Ltd, a loan banking platform, on behalf of the Company. The Company retains control and ownership of the funds held in these accounts and there are no restrictions on these funds.

15. DEBTORS AND PREPAYMENTS

	2024 £'000	2023 £'000
Group tax relief debtor	**331**	62
Debtor	**14**	12
Prepayments	**133**	104
At 31 March	**478**	178

16. TRADE AND OTHER PAYABLES

	2024 £'000	2023 £'000
Trade creditors	**299**	526
Intra group refund of expenses	**5,191**	4,238
Surrender of receipts to Consolidated Fund	**463**	676
At 31 March	**5,953**	5,440

The intra group refund of expenses is the amount owed to the UKRI Group to repay expenses paid on its behalf. The balance of £5,191 thousand for the current year is treated as a current liability, akin to capital funding, which will be transferred to non-current liabilities (repayable capital grant see accounting policies and Note 19 fair value of assets and liabilities measured at amortised cost) in 2024/25 following the approval of these financial statements (31 March 2023 £4,238 thousand). This transaction offsets the contractual interest receipts used to temporarily fund loan drawdowns during the year. The surrender of receipts to Consolidated Fund is the excess of contractual interest received over operating costs (see Note 9 above).

17. PROVISIONS FOR LIABILITIES AND CHARGES

Irrevocable commitments	**2024 £'000**	2023 £'000
At 1 April	**911**	588
Provisions utilised	**-**	-
Charge for the period	**2,144**	878
Release for the period	**(506)**	(555)
Net Statement of Profit or Loss charge/(credit)	**1,638**	323
At 31 March	**2,549**	911

Provisions on irrevocable innovation loan commitments are recognised in the Statement of Profit or Loss and Other Comprehensive Income before the related loan is advanced and recognised in the Statement of Financial Position as a provision for liabilities and charges.

IFRS 9 requires provisions on irrevocable commitments for loans below market rate loans classified as amortised cost to be at the higher of the estimated fair value decrease that will be written down when the loan is advanced or the ECL calculated on a probability weighted basis. The fair value calculation is made on the same basis as the calculation for loan advances. The fair value calculation for provisions on irrevocable commitments has been impacted by the use of a market-based approach to set commercial interest rates as discussed in Note 2 change of accounting estimate. Therefore, this year a higher proportion of provisions have been calculated using a fair value estimate than an ECL calculation.

Release for the period amounts are provisions on irrevocable commitments which have been replaced by provisions on loans at the point that the irrevocable commitment is superseded by the payment of a loan to the borrower. Provisions on loan advances are netted off against gross loans.

18. RISK MANAGEMENT AND CONTROL

Credit Risk

Credit risk is the risk of a customer or a counterparty failing to meet their financial obligations. Credit risk also encompasses refinance risk and concentration risk. Refinance risk is the risk of loss arising when a repayment of a loan occurs later than originally anticipated. Concentration risk is the risk of loss arising from insufficient diversification of the lending portfolio. A separate Credit Risk Report is disclosed in pages 16 to 24 in this set of financial statements.

Liquidity and funding risk

The Company has minimal liquidity and funding risk provided that the Company's parent UKRI, continues to fund the Company's activities in accordance with its current funding arrangements. This includes funding via UKRI from DSIT for capital funding of innovation loan advances. Assurance as to the continuance of these arrangements forms part of the going concern basis in preparing the financial statements.

The UKRI Group manages its liquidity and funding risks within a comprehensive risk framework which includes its policy, strategy, limit setting and monitoring, stress testing and robust governance controls. This ensures that there is no significant risk that liabilities cannot be met as they fall due.

Residual maturity of financial assets and liabilities

The table below analyses the carrying value of financial assets and financial liabilities into relevant maturity groupings based on contractual maturity date (residual maturity).

Residual maturity	**Due less than one month**	**Due between one and three months**	**Due between three and twelve months**	**Due between one and five years**	**Due after more than five years**	**Total**
31 March 2024	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets						
Cash	**8,581**	**-**	**-**	**-**	**-**	**8,581**
Innovation loans	**1,106**	**3,815**	**19,883**	**111,941**	**3,960**	**140,705**
Financial liabilities						
Repayable capital grant	**-**	**-**	**-**	**-**	**(124,943)**	**(124,943)**
Net funding difference	**9,687**	**3,815**	**19,883**	**111,941**	**(120,983)**	**24,343**

Residual maturity	Due less than one month	Due between one and three months	Due between three and twelve months	Due between one and five years	Due after more than five years	Total
31 March 2023	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets						
Cash	3,943	-	-	-	-	3,943
Innovation loans	-	2,784	7,157	124,282	5,922	140,145
Financial liabilities						
Repayable capital grant	-	-	-	-	(128,413)	(128,413)
Net funding difference	3,943	2,784	7,157	124,282	(122,491)	15,675

The Innovation loans have been written down to fair values at initial recognition whilst the repayable capital grant from DSIT via UKRI is written down for amounts that the Company believes will not be recoverable from borrowers. Any net liquidity difference from innovation loan lending activities that is realised over the life of the loan will be funded by the write off of capital funding. Drawdowns for current irrevocable commitments will be funded by future drawdowns from repayable capital grant funding from DSIT via UKRI so have been excluded from the above table.

Interest rate risk

The Company is not exposed to interest rate risk (the mismatch of a change of loan interest receipts to the cost of funding) owing to the fact that all of its lending and financing activity is not subject to market rates of interest. The cohort of borrowers in Competitions 1 to 5 innovation loans are charged a fixed rate of interest of 3.7%. The cohorts of borrowers in Competitions 6 to 8, Women in Innovation, Future Economy, ICL and DASA loans are charged a fixed interest of 7.4%. The Company is funded for innovation loan lending by DSIT via UKRI without being charged interest. Hence the Company does not have any material interest rate risk exposure and does not hold any derivatives to hedge interest rate risk.

Repayment Risk

The Company is not exposed to a repayment risk as a result of the capital funding from DSIT via UKRI. If a borrower fails to repay on time, the Company will retain this funding until there is a subsequent repayment or restructuring of the underlying funding. The repayable capital grant from DSIT via UKRI is written down for amounts that the Company believes will not be recoverable from borrowers.

19. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT AMORTISED COST

The following table summarises the carrying value and the fair value of financial assets and liabilities measured at amortised cost on the Company's Statement of Financial Position.

	2024 Net carrying value	**Fair value**	2023 Net carrying value	Fair value
At 31 March	**£'000**	**£'000**	£'000	£'000
Financial assets				
Cash and cash equivalents (note i)	**8,581**	**8,581**	3,943	3,943
Amortised cost Innovation loans	**74,747**	**75,417**	66,973	67,896
Total	**83,328**	**83,998**	70,916	71,839
Financial liabilities				
Repayable capital grant	**124,943**	**124,943**	128,413	128,413
Total	**124,943**	**124,943**	128,413	128,413

Note:
i) The fair value of cash and capital grant funding from DSIT via UKRI is the carrying value. The innovation loan balance is before ECL provisions.

The information set out above provides information about how the Company determines the fair values of various financial assets and financial liabilities. Fair value is the price that would be received on sale of an asset or transfer of a liability in an orderly transaction between market participants, regardless of whether that price is directly observable or estimated using another valuation technique.

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 are described as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets;
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Innovation loans are financial assets with a rate of interest which is a below market rate (non-commercial terms) that does not reflect the credit risk of the borrower. Loans are recognised when the Company becomes a party to the contractual provisions of the instrument and is initially recognised at fair value.

The Company has developed a future expected cash flow calculation. This approach is not based on a valuation technique that uses only data from observable markets, so the innovation loans are classified as Level 3 assets.

The future expected cash flows derived from the calculator are discounted using an appropriate discount rate which has been calculated using a credit risk adjusted interest rate. This credit adjusted interest rate used to calculate an arm's length commercial interest rate is based on a market-based approach to set commercial interest rates. The new approach adopted this financial year is consistent with the principles of UK subsidy control guidance. Further details are contained in Notes 2 (page 36) and 3 (page 46).

The fair value of the funding from DSIT via UKRI is equivalent to its nominal value because the funding has no maturity date and may become repayable on demand, in whole or in part, under certain circumstances.

Level 3 sensitivity analysis of valuations using unobservable inputs

An unobservable input is deemed to be significant if it is shown to contribute more than 10% to the valuation of a financial instrument. A 1% increase in the commercial interest rate for the amortised cost innovation loan advances could lead to approximately a £1,410 thousand decrease (2023: £1,290 thousand decrease) in the gross carrying value of loans at 31 March 2024 (see Note 12 before provisions) from £93,013 thousand to £91,603 thousand (2023 £77,428 thousand to £76,138 thousand).

In practice, the fair value adjustment on initial recognition for innovation loans is fixed at origination. Therefore, for loans already advanced, the loans are carried in the Statement of Financial Position at amortised cost and the commercial interest rate is not subject to further volatility. Commercial interest rates are reassessed at each reporting date for the purposes of determining current fair value for disclosure in this note.

Change of accounting estimate

The change of accounting estimate as reported in Note 2 has had the impact of decreasing the fair value of amortised cost by the change of assumptions based on EU risk finance guidelines to a market-based approach to set commercial interest rates of £983 thousand to £66,382 thousand.

20. FAIR VALUES OF FINANCIAL ASSETS MEASURED AT FVTPL – LEVEL 3

The table below summarises the movements in gross FVTPL innovation loans (the ICL cohort and one convertible loan note) which are outside the scope of IFRS 9 ECL impairment requirements.

FVTPL Loans	**2024 £'000**	2023 £'000
At 1 April	**62,717**	70,437
Net assets originated	**-**	2,114
Net assets repaid including redemptions	**(2,654)**	(2,121)
Net assets written off	**(2,400)**	(530)
FV adjustment on origination	**-**	(41)
FV adjustment on assets written off	**2,400**	530
Subsequent FV movement	**(12,371)**	(7,672)
Total change in FV	**(9,971)**	(7,183)
At 31 March	**47,692**	62,717

As described in Note 18 above Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets that are not based on observable market data (unobservable inputs). All FVTPL innovation loans apply Level 3 valuation techniques and there have been no transfers to or from Levels 1 and 2 to Level 3 during the current or previous financial years.

Level 3 sensitivity analysis of valuations using unobservable inputs

An unobservable input is deemed to be significant if it is shown to contribute more than 10% to the valuation of a financial instrument. A 1% increase in the commercial interest rate for FVTPL loans this could lead to a £837 thousand decrease (2023: £1,355 thousand decrease) in the gross carrying value of loans at 31 March 2024 from £47,692 thousand to £46,855 thousand (2023 £62,717 thousand to £61,362 thousand).

Change of accounting estimate

The change of accounting estimate as reported in Note 2 has had the impact of decreasing the fair value of amortised cost by the change of assumptions based on EU risk finance guidelines to a market-based approach to set commercial interest rates of £1,674 thousand to £47,692 thousand.

21. CONTINGENT LIABILITIES

At 31 March 2024, there were no contingent liabilities.

22. SHARE CAPITAL

	2024	2023
	£	£
Authorised, issued and fully paid share of £1 nominal value	1	1

The Company has one class of ordinary shares which carry no right to fixed income.

23. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The shares in Innovate UK Loans are owned by UK Research and Innovation (UKRI), a non-departmental public body funded by a grant-in-aid from the UK Government via DSIT. The directors regard UKRI as the Company's ultimate parent. The financial statements of UKRI are available from UK Research and Innovation, Polaris House, North Star Avenue, Swindon, SN2 1ET.

UKRI is a non-departmental public body funded by grant-in aid from the UK Government by sponsorship from DSIT. UKRI describe DSIT as their controlling body in their Annual Report and Accounts for 2023/24.

24. RELATED PARTIES

The Company's ultimate parent is UKRI. UKRI is also the ultimate parent of STFC Innovations Limited (SIL). SIL has an equity investment in the following companies to which the Company has also advanced an innovation loan:

Entity	**SIL's equity holding**	**IUKL loan advanced**	**IUKL loan commitment**
31 March 2024	**%**	**£'000**	**£'000**
The Electrospinning Company Limited	**16.7**	**715**	**-**
Keit Limited	**10.8**	**954**	**-**

Entity	SIL's equity holding	IUKL loan advanced	IUKL loan commitment
31 March 2023	%	£'000	£'000
The Electrospinning Company Limited	16.7	715	-
Keit Limited	10.3	954	-

25. EVENTS AFTER THE REPORTING PERIOD

Since the end of the financial year, the Company has as at 31 July 2024 advanced a further £7.4 million innovation loans (Future Economy and DASA loans).

On 26 June 2024 the fifteenth round of the Innovation Loans Future Economy Competition was closed following a series of previous rounds in the 2023/24 financial year. These Competitions are designed to select highly innovative late-stage research and development (R&D) projects with the best potential for the future with a scope that focuses on the future economy. The sixteenth competition was opened on 27 June 2024 and closes on 28 August 2024.

GLOSSARY

Term	Definition
Amortised cost	A classification of loans which meets the IFRS 9 business model and SPPI cashflow characteristic tests (see below). The only return for these loans is repayment of capital and interest on capital outstanding.
Expected credit loss (ECL)	The present value of all cash shortfalls over the expected life of the financial instrument. The term is used for the accounting for impairment provisions under the IFRS 9 standard.
ECL – 12 month	Cash shortfalls resulting from default events that are possible in the next 12 months weighted by the probability of that default occurring.
ECL - lifetime	Cash shortfalls resulting from default events that are possible over the remaining expected life of the loan, weighted by the probability of that default occurring.
Exposure at Default (EAD)	The expected outstanding balance of the asset at default, considering the repayment of principal (where a repayment of capital period has begun) and interest from the reporting date to the date of default, together with any expected drawdown of committed facilities.
Fair value through profit and loss (FVTPL)	A classification of loans which does not meet the IFRS 9 business model and SPPI cashflow characteristic tests (see below). There is a potential of return of more than just repayment of capital and interest on capital outstanding.
Innovation continuity loans (ICLs)	ICLs are a type of innovation loans issued in 2020/21 as a response to COVID-19.
Loss given default (LGD)	The proportion of the exposure that is expected to be lost in the event of default, taking account of the impact of collateral (not a material issue for Innovate UK) and its expected value at the point of realisation, as well as recoveries and other means of loss mitigation. Security is taken over intellectual property or assets purchased with the loans, alongside a debenture, which may sit subordinate to other senior secured lenders, subject to an agreed deed of priority being entered into. The Company does not seek charges over bricks and mortar assets owned or leased by the borrower; neither is any form of personal guarantee taken, whether supported or unsupported, from individuals.
Non-linearity	Non-linearity in the relationship between ECLs and economic conditions occurs when a change to an economic assumption or scenario has a greater effect on the level of credit losses, when compared to an equivalent change in the assumption or scenario in the opposite direction.
Probability of default (PD)	The probability of a default event occurring, based on conditions existing at the reporting date and future economic conditions that affect credit risk. Probability of default has been determined based on the unlikeliness to pay indicators, plus backstop criteria based upon a measure of days past due. The lifetime PD forms part of the IFRS 9 stage assessment as well as the ECL calculation.
Significant increase in credit risk	A significant increase in credit risk on a financial asset is judged to have occurred when an assessment, using quantitative and qualitative factors identifies at a reporting date that the credit risk has moved significantly since the asset was originally recognised.
SPPI test	An assessment of whether the contractual terms of the financial asset give rise to cash flows that are in substance solely payments of principal and interest.

GLOSSARY (continued)

Term	Definition
Stage 1	Stage 1 assets are assets which have not experienced a significant increase in credit risk since the asset was originally recognised on the balance sheet. 12 month ECL are recognised as the impairment provision for all financial assets on initial recognition. Interest revenue is the EIR on the gross carrying amount.
Stage 2	Stage 2 assets have experienced a significant increase in credit risk since initial recognition. Lifetime ECL is recognised as an impairment provision. Interest revenue is the EIR on the gross carrying amount.
Stage 3	Stage 3 assets are identified as in default and considered credit impaired. Lifetime ECL is recognised as an impairment provision. Interest revenue is the EIR on the net carrying amount.