

# Annual Report and Accounts 2017

A year of expansion  
and significant growth

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of the original*

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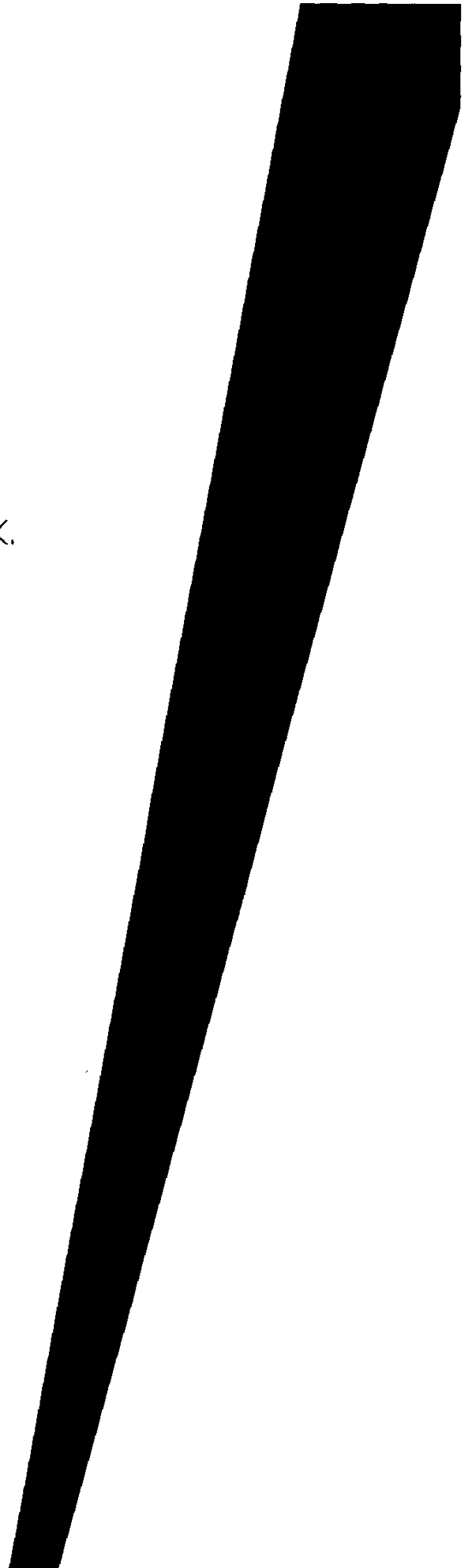


Over the past year, we have broadened and expanded our support for smaller businesses, cementing our place as a key enabler of finance markets in the UK. Our market impact continues to grow, as borne out by strong delivery against our Key Performance Indicators.



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**Keith Morgan**  
Chief Executive Officer



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# Chair's statement

## Scaling and strengthening



**Christina McComb**  
Interim Chair,  
Senior Independent Director

By the start of 2016/17, the British Business Bank had successfully moved from its startup phase to delivery. A year on, the business has substantially scaled up its programmes and broadened its support for smaller businesses across the UK.

We have achieved this progress against a rapidly evolving political and economic background. Thanks to the adaptability designed into our organisation from the outset, the Bank has been able to respond to changes in our environment and the finance markets with flexibility and agility while continuing to deliver for smaller UK businesses and our government shareholder.

This organisational flexibility and our track record in innovation is likely to be increasingly important, as the government negotiates the UK's future relationship with Europe. There have been many suggestions around how our role may change as a result and, while it is too early to be certain of what the future holds, I am confident that the Bank is well placed to support the country's smaller businesses whatever the outcome of negotiations.

### Extending partnerships

Throughout the year, we have continued to develop our partnerships with a broad range of finance providers, fund managers and challenger banks. A key highlight of this year was the successful delivery of the £400m Northern Powerhouse Investment Fund, in partnership with ten Local Enterprise Partnerships across the Northern Powerhouse region. This unique collaboration, described in greater detail later in this report, is a compelling illustration of how we work alongside our partners to deliver finance to smaller businesses where it is most needed.

Addressing regional disparities in finance is a key aim of our shareholder, the Department for Business, Energy and Industrial Strategy.

We continue to act as a trusted advisor on important priorities for the department and the government more widely, such as the new Industrial Strategy, the Patient Capital Review and funding for innovation.

### Start Up Loans Company

The Start Up Loans Company (SULCo) joined the British Business Bank group on 1st April 2017. SULCo has a well established and successful track record providing finance to micro businesses across the UK. This means that, as a group, the Bank is now able to offer support for funding for businesses at all stages of their development – from microfinance to later-stage venture capital.

We were delighted to welcome our SULCo colleagues into our organisation and I am pleased to report that the integration process is making good progress.

### Our people

During 2016/17 our staff numbers have grown from 117 to 167. Such rapid expansion brings a series of challenges, as many of the scale-up businesses we support will know all too well – including a need for communication, changes to ways of doing things and developing more robust systems and procedures.



It is testament to the dedication and commitment of our people throughout the organisation that we have made such meaningful progress this year whilst building and scaling to such a degree.

We are committed to making the Bank a great place to work. The outputs from our most recent annual colleague survey reflect the success of our approach, with 95% of our workforce saying they were proud to work for our organisation. Our people continue to be our most important resource, bringing their expertise, experience and enthusiasm to bear in contributing to our organisational goals.

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### The Board

There have been a number of Board changes this year. Ron Emerson stood down as the British Business Bank's Chair in September 2016, taking with him our thanks for overseeing the setup of the Bank as its first Chair. I have been privileged to fill the role of Interim Chair over the past nine months and I am delighted now to hand over to our new Chair, Lord Smith.

Neeta Atkar was appointed as Non-executive Director and Chair of the Risk Committee in July 2016, taking over from Teresa Graham, who had been fulfilling the latter role on an interim basis.

In April 2017 our shareholder announced the appointment of our new Chair, Lord Smith of Kelvin, to the British Business Bank, and I and the rest of the Board look forward to working together with him in supporting the UK's smaller business community.



**Lord Smith of Kelvin**  
Chair

The purpose of the British Business Bank is to make sure that smaller UK businesses have access to the finance that they need to invest, to grow and to achieve their ambitions. This is a mission I care passionately about and have dedicated a large part of my business career to advancing. The Bank has an already vital and growing role to play in furthering that mission, which is why I am so pleased to be joining as its new Chair.

I join the organisation at a critical time for smaller businesses across the UK and for the British Business Bank itself.

It is obvious to say that our small businesses face a period of change. What is now clear is that the scale of this change is unprecedented in the experience of most of our entrepreneurs. Their ability to weather the challenges and capitalise on the opportunities that this change is bringing will determine the long-term strength of our economy. If smaller businesses are winning, at home and abroad, so too is our society and economy. The converse is also true.

The British Business Bank stands ready to play its part in supporting our smaller businesses to succeed. In a short space of time the Bank has demonstrated an ability to make things better and easier for smaller businesses, though more can and will be done. It has also built a centre of expertise and a business capable of scaling up quickly, taking on new responsibilities and a broader remit should the opportunity arise. I am confident that we will see our organisation grow and expand in the coming years, only and always with the objective of furthering its mission.

My immediate priority, on becoming chair, is to meet with a wide group of smaller businesses and their representatives to gain a better understanding of how the British Business Bank can best make a difference. I am looking forward to working with the Bank's team and our colleagues in Government, including our Minister Margot James. Together, and with our partners, we should make a formidable team, working on behalf of the UK's 5.5m smaller businesses.

# Chief Executive's statement

## A year of expansion and significant growth



**Keith Morgan**  
Chief Executive

Over the past year, we have broadened and expanded our support for smaller businesses, cementing our place as a key enabler of finance markets in the UK. Our market impact continues to grow, as borne out by strong delivery against our Key Performance Indicators.

The British Business Bank was set up to increase the amount and range of finance available to smaller UK businesses. We believe that businesses that need finance – whether to start up, realise their growth ambitions or simply to maintain their success – should be able to find and access the right finance for their needs.

This applies to businesses right across the UK, and across all sectors of the economy. 2016/17 has seen us launch our first regionally-focused fund, introduce new funds dedicated to scaleups in innovative sectors, and flex our existing interventions to support a broader range of finance types.

Our performance this year reflects the growth in our organisation, with a substantial increase in the stock of finance we enable and continued strong delivery against our other objectives.

Against our four Key Performance Indicators we have delivered:

- An increase of 24% in the total stock of finance provided through our programmes
- Further support for diversity in the market, delivering 94% of our support through non-bank lenders, smaller banks, alternative lenders and equity investors

- A broadening of our offer on information about finance options, helping businesses to become more aware of, consider and explore the choices provided by the market
- A 4% adjusted return on capital, exceeding the target set by government.

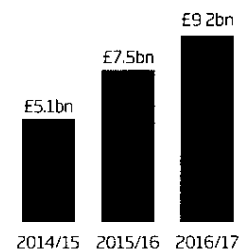
The financial statements for British Business Bank plc show an operating profit of £49.8m. However we made a loss after tax for the year of £12.2m. This loss reflects the fact that, although we expect to receive a positive return on our Enterprise Capital Funds, accounting standards require us to recognise up-front provisions on new commitments in this programme. These are not provisions for bad debt and are expected to unwind over future years.

During the year, we broadened the criteria for our ENABLE Funding programme and Enterprise Finance Guarantee to open them up to providers of a much broader range of finance, as well as introducing an expansion capital initiative under our Investment Programme to support the growth of diverse finance products.

Geographically, we have started to tackle the well-documented lack of finance provision – particularly equity finance – in the regions outside London and South East. We launched our first regionally-focused fund this year – the £400m Northern Powerhouse Investment Fund – in partnership with the region's Local Enterprise Partnerships, and will introduce similar interventions for the Midlands and Cornwall and the Isles of Scilly in 2017/18.



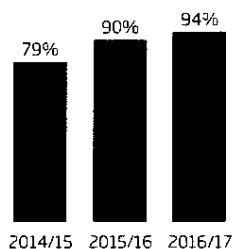
### 1. Increase the supply of finance



**Stock of finance**



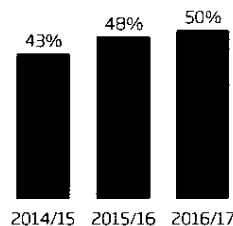
### 2. Help to create a more diverse finance market



**Percentage through non-Big Four banks**



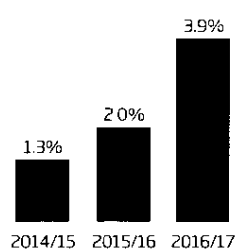
### 3. Promote better information in the market



**Awareness of different forms of finance**



### 4. Achieve this whilst managing taxpayers' money efficiently



**Adjusted return on capital deployed**  
As previously reported

We continue to have a strong relationship with our shareholder, the UK government, being a trusted voice in contributing to its policy formation and a key agent in delivering its agenda. Our evidence base and analysis of the UK finance markets helps us to fulfil these roles, as well as allowing us to flex our programmes to respond to existing and developing gaps in provision.

Our support for new sectors and approaches – such as the space sector, digital technology development hubs and novel startup models – means we are increasingly recognised as a key enabler of innovation in the economy. Crucially, we are continuing to grow our capability to support equity funding. This year, our Enterprise Capital Funds programme, dedicated to early stage venture capital, has built its capacity to close to £1bn and the Autumn Budget 2016 allocated a further £400m to our Venture Capital (VC) Catalyst programme to support later-stage equity.

The Business Finance Guide, which we publish jointly with the Institute of Chartered Accountants in England and Wales (ICAEW) Corporate Finance Faculty and with input from across the finance and business sectors, also underwent a step change this year,

moving from a printed only document to an interactive and content-rich online offering. The importance of this impartial and trusted information source on finance options was reflected in the BEIS Select Committee's Access to Finance Report in October 2016. We will build our information offer to businesses in the coming year.

2016/17 has been a year of expansion and growth for the British Business Bank group and this continues into the new year with the inclusion of the Start Up Loans Company. We now have a genuine capability to deliver support to smaller businesses at all stages.

There have been many suggestions about how our role may change as we enter negotiations to exit the European Union. While it is too early to be certain of what the future holds, I am confident that the Bank is working to build an organisation that can support the country's smaller businesses, whatever the outcome. On the back of our established business model and strong reputation in the market, we are working to put in place the capability to respond flexibly to any challenges ahead.



# Strategic report

The British Business Bank is the UK's business development bank for smaller businesses. Our programmes, delivered across debt and equity markets through over 100 partners, help smaller UK businesses get the funding they need to start, grow and prosper.

We also provide businesses with the information they need to make better-informed finance choices. 2016/17 marks our second full year of operations since our launch in November 2014.

## Our mission and objectives

The British Business Bank's mission is to make finance markets work better for smaller UK businesses<sup>1</sup>. This is reflected in our four core objectives:



1. Increase the supply of finance  
to smaller businesses where markets don't work well



2. Help to create a more diverse finance market  
for smaller businesses, with greater choice of options and provider



3. Promote better information in the market  
building confidence among SMEs in their understanding of the finance options available to them



4. Achieve this whilst managing taxpayers' money efficiently  
within a robust risk management framework



<sup>1</sup> Small and Medium-sized Enterprises (SMEs) and small mid-cap businesses.



### Blackrow Engineering

Blackrow Engineering manufacture and install equipment for the petro-chemical, waste-to-energy, power generation and food industry.

The company borrowed £200,000 over five years from British Business Bank partner ABN AMRO, under the EFG programme to fund their upsurge in growth.





By enabling smaller businesses to fulfil their growth ambitions, we expect to make a significant difference to overall UK productivity and economic growth.



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### State of the market

Smaller businesses are an important part of the UK economy, with SMEs accounting for around 60% of private sector employment and almost half (around 47%) of private sector turnover. Enabling their greater success has the potential to play a vital role in improving overall UK productivity and economic growth. Improving smaller businesses' access to the finance they need to start up, scale up and stay ahead therefore remains a priority.

Net lending flows to SMEs from banks have stayed positive over the last ten quarters (Q4 2014–Q1 2017), and have been broadly distributed across the UK in line with the proportion of businesses in each region. Although credit availability over 2016 has improved on previous years, there has also been a clear trend of fewer SMEs using core debt products such as bank loans, overdrafts and credit cards. In contrast to traditional bank lending products, alternative forms of lending such as asset finance and marketplace lending showed continued growth but at a slower pace compared to previous years.

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# 60%

SMEs account for around 60% of private sector employment


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With lending conditions for small businesses getting better, our focus is transitioning from a period when the primary concern was the availability of SME lending in general to one where the focus is on growth. The UK outperforms its OECD peers in terms of starting up businesses, but underperforms when it comes to growing them. By enabling smaller businesses to fulfil their growth ambitions, we expect to make a significant difference to overall UK productivity and economic growth.





Recent lending conditions have been relatively benign and interest rates low, but there is potential for these to change adversely in the near future.



For growing businesses, particularly the faster growing ones, equity is often the most appropriate form of finance. While equity investment remains available, late 2015 represented a peak in activity. Value and deal flow has eased in the past year, reflecting the uncertain economic environment. Our 2016/17 Small Business Finance Markets report identified a widening gap in later stage equity investment. This may be due to recent greater availability of early-stage VC, which means there are more businesses now requiring subsequent funding rounds. We have played an important part by investing in this market for early stage growth through ECF programmes and Angel CoFund.

In the 2016 Autumn Statement, we were given an additional £400m to expand our Venture Capital Catalyst programme to address gaps in later stage VC provision more effectively.

# £400m

In the 2016 Autumn Budget, we were given an additional £400m to expand our VC Catalyst programme

Equity investment continues to be concentrated in London and the South East with the majority of equity deals and investment occurring in these two UK regions over the past 12 months. The launch of the Northern Powerhouse Investment Fund (NPIF), our first regional programme, in February 2017 marks a major step in addressing these imbalances.

Much uncertainty remains around smaller business finance markets in general. Recent lending conditions have been relatively benign and interest rates low, but there is potential for these to change adversely in the near future. The level of business investment contracted by 1.5% in 2016. We will continue to monitor market conditions closely to ensure that our programmes respond quickly and effectively to any such changes.

## Business model

The level of uncertainty in the economic environment reinforces the importance of our analysis-driven and market-led approach. We anchor our interventions in rigorous economic analysis and deep market insight – both proprietary and third party – to ensure we stay relevant to the finance needs of smaller businesses and can evolve our offering as conditions change. Building on that insight by adding feedback from our delivery partners and small businesses, as well as our own management information, allows us to develop a still deeper and broader understanding of the areas of the finance markets where there may be gaps and to prioritise them for action.

Guided by both public service values and private sector requirements, we design new programmes and update existing ones to maintain an appropriate balance between the two. We achieve this by providing policy advice to Ministers, government departments and public sector agencies on the one hand, and carefully structuring interventions, to align commercial imperatives with policy objectives, without crowding out the private sector on the other.

Through periodic assessments of programme outcomes, we ensure that our offerings continue to address the market gaps that we have identified.

This approach also supports the achievement of our core objectives. We set targets for the stock of finance (a combination of what we deploy and what has been ‘crowded in’ from the private sector as a result), the amount of finance we put through providers other than the largest banks and the returns we expect on the capital that we use. Optimising across these financial targets requires the Bank to carefully balance the activities and investments within our portfolio, ensuring the fulfilment of public policy goals while maintaining commercial discipline. In addition, we also have a target for raising awareness of the finance options for SMEs – this ensures that we pay attention to demand side issues as well. All of this is done within a robust risk management framework. Further detail on each of these objectives are provided in the next section.

The Bank manages a range of access to finance programmes for Government, both on our own balance sheet and acting as agent for assets on BEIS’s balance sheet. Our performance is assessed by our shareholder, BEIS, on the basis of performance of all the assets we manage, so this strategic report covers both assets on our balance sheet and on BEIS’s balance sheet. Assets that we manage on behalf of BEIS (and which we describe in this strategic report) include the UK Innovation Investment Fund, Angel CoFund, Start Up Loans Company, Enable Funding, EFG and the Northern Powerhouse Investment Fund.

We anchor our interventions in rigorous economic analysis and deep market insight – both proprietary and third party – to ensure we stay relevant to the finance needs of smaller businesses.



### Start Up Loans Company



Part of the British Business Bank

During 2016/17 the Bank continued to oversee the Start Up Loans Company (SULCo) on behalf of BEIS however from 1st April 2017 SULCo combined with the Bank and became part of the group. Much of the second half of 2016/17 was taken up with preparations for the integration of our two organisations. Colleagues from all areas of the Bank and SULCo worked tirelessly to prepare and deliver a smooth integration of our two organisations. We expect the integration to bring many benefits given the close alignment of our strategic objectives, including opportunities to share complementary experience and expertise, combine operations and systems, and engage more effectively with our markets and partners. Businesses will benefit from the increased clarity of having the design and delivery of national government-sponsored access to finance programmes for businesses at all stages – from microbusinesses to larger SMEs – within one organisation.

We expect the integration to bring many benefits given the close alignment of our strategic objectives.

# Performance review: what we achieved against our goals



## Objective 1: Supply

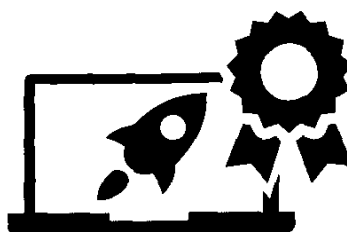
**Delivered:** An increase of 24% in the total stock of finance offered through the Bank's programmes. £9.2bn of stock as at end March 2017.



We are now supporting over 59,000 companies.



Our Venture Capital stock has grown to £1.1 billion.



SULCo start up loans now provided to over 46,000 businesses.

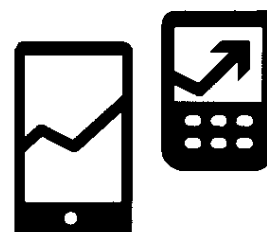


## Objective 2: Diversity

**Delivered:** 94% of our support through providers outside of the 'Big Four' banks.



£690m earmarked to regional programmes.



Committed £150m to Fintech through six partners. £60m of support for two challenger banks.



In total, we are working with over 100 delivery partners.



## Objective 3: Information

**Delivered:** Better information on finance options, contributing to an increased awareness of finance options amongst SMEs.



Our Business Finance Guide distribution has risen 150% on the previous year.

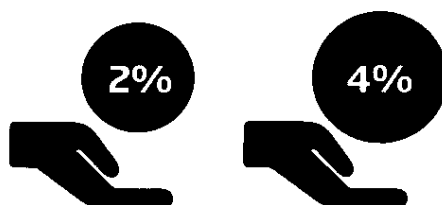


Rise to 50% in SME awareness of a given range of finance products. (See page 22)



## Objective 4: Value

**Delivered:** A 4% return on capital.



**Budget return    Actual return**

Net operating profit of £49.8m.

# Objective 1: increase supply of finance in the UK

**Why it is important:** When we make markets work better and help smaller business get finance that they otherwise wouldn't get, we enable investment in hiring people, buying equipment, and general growth that benefits the entire UK economy.

Under its first Key Performance Indicator (KPI), the British Business Bank is measured on the total stock of finance provided through its programmes. This is a combination of funds that we have directly deployed as well as private funds which our participation has helped to unlock.

Within a given year, the Bank will influence this metric by committing funding through its programmes. Once the funding is committed, our partners will then typically take a number of years to draw the funding down as they invest it in smaller businesses. The combined funds drawn are added to the stock of finance. When a borrower repays a loan or an investment is realised, then funds can be returned to the Bank and other investors and will be taken out of the stock of finance measure.

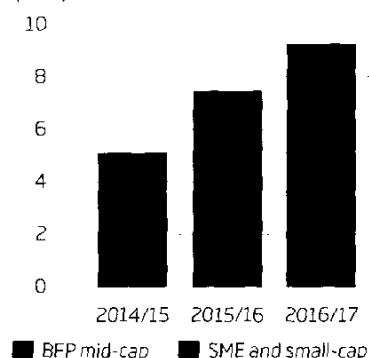
In order to increase supply we have built up a wide range of delivery partners who can get that finance to the market. Over the past year we have made new commitments of £717m.

The Bank's total stock of finance grew 24% from £7.5bn to £9.2bn from end of March 2016 to end of March 2017.

This was driven primarily by the performance of the Investment Programme, Business Finance Partnership and Enterprise Capital Fund. In particular, the Business Finance Partnership portfolio generated significant volume of private sector investment.

We expect to add new lenders over the course of the next year, which should then increase the EFG volume of lending through the programme.

Stock of finance (£bn)



## Debt

### Enterprise Finance Guarantee (EFG)

The Enterprise Finance Guarantee continues to be our flagship debt intervention. Following the recommendations from an extensive design review of the programme last year, we have built a new training portal for relationship managers in delivery partners, designed a new asset finance variant and improved our guidance for providers. In parallel, we have re-opened the accreditation process for EFG to take on additional lenders, following the broadening of our criteria.

Interest from new lenders has been substantial and we are in the process of assessing applications. We expect to add new lenders over the course of the next year, which should then increase the EFG volume of lending through the programme.



**Mazda**  
Buckinghamshire  
Mazda secured a £200,000 Enterprise Finance Guarantee loan from British Business Bank partner Lloyds Bank.



### Help to Grow



#### HELP TO GROW

The Help to Grow programme helps smaller businesses to raise funding in order to support their growth ambitions. In particular, it helps smaller businesses that are displaying high growth potential but where their lender's traditional risk appetite is near its limit. It can provide loans, often with bespoke features, such as capital repayment holidays or deferred interest, to fund these businesses' growth opportunities.

Under the programme, lenders will provide loans of up to £2m to support the development of new products and processes, stimulate research and innovation and help businesses target new markets.

The British Business Bank is testing three financial structures (two guarantees structures and a co-investment structure), each addressing a different part of the finance gap. One guarantee supports stretched senior debt, the other guarantee supports mezzanine and subordinated debt, for those SMEs seeking the maximum flexibility. The capital investment option is aimed at boosting the presence of debt providers in the market which have the skills to lend, but not the capital, to act in this part of the market.

Lloyds Bank and OakNorth are the first two lenders under the programme. We expect the programme's impact on stock will increase substantially over the next year, and for more lenders to come onboard over the same time period.



### CASE STUDY

## The Yorkshire Meatball Company

Established in March 2014 by father-and-son team, David and Gareth Atkinson, The Yorkshire Meatball Co roll their meatballs in Yorkshire, using the freshest and tastiest British meat chosen for its quality and provenance.

A total of £20,000 from the Start Up Loans Company, helped the duo launch their concept – initially in the form of a Meatball and Craft Beer Bar in Harrogate, winning several awards in its first year. Their first restaurant was followed shortly by a second, under a franchise in York. The saturation of the local market by incoming 'chain' restaurants in 2016 forced the closure of the restaurant side of the business and the company has since moved into retail, securing contracts with Asda, Tesco and Morrison's and their meatballs are available in over 200 stores across the country.





## CASE STUDY

## Miss Macaroon

**Miss Macaroon, set up by social entrepreneur and trained pastry chef Rosie Ginday, is a high-end patisserie with a difference.**

This social enterprise business specialises in baking French macaroons, hand-made by long-term unemployed young people, ex-offenders and care leavers aged between 18 and 35.

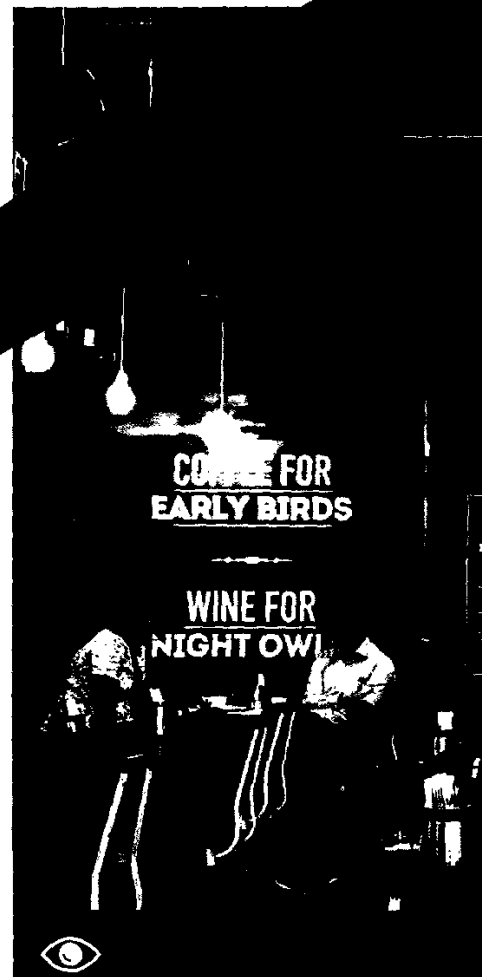
After finding it difficult to secure finance from social and traditional lenders, Miss Macaroon successfully approached BCRS Business Loans, an accredited lender for the British Business Bank's EFG programme. Just seven months later, Rosie opened her first store in Birmingham's Great Western Arcade.

In the store's first six months, the Miss Macaroon team helped two long-term unemployed people into full time work and one into further work experience. Ultimately, they aim to help as many young people as possible secure sustainable, full-time employment. Miss Macaroon plans to open a second UK store within the next year.



# £717m

Over the past year we have made commitments of £717m.



## CASE STUDY

## Notes

**Launched in 2010, Notes is regularly named in London's top 10 coffee shops.**

It sets itself apart from other coffee chains in the capital through its dual concept of being a café by day and wine bar by night. It also supplies over one tonne of coffee per month to independent coffee shops in the UK and Europe, as well as offering an online subscription-based service for the home-brew market.

Notes secured £600,000 in debt finance from challenger bank OakNorth, under British Business Bank's Help to Grow programme, to fund their expansion.





As a result, they have been able to open two new sites, taking their total to eight: the first, a 1,500 sq ft site in Angel Court, less than a minute's walk from the Bank of England, and the second in Nova, a new commercial development in Victoria.



Since 2012, SULCo has delivered over 46,000 loans, providing more than £300m of funding.

### Start Up Loans Company

The Start Up Loans Company (SULCo) was formed in June 2012. SULCo provides personal loans for business purposes of up to £25,000 at a 6% fixed interest rate per annum, and offers free dedicated mentoring and support to each business.

The primary aim of the Start Up Loans scheme is to ensure that viable startups and early-stage businesses have access to the finance and support they need in order to thrive. A network of Delivery Partner organisations support applicants in all regions and industries throughout the UK. The funding for SULCo is provided by the Department for Business, Energy and Industrial Strategy (BEIS). The scheme is not designed to generate a commercial profit. Capital payments together with the interest are recycled to help meet our customers' increasing demand for finance.

Since 2012, SULCo has delivered over 46,000 loans, providing more than £300m of funding, helping to back on average 28 businesses a day, and contributing to the creation of more than 56,600 jobs.

### Wholesale Solutions

We have two ENABLE Wholesale programmes, which help smaller lenders provide more funding to businesses across the UK.

Firstly, our ENABLE Guarantee programme is designed to encourage additional lending to smaller businesses. Participating banks are incentivised by a government-backed portfolio guarantee to cover a portion of a designated lending portfolio's net credit losses in excess of an agreed 'first loss' threshold, which they receive in exchange for a fee.

Secondly, providers of finance to smaller businesses often lack the scale required to access capital markets – a key source of funding for lending institutions – in a cost-efficient manner. Our ENABLE Funding programme, aimed at improving the provision of asset and lease finance to smaller UK businesses, warehouses newly-originated finance receivables from different originators – bringing them together into a new structure. This year, we added an additional lender, Newport-based Henry Howard Finance to ENABLE Funding, taking our total commitments under the programme to £202m.

We expect to announce further transactions under both ENABLE programmes in 2017/18.



### CASE STUDY

#### Edesix

**Seasoned technology entrepreneurs Richie McBride and Robin Iddon had self funded their Edinburgh-based body-worn camera designer and manufacturer Edesix to the edge of huge growth.**

Edesix's Video Badge system – which is the size of a credit card – is a personal CCTV for frontline workers. Having proved the concept and made early sales, attracting interest from police forces, paramedics, parking enforcement teams and bailiffs, they needed finance to fund rapid expansion through investment in R&D and Sales & Marketing.

Less than six months after being introduced to the company, British Business Bank Enterprise Capital Funds partner Panoramic Growth Equity made an initial investment of £750,000 into Edesix, with Panoramic partner David Wilson taking a seat on its Board. They have since invested in further rounds to help Edesix fund expansion into new markets and continue to develop its technology.



### CASE STUDY

#### Azimo

**Azimo is a world leader in online and smartphone-based money transfers – providing a fast, secure and low-cost alternative to legacy high street services within the growing c\$600bn remittance market.**

Founded in 2012, Azimo has built the largest network of any digital player, sending money to over 190 countries, in over 80 different currencies. Half a million people have already connected to the Azimo platform and through its comprehensive network.

British Business Bank VC Catalyst partner Frog Capital has made investments of £4.2m and £1.1m in two separate funding rounds, the first as lead investor.

Azimo needed funding in 2015 to support explosive revenue growth of 260% and is now consolidating its European growth and developing its product further (especially the mobile offering). Its employee numbers had grown from 60 in June 2015 to 99 at the end of March 2017.



## Equity

### Angel CoFund

The Angel CoFund celebrated its fifth anniversary in November 2016. It has continued to invest in promising companies over the past year. By the end of 2016/17, it had 71 companies in its portfolio. Around £32m has been invested so far, which leveraged around a further £140m of investment from business angels and other investors, for a total of c.£172m of equity finance for innovative smaller businesses. The portfolio is diverse with roughly a third healthcare and life sciences, a third digital media and information technologies (including Fintech) and a third other high growth businesses, dominated by hardware and fundamental technology, but including food and drink and creative.

### Enterprise Capital Funds

Four highly innovative funds were launched through the Enterprise Capital Funds programme:

- Entrepreneur First Next Stage Fund - help startups built at Entrepreneur First to grow (with the Bank committing £26m of £40m at first close).
- Active PE - focused on consumer, leisure and retail businesses (£24m of £40m).
- Seraphim Space Fund - largest ever space sector venture fund, targeting early stage space-related businesses (£30m of £50m but up to £50m of £83m at final close).
- Accelerated Digital Ventures - focused on digital technology SMEs in hubs across the UK (£41m of £85m but up to £50m of £150m).
- This brings the total number of Enterprise Capital Funds (ECFs) launched through the programme to 24, with a total investment capacity of £938m, of which £550m was contributed by the Bank.



### CASE STUDY

#### Audio Analytic

**Cambridge-based Audio Analytic is a pioneering sound recognition company. Its flexible ai3™ software platform can be embedded into a wide range of consumer electronics products to enable the human-like sense of hearing.**

For example, with ai3™ inside, a smart home device can recognise the sound of a window breaking or a smoke alarm while the occupant is out, alerting them and emergency services, and triggering responses from other home-based devices. As personal assistants and smart technology become more commonplace in homes, pockets and cars, there is an increased need for products to understand and react to the world around people.

British Business Bank ECF partner IQ Capital invested in the company's \$5.5 million Series A round in January 2017. The money is enabling Audio Analytic to scale their business to meet strong global customer demand and further develop the platform.



### Venture Capital Catalyst

We made a £10m commitment to Scottish Equity Partners, a £260m fund focused on technology companies, through the Venture Capital Catalyst programme in November 2016. We received an additional £400m of resources for the programme at the Autumn Statement 2016.

# £32m

Invested by the Angel CoFund so far

## Objective 2: increase diversity of SME finance in the UK

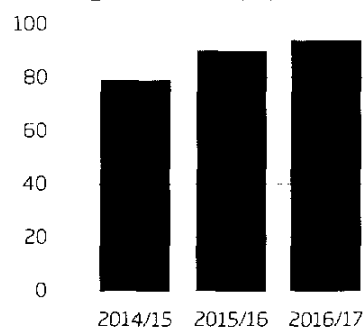
**Why it is important:** When we support a small business finance product or help an alternative provider, smaller businesses benefit from better choices and better terms that increased competition can deliver.

Against our second key performance indicator, the British Business Bank is measured on the value of its activity that is channelled through finance providers other than the 'Big Four' banks – Barclays, Lloyds Banking Group, HSBC and RBS.

Our objective is to increase the choice of finance for smaller UK businesses – both in terms of supplier and finance type. Our aim is to ensure that more than 75% of our stock is delivered through providers outside the Big Four banks.

For most of our programmes, we work exclusively with non-Big Four delivery partners such as challenger banks, asset finance providers, peer-to-peer and other technology-based providers, debt funds, equity funds and other non-bank finance companies. EFG and Help to Grow are the notable exceptions. These two programmes use both Big Four and non-Big Four partners because they address borrowing needs immediately adjacent to mainstream lending, and tapping into the Big Four's extensive distribution network is the best way to reach significant numbers of smaller businesses. This in turn helps us produce a greater impact for the UK economy.

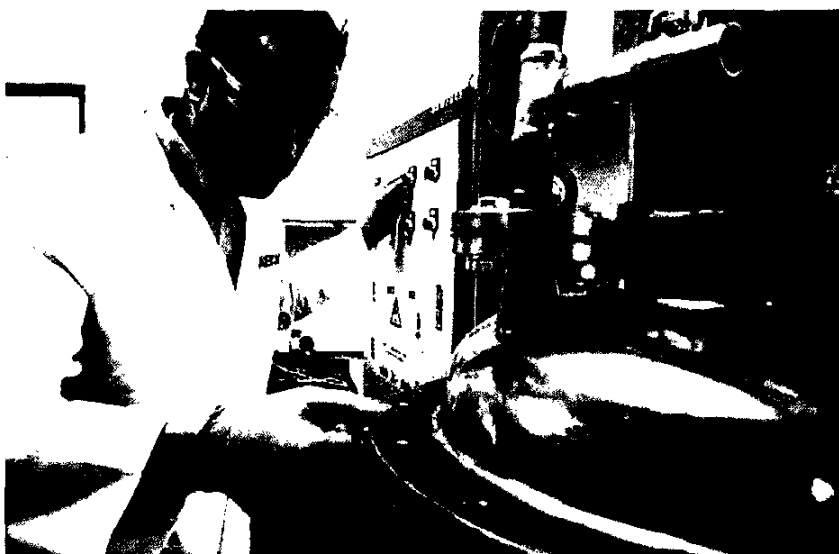
Percentage through non-Big Four banks (%)



### Importance of building partnerships

In 2016/17 we took on 12 new partnerships across the business – five in Venture Capital, one in ENABLE Funding, one in the Investment Programme and five through the NPIF. One of the main ways of increasing diversity is to support new entrants and increase the capacity of existing lenders across the scope of the finance markets.

- We continued to build our partnerships with challenger banks, adding OakNorth as a new partner under our Help to Grow programme.
- We also supported more debt funds, asset finance providers and fintech players through the Investment Programme (IP), as well as ENABLE Funding.
- We launched four new early stage VC funds through our ECF programme and helped close one other VC fund through the VC Catalyst.



#### AEV Ltd

Birkenhead-based AEV Ltd, a manufacturer and distributor of varnishes, resins, compounds and insulation products to the electrical and electronics sector, received investment from NPIF – FW Capital Debt Finance, a provider under the British Business Bank's Northern Powerhouse Investment Fund, to invest in new production facilities.

The British Business Bank is investing £50m of its own capital into NPIF, which is being matched by an additional £50m from the European Investment Bank.

### Geographical diversity

We have started to tackle the well-documented lack of finance provisions in the regions outside London and the South East. We launched the £400m Northern Powerhouse Investment Fund in February 2017, will soon launch the £250m Midlands Engine Investment Fund and are working on a Cornwall and Isles of Scilly Investment Fund to help address some of these regional imbalances.

#### Northern Powerhouse Investment Fund



The Northern Powerhouse Investment Fund will produce greater levels of investment, increase the focus on the potential opportunities across the Northern Powerhouse regions and provide increased flexibility in the type of funding

provided. Together these will contribute to better economic outcomes for the region's businesses, growth and jobs.

The British Business Bank is investing £50m of its own capital into NPIF, which is being matched by an additional £50m from the European Investment Bank. Bringing allocations together into larger funds allows more resources to be targeted at businesses with growth potential across a wider area, through economies of scale, meaning more money can be invested directly in smaller businesses.

The British Business Bank has worked with Local Enterprise Partnerships (LEPs) from the North West, Yorkshire and the Humber and Tees Valley, and with the Department for Communities and Local Government to aggregate the European Regional Development Fund money they receive for the LEP areas.

#### Midlands Engine Investment Fund



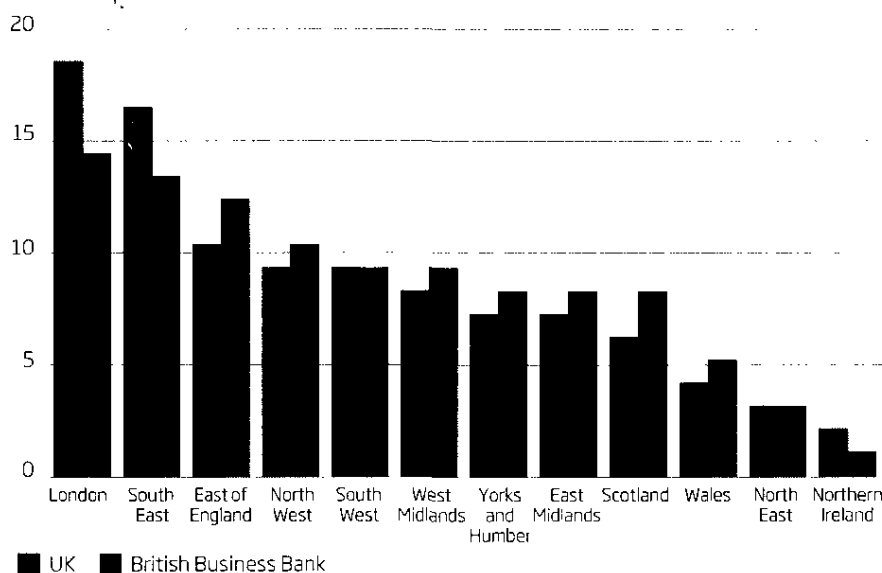
Similarly, we are working with ten LEPs in the Midlands on the setting up of the Midlands Engine Investment Fund, which we expect to launch in the next few months.

#### Cornwall and Isles of Scilly Investment Fund



In May 2017 the Bank was asked to develop a Cornwall and Isles of Scilly Investment Fund incorporating existing legacy funding and new European funding amounting to around £40m. We will be working closely with the Cornwall and Isles of Scilly local enterprise partnership to develop an equity and debt fund.

### Geographic diversity by number of companies (%)



# £690m

Total fund size for Northern Powerhouse Investment Fund, Midlands Engine Investment Fund and Cornwall and Isles of Scilly Investment Fund



## CASE STUDY

## Cliveland Spinning

**Cliveland Spinning is a leading manufacturer of quality spun components with an emphasis on high precision reflectors and all forms of lighting products.**

Cheaper imports were beginning to affect the core business, and the company had to think laterally to beat the competition from both China and India. It therefore diversified its product range by producing aluminium planters and grave vases.

*With the business having to buy increasing amounts of raw materials up-front to keep up with demand, however, huge pressure was being put on cashflow.*

British Business Bank partner Ultimate Finance provided the company with a £70,000 invoice finance facility, meaning that 95% of the value of invoices issued could be released the very next day, enabling Cliveland Spinning to pay for the raw materials without having to accumulate large reserves of cash.



## CASE STUDY

## Simply Cook

**London-based SimplyCook had proved that the market wanted what they were selling - recipe boxes with easy-to-follow recipes and key ingredients to put together sensational meals - but to expand their reach they needed a strong marketing budget and further hires to support and run that budget. They also wanted to make improvements to their packaging and website design.**

SimplyCook successfully secured £600k equity investment to fund their expansion from Episode 1 - a partner in the British Business Bank's Enterprise Capital Funds programme - as part of a total fund raise of £750k.

*Securing the funding has enabled SimplyCook to complete a packaging redesign project, start a total user experience redesign of their website, experiment with new marketing channels and expand their Facebook marketing channel, leading to successful growth.*





## CASE STUDY

## Blake UK

**Established in 1971, Sheffield-based Blake UK has grown to become one of the largest aerial, electronics and components manufacturer in the sector, with a £2.2m turnover in 2015/16 and employing 24 staff.**

Blake secured a £100,000 loan from NPIF - Enterprise Ventures Debt Finance, a product fund within the British Business Bank's Northern Powerhouse Investment Fund programme, to finance new product development and invest in new equipment.

The funding will allow the company to diversify its product range into new lines such as CCTV equipment and to strengthen its stock level to reflect the long stock replenishment lead times that accompanies existing ranges. This means the company will be able to keep up with the demands from its growing customer base and ensure that the quality and diversity of its product offering remains high.



## CASE STUDY

## Cloud Direct

**Founded in 2003, Cloud Direct has helped 4,000 small-midsize organisations move to the cloud - quickly and securely. The business has grown organically and through acquisition to increase capacity and skills that help improve customer productivity, agility and competitiveness.**

From June 2015, Cloud Direct had been executing a buy-and build strategy, and had acquired several other businesses - Datal Business Systems in June 2015, Ihotdesk in December 2015 and Redblade in July 2016. Following these acquisitions, and growth in group revenues and profitability, the company was seeking new investment to make its next wave of acquisitions.

Cloud Direct's management team applied to British Business Bank Investment Programme partner Beechbrook Capital for finance to help fund their growth plans. They secured a commitment of just over £5m, which has contributed significantly to the completion of two further acquisitions already in 2017.



## Objective 3: improve SME understanding of finance options

**Why it is important:** When we make better information available to smaller businesses, we help them make better choices about finance. Being more aware of and having more confidence in their options means they are more likely to invest in their business.

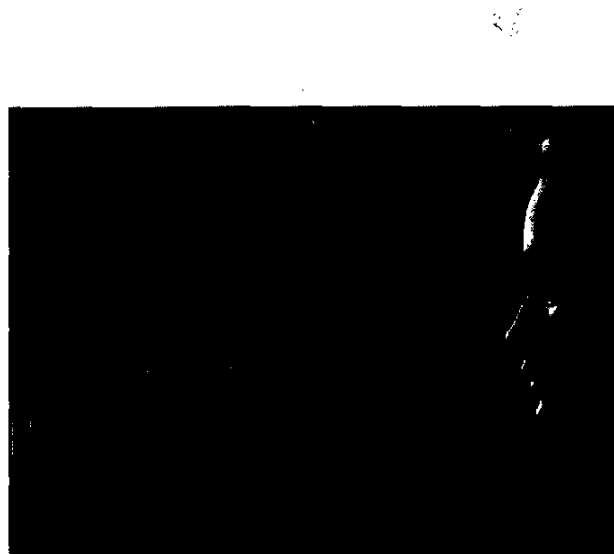
Successfully delivering our first two objectives – increasing and diversifying finance sources – helps us improve the supply side of finance markets for smaller businesses. Improving the demand side requires increased levels of awareness and understanding to enable small businesses to make informed choices.

We measure awareness of different finance options through our annual survey, looking at the average awareness amongst SMEs across six different finance products. This was 50% in our November 2016 survey, a 2% improvement from the previous year.

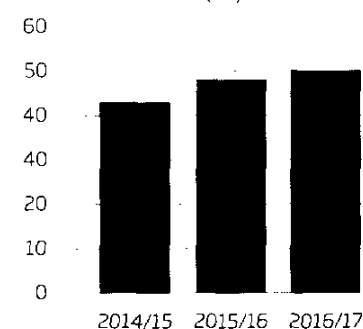
To help raise awareness of finance options, we publish our Business Finance Guide jointly with the Institute of Chartered Accountants Corporate Finance Facility in England and Wales (ICAEW) with contributions from a further 21 partner organisations. The guide is well received amongst small businesses and their advisors, and its value was underscored in the BEIS Select Committee's October 2016 Access to Finance report.

In June 2016 we were delighted to launch the online version of the guide, offering users the tools to start considering the appropriate finance for their business development. For example it features videos from finance experts on the types of funding available in the marketplace. The online guide has enabled us to extend our reach and thousands of businesses are visiting the website every month. Web analysis means we can stage regular enhancements to the site to increase traffic and improve the user experience.

We also refreshed the hard copy of the guide in June 2016, reflecting the developments in finance markets since it was first published in 2014. We also provided a Welsh language version for the first time. We distribute the Business Finance Guide at events, conferences, through direct email marketing, and via our partners.



**Awareness of different forms of finance (%)**



This target is defined as a mean awareness level of a basket of finance types which the Bank supports or intends to support in the future. This includes Leasing/HP, Venture Capital, Business Angels, P2P lending, Crowd Funding and Mezzanine Finance.

The Start Up Loans programme also provides applicants with an essential guide to starting their business, including information on researching markets, tax, business strategy, sales forecasting and how to write a business plan. Once the recipient has drawn down their loan, they are offered mentoring to help their business succeed. SULCo and their delivery partners also provide a valuable channel to help distribute the Business Finance Guide directly to businesses.

Cambridge-based company Speechmatics, a provider of automatic speech recognition technologies which transcribe speech to text, received equity investment from British Business Bank partner IQ Capital partners.



The best place to start to find out about finance options for any business is the Business Finance Guide... I'm using it currently to find out how our business can scale up.

Lucy Woodhouse, Co-founder of Claudi & Fin

### Researching our markets

We work with a range of partners to gather better information about the market. Our flagship publication, the annual Small Business Finance Markets report 2016/17, showed that finance markets broadly continued to supply smaller businesses with the majority of the finance they seek but certain key gaps remain. The report also highlighted gaps in financing for scale ups, the uneven access to finance across regions and a need to further raise awareness of finance options, so that smaller businesses get the finance that best meets their needs. These findings have guided our strategy.

Improving the demand side requires increased levels of awareness and understanding to enable small businesses to make informed choices



### CASE STUDY

#### Fork Truck Borders Instruction Ltd

**Fork Truck Borders Instruction Ltd provides training for operators of forklift trucks and other plant machinery including excavators, dump trucks and cranes.**

They wanted to buy a new forklift truck, to employ a new member of staff and expand the business, and applied but were turned down for an overdraft with their existing bank, even though the business had managed for seven years with no overdraft and they could see Fork Truck Borders Instruction Ltd's business accounts.

Under the new Bank Referrals to Designated Finance Platforms scheme, they were referred to Funding Options within an hour, who passed them on to Iwoca. Iwoca approved their funding (£5,000), and they had the money in their account within 24 hours of being turned down by the bank.



Our other reports provide more detailed analysis. This year these included:

- Equity Tracker, a deep dive on the equity markets for SMEs in the UK.
- Building Momentum in VC across Europe, a joint effort with other European Development Banks that looks at the European VC markets to identify ways to increase the availability of VC funding to help businesses to start up and grow.
- NPIF Spotlight, which was published to coincide with the launch of NPIF.
- Financing SMEs and Entrepreneurs, an annual OECD publication to which we are contributors.

Our survey on SME Business Finance complements other data sources such as the *SME Finance Monitor*, to give a richer understanding of small business experience in accessing finance.

We inform and contribute to the wider debate by presenting regularly at conferences and seminars, enabling *finance providers, smaller businesses* and the research community to be more informed about UK finance markets relevant to them.

### Improving finance markets

To help overcome information asymmetries and improve SMEs' awareness of the availability of alternative finance options faced by smaller lenders, we have advised HM Treasury on the designation of Credit Reference Agencies (CRAs) and Finance Platforms under the Small Business, Enterprise and Employment Act 2015. CRAs share SME credit data for the benefit of a wide range of banks and lenders, while finance platforms seek to match supply and demand for alternative sources of finance from a broader range of lenders. The Act contains two policies to improve the impact of these firms on SME lending.

Small businesses turned down for an eligible lending facility by one of nine participating banks must be offered a referral to the designated online finance platforms. If the business agrees, its details are passed on to the platform by the end of the next working day. This referral system has been live since November 2016 and many small businesses have already benefited from the new process.

The idea that there's a Business Finance Guide, that will be a signpost for people...is unbelievably helpful... I wish it had been there when I started.

Lloyd Dorfman, Founder of Travelex



### CASE STUDY

#### The Purity Centre

**Hayley Katsis, an independent nurse specialising in medical aesthetics and podiatry, wanted to fund a new business venture providing post-procedure aftercare for patients.**

As a highly-experienced medical professional, she knew that obtaining the right insurance was an essential part of the plan, and she couldn't go ahead without it.

Hayley applied for a bank loan to finance the high cost of the insurance cover but, because the purpose for which the funding was required was outside their usual criteria, her bank was unable to offer her a loan.

Through the newly-introduced Bank Referral Scheme, however, they offered to forward her details to another organisation who might be able to help. Online platform Funding Options introduced Hayley to RateSetter, who provided her with a £5k 'Director's Loan' to finance the insurance, enabling her project to go ahead.



## Objective 4: manage taxpayer money efficiently

Why it is important: When we manage our programmes efficiently, we deliver value for money. All UK taxpayers benefit from our ability to deliver the most positive outcome with the least amount of Government resources.

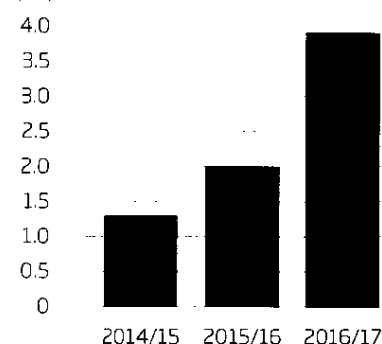
All our programmes, with the exception of the grant funding and operating costs element for Start Up Loans, count towards our financial return target. The Bank targets achieving a return on capital at least equivalent to the Government's medium term cost of capital. We have a target for the end of March 2019 of 2.525%.

### Adjusted return on capital employed

The British Business Bank achieved a 3.9% adjusted return on capital employed in 2016/17<sup>1</sup>, which was higher than the return generated in 2015/16 and our target for the year. This rise was principally generated by strong investment performance, with an increase in income from the Investment Programme assets, positive fair value movements on VC Catalyst and legacy Venture Capital funds and foreign exchange gains. 2016/17 also saw continued strong performance from Lending Solutions' EFG programme, with lower than expected claims in a benign credit environment. Excluding foreign exchange gains of £2.6m the return would have been 0.2% lower.

The British Business Bank achieved a 3.9% return on capital employed in 2016/17.

### Adjusted return on capital deployed (%)



As previously reported



### CASE STUDY

#### Creo Medical

**Creo Medical, a medical device company based in Chepstow, Wales, is focused on the development and commercialisation of minimally invasive surgical devices, initially in the areas of gastrointestinal (GI) surgery and lung cancer.**

The Angel CoFund, a delivery partner of the British Business Bank, invested c.£1m alongside a number of experienced angel investors that specialise in early stage medical sector investing, as well as local institutional investor Finance Wales, in the funding rounds prior to IPO.

In December 2016 Creo Medical successfully underwent an IPO on AIM, raising £20m and making the company's total share value worth £61m at the time of listing. The new funds will enable further development of the lead product range and enhance the development pipeline.

1. As previously reported

## Summary of finance performance and calculation of adjusted return

Year ended 31 March 2017 (£m)	British Business Bank plc	Programmes managed on behalf of BEIS (unaudited)	Total
<b>Investment income</b>			
Investment Programmes	43.0	-	43.0
Lending Solutions	-	18.6	18.6
Venture Capital Solutions	9.5	-	9.5
Wholesale Solutions	-	2.1	2.1
<b>Total investment income</b>	<b>52.5</b>	<b>20.7</b>	<b>73.2</b>
Management fee and other income	15.6	(9.1)	6.5
<b>Total operating income</b>	<b>68.1</b>	<b>11.6</b>	<b>79.7</b>
<b>Net gains/(losses) on investment assets</b>			
Investment Programmes	0.5	-	0.5
Lending Solutions	-	(10.9)	(10.9)
Venture Capital Solutions	4.2	4.8	9.0
Wholesale Solutions	-	-	-
	4.7	(6.1)	(1.4)
<b>Operating costs</b>			
Staff Costs	(15.3)	-	(15.3)
Other costs	(7.7)	-	(7.7)
<b>Total operating costs</b>	<b>(23.0)</b>	<b>0.0</b>	<b>(23.0)</b>
<b>Net operating profit</b>	<b>49.8</b>	<b>5.5</b>	<b>55.3</b>
ECF permanent diminution in value	(2.5)	-	(2.5)
<b>Adjusted return</b>	<b>47.3</b>	<b>5.5</b>	<b>52.8</b>
<b>Average Capital Employed</b>			<b>1,286.8</b>
<b>Adjusted return on average capital employed (restated return)</b>			<b>4.1%</b>

Year ended 31 March 2017 (£m)	British Business Bank plc	Programmes managed on behalf of BEIS (unaudited)	Total
<b>Investment assets</b>			
Investment Programmes	916.0	–	916.0
Lending Solutions	–	41.0	41.0
Venture Capital Solutions	229.6	219.2	448.8
Enable Funding	–	130.2	130.2
	1,145.6	390.4	1,536.0
<b>Investment liabilities</b>			
Lending Solutions	–	(65.7)	(65.7)
Venture Capital Solutions	(146.7)	–	(146.7)
	(146.7)	(65.7)	(212.4)
<b>Net investment assets</b>	998.9	324.7	1,323.6
<b>Other assets/liabilities</b>			
Cash	58.4	–	58.4
Tangible and intangible assets	0.6	–	0.6
Net other payables	(10.4)	–	(10.4)
	48.6	–	48.6
<b>Total net assets</b>	1,047.5	324.7	1,372.2

The Bank manages a number of investments on behalf of BEIS under a service agreement; these include those relating to the UK Innovation Investment Fund, Angel Co-Fund, NPIF, Start Up Loans, Enable Funding and EFG. The adjusted return is defined to measure both the return generated by the Bank from investments held on its own balance sheet and also from those BEIS investments.

The principle of the adjusted return as set out in our shareholder framework is to provide a measure of financial performance that excludes temporary, non-cash, fair value accounting impacts.

This allows a comparison to the government's funding cost. In 2016/17, we reviewed and revised the way we calculate the adjusted return. In this review, we established that the definition lacked clarity and should be refined. We have therefore produced a detailed methodology for calculation of the return. For example historically, we were not able to accurately distinguish between permanent and temporary valuation impairments for ECFs, and as a result, we prudently included some temporary impairments in the return calculation. We also concluded it would be appropriate to include returns from legacy venture funds held on BEIS's

balance sheet but managed by the Bank. We have now developed an improved methodology for distinguishing between temporary, non-cash, fair value impairments and permanent diminutions in value for other programmes, notably ECF. We have also adjusted historic returns to account for changes made by BEIS in the accounting classification of the Angel Co-Fund.

The impacts of these changes are set out in the table overleaf.

£m	2014/15	2015/16	2016/17
Return as previously reported/calculated	3.5	18.0	44.8
Revision of ECF adjustment	7.6	18.8	3.3
Revision to other programmes	(3.9)	(1.5)	(0.1)
Inclusion of Angel Co-Fund and Legacy Programmes	1.3	1.8	4.8
Restated Return	8.5	37.1	52.8
<hr/>			
Capital Base as previously reported/calculated	658.9	910.6	1,162.1
Add Back: Fair Value Provision for ECF	50.1	66.0	124.7
Restated Capital Base (Annualised)	295.4	976.6	1,286.8
<hr/>			
Return as previously reported/calculated	1.3%	2.0%	3.9%
Restated Return	2.9%	3.8%	4.1%

In general, for assets on BEIS's balance sheet, we have used BEIS's accounting treatments for determining the returns recognised in the calculation above. For assets classified as "Available-for-Sale", this means that losses are recognised immediately but profits are not recognised until they are realised. Once BEIS adopts IFRS9, a new accounting standard for financial instruments, this treatment is likely to change so that unrealised profits are also recognised in BEIS's profit. When this occurs, we will re-state historic returns as if IFRS9 had been in place from the start of the Bank's operation.

Overall results for the British Business Bank 2016/17:

- We generated a net operating profit of £49.8m;
- The value of investments under management increased by £310m;
- We made new commitments of £717m;
- Net Assets increased by £235m to £1,048m.

#### Key Drivers of Financial Performance

As an investment business focusing on generating appropriate risk-adjusted returns on our capital investment, our financial performance is dependent on a number of significant items, including:

- the amount of capital we have committed and the time period over which that funding is deployed

- the underlying performance of our investments and their ability to make interest and debt repayments
- over time, the ability to exit investments successfully and make a capital profit.

The investment portfolio comprises a mix of investments which contribute towards meeting the Bank's overall strategic objectives. Some investments earn a commercial return whilst others generate a return which is below the market rate. It is the performance of the commercial investments within the Investment Programmes managed by British Business Investments Limited that make the greatest contribution to the Bank's overall return.

Our net operating profit was mainly driven by £43m of income and gains from the Investment Programme investments. The Venture Capital programmes, which include both market rate and sub-market rate investments, contributed £9.5m of income.

Whilst year-on-year our operating costs increased by £3.2m to £23.0m, this should be seen in the context of increased activity and income generation which shows that operational efficiencies have been delivered. In particular, significant time and cost was incurred setting up both the Northern Powerhouse Investment Fund and the Midlands Engine Investment Fund.

The loss before tax reported in the Consolidated Statement of Comprehensive Net Income is £1.3m compared with the adjusted return which is £52.8m. This is explained by the exclusion from the return calculation of the temporary non cash fair value ECF impairments and provisions which total £51.2m and the inclusion in the adjusted return calculation of the contribution from the investments held on the BEIS balance sheet but managed by the Bank.

### Funding

We require funding to make investments and run our operations. Depending on our requirements, these can be met from two sources: our investment earnings and our shareholder.

To fund our capital investments, we issue shares to our shareholder and utilise available cash from our operations, including asset repayments. At 31 March 2017, the UK Government held shares totalling £1,071m in British Business Bank plc, comprising the entire share capital of the Company. This amount increased by £234m during the year which funded the increase in the Group's net assets.

Our operating costs are funded through investment income plus a management fee charged to BEIS for managing assets on its behalf. Income received under this charging mechanism was £9.1m in 2016/17.

At 31 March 2017, the British Business Bank Group held £58.4m of cash balances, generated partly through its own operations and partly through shareholder funding. The Bank maintains a cash balance of at least £50m to fund investments and can increase this balance in line with investment demands. The majority of these funds (£52.1m) are held within the Government Banking Service to ensure that there is minimal cost to the Exchequer.

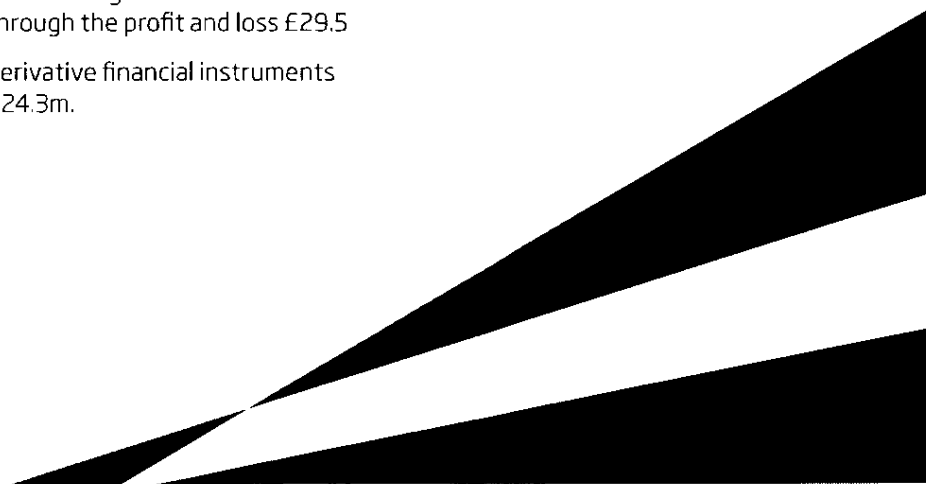
### Our Assets

Our programmes invest in a wide range of products through private sector partners, to enable us to achieve our objective of providing greater volume and choice of finance to smaller businesses.

This is reflected in the split of these investments:

- loans and receivables £138.4m
- Held to maturity assets £31.1m
- available-for-sale assets £922.2m
- assets designated at fair value through the profit and loss £29.5
- derivative financial instruments £24.3m.

During the year to 31 March 2017 we invested £350m in assets included on our balance sheet. This included investments of £125m in the mid-cap BFP portfolio, £151m in the Investment Programme and £56m in ECFs. For many investments, we make commitments to a fund and the fund draws down cash as it is needed. This means there is, generally, a delay between our investment commitment and capital being drawn. As at 31 March 2017, British Business Bank plc had further undrawn commitments of £1,023m to be invested across its portfolio.



# Strategic risks: issues that could prevent us from successfully delivering our future plans

The Directors confirm that they have carried out a robust assessment of the principal risks facing the company. We reviewed our risk framework in 2016, with a focus on how it operated relative to the Bank's risk appetite. Given our strategy, we see a number of material risks that we are maintaining a close watch upon going forward.

## Credit and Investment

Unexpected shocks to the financial system could affect both the flow of finance to, and demand from, smaller businesses. In such cases, the Bank could experience credit and investment losses as end borrowers, struggle to meet their commitments and interest rate or foreign exchange movements that could affect our rate of return.

## Political environment

The current Brexit negotiations add uncertainty to the economic environment and the outcome of negotiations may impact on the Bank. The EIF has previously participated in many of the markets that the Bank operates in as both a co-investor or guarantor to the Bank's programmes. If the EIF withdraws from the UK market this may have an impact on the delivery and the risk profile of the Bank's programmes individually or the Bank's portfolio in aggregate. The Bank is monitoring the changing market need and will consider and advise government what responses may be appropriate. As a result of the identification of market gaps or in response to a shift in Government policy priorities the Board will consider whether it should redeploy resources.

## People and processes

There is a risk that the Bank does not secure, develop and maintain adequate human resources to meet its objectives, or have the effective processes in place to manage its operating model.

The past two years have seen our staff numbers grow from 117 in April 2016 to 167 in March 2017. The SULCo merger will also see us grow further in 2017, as would any further expansion of our mandate. This expected growth carries operational risk as more robust operating systems and processes would be required to manage increased volume and complexity.

## Start Up Loans Company integration

There is a risk that the effective delivery of the Start Up Loans programme is negatively impacted due to the integration with the Bank. Following the combination of the Bank and SULCo in April 2017 both organisations are focusing on a smooth integration of both people and processes. The integration is being managed through staged transition plans. The risks involved in this integration are mitigated by the fact that we have worked closely with SULCo since 2014. During this period, the Bank has been providing advice to government on SULCo's funding, objectives and performance, and overseeing the programme on its behalf.

## Delivery partners

The British Business Bank's business model is heavily reliant upon our delivery partners for efficient execution of the Bank's interventions. In particular we delegate credit and investment decisions to our delivery partners within agreed frameworks. We also incur reputational and compliance/conduct risks linked to choosing appropriate partners.





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**Compliance with State aid and other regulation**

The UK remains a member of the European Union whilst it negotiates the terms of its exit. It therefore currently remains subject to the laws governing State aid. As we modify existing programmes or design new programmes we must review policies so that we and our partners are compliant with relevant regulation. Non-compliance can also bring reputational and business risk through negative publicity and/or disruptions to our ability to serve smaller businesses.

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**Information management and security**

The range and scope of data that we collect, collate, and control will rise as our operations grow. This increases our information and data risk and so we have strengthened our systems and protections. We have achieved the Cyber Security Essentials certification, which is the standard expected of a government owned entity.

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**Stakeholder engagement and delivery on objectives**

As a national development bank wholly owned by the UK government, we are required to deliver on government policy objectives in relation to smaller business finance. Because of this, even though we are operationally independent, some processes around decision-making and approvals rely on input from Ministers and central government administration. If these structures change (due to a new government, new Minister or machinery of government changes, for example), there is a risk of delays in decision making that would impact on our being able to operate as efficiently or effectively as we would want.

During the period the Board reviewed the effectiveness of the company's risk management and internal control systems including financial, operational and compliance control. A summary of the key risks that the Bank is facing and monitoring is outlined within the Directors report on pages 54 to 59.



As a national development bank wholly owned by the UK government, we are required to deliver on government policy objectives in relation to smaller business finance.



# Our people

The British Business Bank has an HR strategy in place to enable the Bank to achieve its overall goals. By making the Bank a great place to work, with a strong sense of purpose and opportunities for all, we will attract and retain the best people.

The HR strategy reflects the size and needs of the organisation, and demonstrates value for money.

The Bank offers a unique employment proposition with a strong purpose – an opportunity to transform the finance landscape for smaller businesses with a range of broad and interesting roles where people can make a real difference. Our annual employee engagement survey showed that 95% of colleagues said they were proud to work for the organisation, and 86% felt they could personally make a real difference to the success of the business and overall purpose. During 2016 we were highly commended in the Employee Engagement awards.



## Alignment with business objectives

The HR strategy supports the Bank's objectives. We will support the achievement of these objectives by:

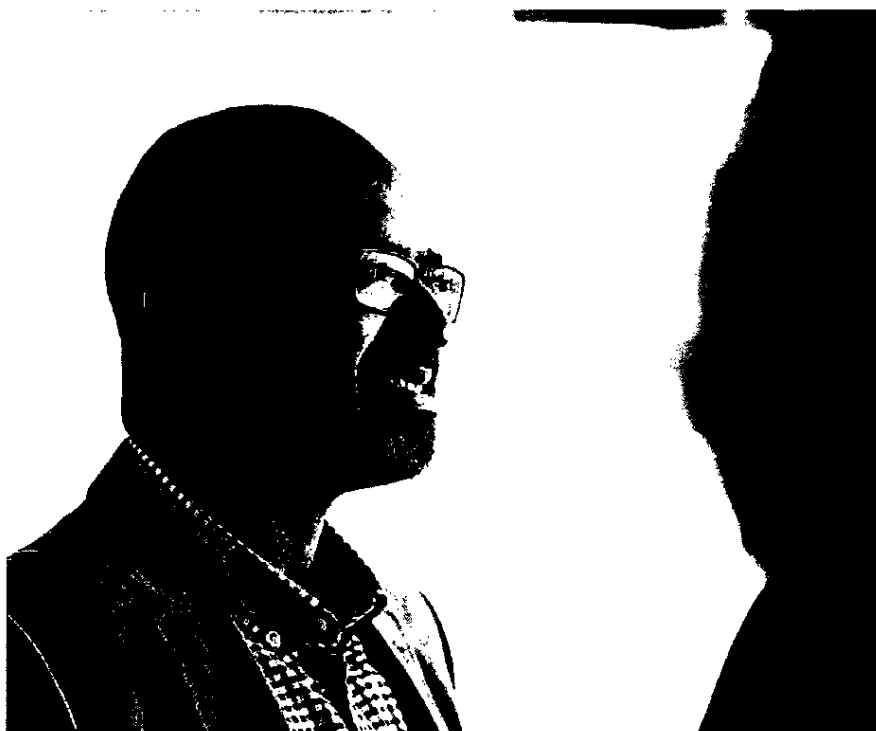
- Attracting and retaining the right skills and diversity, demonstrating leadership, having the right organisational design in place and executing a robust performance and remuneration strategy.
- Refining an efficient and effective business model with the correct structure, resource, skills mix and succession plans in place – moving from a startup to a growing organisation with a workforce that is agile to respond to future requirements.

## Our HR strategy



“  
The Bank offers a unique employment proposition with a strong purpose.  
”

- Continuing to build the British Business Bank as a credible organisation by measuring our performance against our goals and objectives.
- Supporting ongoing learning and development to empower colleagues to have real accountability and provide timely and relevant expertise based on market requirements.
- Ensuring we have a culture and employment proposition to attract the right people with the right skills. We foster a culture based on our values making the Bank a great place to work:
  - The environment gives the organisation and its staff a clear identity and reinforces the strong purpose and social benefit of the bank both internally and externally.
  - We take the best elements from public and private sector to make the Bank both successful and a great environment to work in.
  - We promote diversity and recognise that people work at their best in different ways, encouraging them to express alternative points of view and adapt working practices to accommodate people's needs where possible.
  - Values are role modelled and recognised across all levels and teams in the organisation.



95%

of colleagues said they were proud to work for the organisation

In addition to supporting existing colleagues with their learning and development and offering broad and interesting roles, this summer we are continuing with our summer internship programme, which aims to develop young people's skills and experience to succeed in their future careers.

## Our values

The British Business Bank has five shared values, each of which stem from our key theme, 'Enabling'.

The values were developed from the views and input of colleagues across the organisation. They are the foundation for what we stand for as a business, and will continue to positively shape our corporate culture and behaviours as we grow.

Our Colleague Forum meets monthly with colleagues from Sheffield and London representing teams across the business, to ensure these values remain core to our organisation.

### Integrity

Acting with a shared sense of purpose, an abiding duty of care, and serving our market, stakeholders and employees with fairness, honesty and transparency.

### Improving

Challenging and innovating to create effective solutions that meet the objectives of our stakeholders and ensuring that finance markets for smaller businesses work effectively.

### Delivering

Commitment to delivering a professional, quality service to all our stakeholders and colleagues, whilst employing taxpayer resources responsibly to provide solutions.

### Connecting

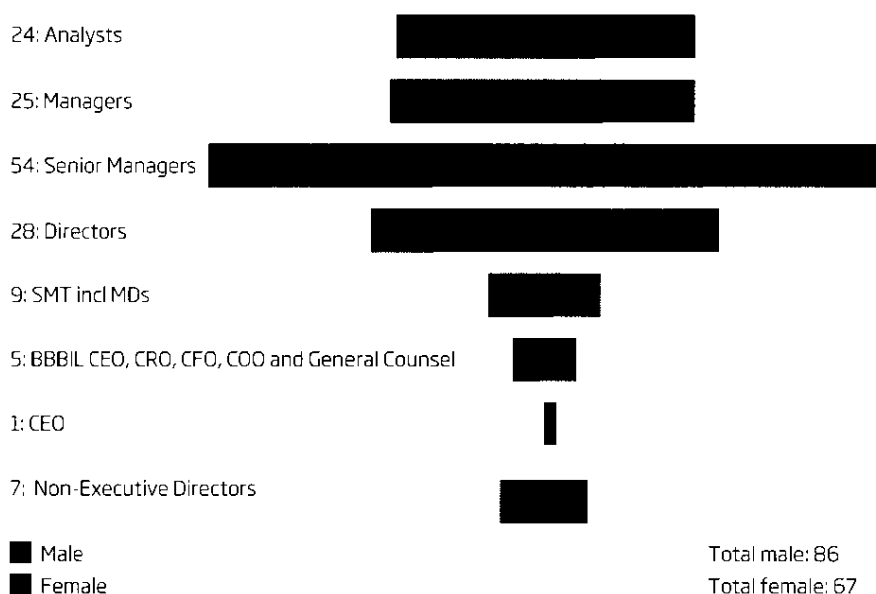
Collaborating across the organisation, engaging with stakeholders, government, and markets to better understand the challenges faced by smaller businesses.

## Enabling

### Commercially Minded

Exercising good commercial judgement to meet the needs of our market while also staying focused on the need to drive economic benefit.

### Male and female split of British Business Bank colleagues at 31st March 2017



### Our people

The British Business Bank recruits a diverse workforce to ensure we make the most of the talents available from all parts of society.

Our Managing Diversity and Equal Opportunities policy lays out the need to promote and implement equality of opportunity and to manage diversity, in such a manner that people are able to maximise both their potential and their contribution. Our male/female split at 31 March 2017 is above.

Our General Counsel, Shanika Amarasekara, is a recognised champion of diversity. In 2017, she was recognised in the Empower top 100 ethnic minority leaders by the Financial Times. Leaders were selected based on their seniority and leadership and had to demonstrate that they had worked to create an environment that brought the best out of black, Asian and minority ethnic employees.



### Corporate Social Responsibility (CSR)

We take seriously our responsibility to make a positive contribution to the communities and environment in which we operate, and undertake a variety of Corporate Social Responsibility (CSR) activities to do so.

The CSR strategy is championed by the Managing Director for Communications and operated on an entirely voluntary basis by our staff across our four areas of action:

- environment
- procurement and suppliers
- charity work
- education outreach.

British Business Bank colleagues continued to build on initiatives across all four areas of our corporate social responsibility mandate in 2016/17. We nominated three charities during the year to receive funds raised from the Bank's CSR activities. The official national nominated charity is MIND, the mental health charity, reflecting our concern for and desire to champion better mental wellbeing in our communities and at work. Two charities were then chosen to support local efforts close to each of our offices: Sheffield Children's Hospital and Great Ormond Street Children's Hospital in London.



### Charity work

Colleagues took part in several fundraising activities to raise money directly for our three nominated charities, raising over £2,000 through a variety of activities including book sales, a British Business Bank bake off, a Christmas raffle of luxury hampers and a tuck shop run by staff.

We also took part in a number of activities to raise money for individual charitable causes including sponsored walks, runs, triathlons and Tough Mudder.

The British Business Bank proudly joined some of the largest organisations across the UK in a social media takeover to support the #MissingType appeal for the NHS to *raise awareness of blood shortages* by removing B, O and As from all social media posts in August 2016. The national campaign was a huge success with registrations to donate blood increasing.

### Education

British Business Bank colleagues have been formally volunteering with Mosaic Mentoring education outreach, part of the Prince's Trust, to inspire young people in deprived communities to realise their talents and potential *through regular mentorship*.

As part of our 2016 internship programme, students organised and delivered a full day workshop for clients of Waging Peace, a charity supporting refugees across the UK. Workshop participants learned workplace skills and took part in a CV clinic to improve employability.

### Environment

Colleagues are committed to reducing waste and limiting our impact on the environment at work by supporting local suppliers, reducing packaging and better recycling. We will continue to run campaigns on how to take simple steps to make big changes for environmental impact.

### Procurement and our suppliers

Policies are in place to ensure our procurement processes are accessible to smaller businesses, including posting opportunities on the government's 'Contracts Finder' portal; and we aim to meet to Government best practice in terms of payment days for suppliers.

# Future developments

The British Business Bank will continue to build on the achievements of the last year to increase our impact while strengthening our infrastructure and capabilities, enabling us to scale sustainably.

While there are numerous ways in which we will be building our capabilities over the coming year, it's worth highlighting three particular areas of focus which are of paramount importance:

## **Responding to opportunities and challenges around exiting the EU**

It has been suggested in many quarters that the British Business Bank should play an expanded role if there is a reduction in the support for UK businesses currently provided by the EIF and EIB. On the back of our established business model and strong reputation in the market, we are well placed to respond flexibly to challenges ahead.

Following the invocation of Article 50, we will also be assessing the best path forward for our interventions. Although most of our programmes are unaffected, a number do include European funds and guarantees and may require evaluation and adjustment. We will seek to resolve access to finance issues for smaller businesses, with some short term (over the coming year) and medium term (over the next five years) strategic realignment to respond to our latest assessments of the state of the market and shifts in political priorities.

## **Increasing our support for equity finance**

As a result of an identified equity gap we have begun expanding our financing solutions for scale-ups (smaller businesses with material growth potential). We expect to add more partners to our Help to Grow programme this year, while our VC Catalyst will accelerate the deployment of the additional £400m of resources allocated at the Autumn Statement 2016. The Chancellor of the Exchequer announced in his June 2017 Mansion House speech that we would be increasing our commitments through this programme, enabling us to contribute up to half of a fund's total size, rather than being restricted to a third, as has been the case up to now. This means that our VC Catalyst will be able to support funds that focus on high growth businesses, particularly those seeking later stage equity investment, more effectively.

We will continue to maintain and grow other programmes that address the equity gap for smaller businesses such as the Angel CoFund and Enterprise Capital Funds.



## **Supporting regional economies**

Our regional funds, NPIF and MEIF, will help address regional imbalances in access to finance, boosting growth in their respective regions. We also expect to put in place a similar intervention for Cornwall and the Isles of Scilly shortly. We will continue to explore local needs and evaluate whether similar solutions could be appropriate for other regions in the UK.

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We will promote greater diversity in finance markets by continuing to expand our support for challenger banks and innovative financial providers.

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### Other future activities

Our combination with the Start Up Loans Company means that we can learn from each other and leverage our combined capabilities to improve our interventions while making more efficient use of taxpayer resources. While the integration presents an operational challenge, we expect the number of loans provided to continue increasing, helping to address the structural disadvantage that many of the UK's newest businesses face in securing finance.

As long-standing structural gaps persist in the finance market for smaller businesses seeking to stay ahead, we will continue to deliver as well as refine those of our programmes designed to address them.

Following our recent review of our long-running Enterprise Finance Guarantee programme, which enables loans to smaller businesses that lack sufficient collateral to borrow, we expect to add new partners to the programme this year and have introduced a new asset finance variant. We have also begun enhancing our engagement with relationship managers in our delivery partners, which we expect will to increase usage of the programme.

We will promote greater diversity in finance markets by continuing to expand our support for challenger banks and innovative financial providers such as marketplace lenders, invoice discounters and asset finance providers.

We have broadened the coverage of our ENABLE Funding programme to include peer-to-peer lenders and are looking at how our ENABLE Guarantees could be used to boost

the housebuilding sector. Our commercial arm's Investment Programme will continue to seek out commercial opportunities to catalyse and support a diversity of supply of finance in the UK for smaller businesses.

We remain committed to delivering improved information to enable markets to function more effectively and efficiently. Having made a good start to the demand-side issues caused by lack of information about finance options available to smaller businesses through our popular Business Finance Guide, we intend to build on this within the coming year. Taking a 'digital by default' approach, our intention is to build an extensive, content rich, online hub with information and guidance on finance options for fast-growing companies specifically, as well as providing better information to businesses across the board. This will enable smaller businesses to make more informed choices about their finance options, potentially opening up additional streams of funding to them. We will also be collaborating with partners to develop and distribute educational guides, with HM Treasury on credit reference agency data and referral of rejected smaller business applicants to finance platforms, and with our research partners to increase knowledge about the markets.



**Keith Morgan**  
Chief Executive Officer

13 July 2017





# Directors' report

The Directors present their annual report on the affairs of the Group, together with the financial statements and independent auditor's audit report for the year ended 31 March 2017. The Corporate Governance Statement is set out on pages 47 to 53 and forms part of this report.

The following information required by the Companies Act 2006 can be found in the following sections of the Annual Report, which are incorporated by reference into this report:

- a description of the principal activities of the Group during the course of this year is included in the Strategic Report;
- details of the significant events since the balance sheet date are contained in note 23 to the financial statements;

- information about the use of financial instruments by the Company and its subsidiaries is given in note 21 to the financial statements.

The Bank has chosen to include information regarding future developments within the strategic report because we believe it is strategically important and therefore better placed there.

## Directors

During the year the following individuals served as Directors. The appointment and removal of Directors is set out in the Corporate Governance Statement found on page 48.

Director	Position	Initial appointment date	Initial appointment expiry	Reappointment effective date	Reappointment expiry
Lord Smith	Chair	5 Jul 2017	4 Jul 2020	N/A	N/A
Ron Emerson	Chair	29 Oct 2013	30 Sept 2016	N/A	N/A
Christina McComb	Interim Chair	29 Oct 2013	18 Nov 2016	18 Nov 2016	18 Nov 2019
Jonathan Britton	Non-executive Director	28 Apr 2014	27 Apr 2017	28 Apr 2017	27 Apr 2020
Neeta Atkar	Non-executive Director	1 Jul 2016	30 Jun 2019	N/A	N/A
Teresa Graham	Non-executive Director	24 Jun 2014	23 Jun 2017	N/A	N/A
Caroline Green	Non-executive Director	24 Jun 2014	23 Jun 2017	N/A	N/A
Colin Glass	Non-executive Director	24 Jun 2014	23 Jun 2017	N/A	N/A
Ceri Smith	Shareholder Representative Director	29 Oct 2013	13 Nov 2016	13 Nov 2016	13 Nov 2019
Keith Morgan	Chief Executive Officer	10 Dec 2013			
Christopher Fox	Executive Director	13 Jan 2015			
Patrick Magee	Executive Director	10 Mar 2015			

## Directors' biographies



**Lord Smith of Kelvin**  
Chair

One of the UK's most experienced chairs, Lord Smith has led organisations in the private, public and voluntary sectors. He was Chair of SSE until July 2015. In 2014 he chaired the Organising Committee for Glasgow 2014 (Commonwealth Games) and the Smith Commission on further powers for the Scottish Parliament. A chartered accountant by profession and former President of the Institute of Chartered Accountants of Scotland, Lord Smith was knighted in 1999, appointed to the House of Lords as an independent cross-bench peer in 2008, appointed Knight of the Thistle in 2013, and awarded the Companion of Honour in 2016.

He is currently Chair, Alliance Trust plc, IMI plc and Forth Ports Ltd, UK Green Investment Bank<sup>1</sup>; Chancellor, University of Strathclyde.



**Ron Emerson**  
Non-executive Chair until  
30 September 2016

Ron brought a broad range of business skills and experience to the Board during his time and role as Non-executive Chair. He spent his early career in international banking where he held a number of senior management positions with Bank of America and Standard Chartered Bank. Ron divides his time between Non-executive directorships, business advisory work, and as an active member of the Faculty of Management Studies at Oxford University.

He has also acted as a Senior Advisor at the Bank of England and the Financial Services Authority.



**Christina McComb**  
Senior Independent Director  
and Interim Chair from 1 October  
2016 – 4 July 2017

Christina McComb has held a range of senior private and public sector roles and has a track record in private equity and venture capital investment and has direct experience of advising small and medium-sized businesses. Christina is a former Director of 3i plc and has senior public sector experience, having been a founding Director of the Shareholder Executive established by the Cabinet Office and former Department of Trade and Industry. Christina is currently Chair of OneFamily, a modern financial mutual organization. She is also Senior Independent Director at Standard Life Private Equity Trust plc and a Non-executive Director of Baronsmead Venture Trust plc and early stage technology company Nexxon Ltd.

1. Lord Smith is due to step down from his post as Chair of the Green Investment Bank shortly'



#### **Jonathan Britton**

Independent Non-executive Director  
– Audit Committee Chair

Jonathan Britton has over 35 years' experience in banking, spanning corporate, SME and investment banking businesses.

His most recent executive roles were as Divisional Finance Director and Head of Strategy for the Wholesale Division at Lloyds Banking Group from 2009 to 2013 and prior to that, Global Controller and Head of Treasury at Barclays Bank plc from 2006 to 2008. He previously held senior posts in UBS's Investment Banking Department.

Jonathan is currently a Non-executive Director of Nomura Europe Holdings plc, and also chairs its Audit Committee. He was a Non-executive Director and chair of the Audit Committee of ICIC Bank UK Ltd from 2011 to 2017.



#### **Neeta Atkar**

Independent Non-executive Director  
and Chair of Risk Committee

Neeta is an experienced Risk Professional with over 25 years' experience working in the financial services private and public sectors across a range of risk disciplines.

Thereafter, she has held senior positions at both banks and insurance companies, in a range of roles covering operational, credit and regulatory risks.

Neeta started her career at the Bank of England before moving to the FSA on its creation. Until the end of 2016, Neeta was the Chief Risk Officer at TSB Bank plc and was a key member of the Executive team that was responsible for creating the bank that was divested from Lloyds Banking Group and undertaking a successful IPO in 2014. She is currently on the Board of Yorkshire Building Society Group and is Chair of the Risk Committee.

She has been a Justice of the Peace for 20 years.



#### **Colin Glass**

Independent Non-executive Director

Colin is a Chartered Accountant with his own practice, Winburn Glass Norfolk (WGN). He is or has been a Non-executive Director of several companies, some of which are quoted on AIM. He acts as a mentor to early stage SMEs with high-growth potential. In January 2011 he was awarded Non-executive Director of the Year in the Grant Thornton sponsored Quoted Company Awards for his work with AIM-quoted SMEs.

In 2016 he was included in the Maserati 100 and was awarded an OBE in the 2017 Queen's New Year Honour's list, for services to business startups and entrepreneurship.


**Teresa Graham**

Independent Non-executive Director

Teresa graduated from Newcastle University. During her time working in a Big Four accounting practice, she was seconded to the UK government's Enterprise and Deregulation Unit. In March 1988 she was appointed to the government's Deregulation Advisory Panel for a two year term and served through two decades of administrations.

She was also the first female laureate of the Institute of Chartered Accountants. Teresa now works independently focusing on her three passions – strategic advice to ambitious, growing businesses, liberating these businesses from the fetters of red tape and running The Lexi Cinema and The Nomad, both social enterprises in the cinema space covenanting 100% of their profits to a charity in South Africa. She holds a number of appointments, including non-executive, mentoring and advisory roles in growth businesses. She was awarded a CBE in 2007 and an OBE in 1997.


**Caroline Green**

Independent Non-executive Director

Caroline is Chief Operating Officer and Chief Finance Officer of network accessories vendor ProLabs Limited having held CFO positions in both private equity-backed and listed businesses. Caroline has also spent eight years in private equity, initially at 3i plc and started her career at Xerox Corp in a variety of roles including supply chain, manufacturing and finance.

Caroline is also vice-Chair of unseen (UK), the charity dedicated to eradication of human trafficking and slavery.


**Ceri Smith**

Shareholder Representative Director

Ceri Smith is a Director at UK Government Investments whose responsibilities include overseeing the British Business Bank on behalf of its Shareholder, the Secretary of State for Business, Energy and Industrial Strategy. He previously worked in HM Treasury, the Department for Business and the Foreign Office. Responsibilities have included advising on business finance, employment law, SME taxation and developing the government's Enterprise Capital Fund Programme.



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**Keith Morgan**  
Chief Executive Officer

Keith led the planning and establishment of the British Business Bank from January 2013, and was appointed Chief Executive Officer in December 2013. Prior to this, Keith was a Director at UK Financial Investments, joining in 2009 to manage the UK Government's shareholdings in Bradford & Bingley, Northern Rock and Northern Rock Asset Management. Keith joined UKFI from Banco Santander where he was a Director of Sovereign Bancorp in the US. He was previously Director of Strategy and Planning at Abbey National and a member of the Executive Committee, and also served as Chairman of Santander's Asset Management and Credit Card businesses in the UK. Before joining Abbey in 2004, Keith spent 18 years at LEK Consulting, where he was a partner specialising in financial services.



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**Christopher Fox**  
Chief Finance Officer and Head of  
Central Services, Executive Director

Christopher is Chief Financial Officer and is also responsible for central functions including HR, IT, Change and Admin. Prior to joining the British Business Bank, Christopher was Head of Banking at UK Financial Investments, where he was responsible for overseeing HM Government's shareholdings in Lloyds Banking Group, Royal Bank of Scotland and UK Asset Resolution. He was also a Non-executive Director at UK Asset Resolution, Bradford & Bingley and NRAM. Christopher joined UKFI from UBS, where he gained extensive experience of financial services over nearly 20 years. He is a qualified accountant.



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**Patrick Magee**  
Chief Operating Officer,  
Executive Director

Patrick joined the British Business Bank as Chief Operating Officer in October 2014. He had previously represented the government's shareholder interests on its Board. Before joining the Shareholder Executive in June 2012, Patrick was a Managing Director of corporate finance at JP Morgan Cazenove, having worked at the predecessor firms for almost 18 years. He has broad experience of working with companies which work closely with government including banks, utilities and support services/infrastructure providers. During his time at the Shareholder Executive Patrick led the team working on the the set-up and governance of the British Business Bank as well as work on a range of the companies in the Shareholder Executive portfolio.

### Directors' indemnities

The Company has granted indemnities to each of its Directors in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities as Directors to the extent permitted by law and the Company's Articles of Association. The Company provides Directors' and Officers' liability insurance.

### Going Concern

The Directors who served during the year have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the financial statements. Future details can be found in the significant accounting policies notes in the financial statements.

### Viability statement

It should be noted that the Bank is 100% funded by the UK government, its sole shareholder, and its continuation as an entity is ultimately at the discretion of the UK government that is in power. The Board assumes that the Bank has, and will continue to have, government support and that its funding arrangement will remain in place.

The Board undertakes a business planning exercise each year to outline the five year plan for the organisation.

The Board believes it is possible to form a reasonable expectation of the Bank's long term viability during that planning period of five years taking into account the principal risks faced by the company and its key objectives.

The Bank has a financial framework in place that allows us to alter the allocation of funding between programmes and years, subject to staying within agreed parameters. Additionally, the Bank has undertaken analysis of stress scenarios of its portfolio and the Board assumes that in the event of a downturn that the shareholder will continue to support the Bank, subject to government policy, in relation to smaller businesses.

### Greenhouse gas emission reporting

#### Scope of disclosure

The British Business Bank reports its Scope 1 and Scope 2 emissions based on its property portfolio. The British Business Bank occupies two floors of office space and is able to provide emission reporting for 2015/16 and 2016/17 in respect of its premises and company travel activities. Reported Scope 1 emissions cover emissions generated from the gas and oil used in all buildings from which the Group operates and Scope 2 includes its emissions from electricity.

The figures provided in Scope 1 and Scope 2 in the table opposite are estimated emissions relating to energy consumed in properties where the landlord controls the supply and recharges the British Business Bank. Reported Scope 3 emissions relate to business travel undertaken by all colleagues using rail and air travel which has been booked through our corporate travel agent. These results are summarised in the table opposite. Currently we do not report on any other Scope 3 emissions. Business mileage in private vehicles is not included as this is not a mode of travel used by the organisation.



Concern for the environment and promoting a broader sustainability agenda are integral to our professional activities.

### Assessment Parameters

Baseline year for total reported CO <sub>2</sub> emissions	2015
Consolidation approach	Operational control
Boundary summary	All facilities under operational control
Emission factor data source	DEFRA (2016)
Assessment methodology	The Greenhouse Gas Protocol revised edition (2004)
Intensity ratio	Emissions per full time employee (FTE)

### GHG emissions

	2015/16 Scope CO <sub>2</sub> (tonnes)	2016/17 Scope CO <sub>2</sub> (tonnes)	Comparison 2015/16 to 2016/17 (%)
Scope 1 (Gas)	24	29	+21
Scope 2 (Electricity)	106	91	-14
Scope 3 (Travel)	9	37	+311
Total	139	157	+13
Total per average number of employees	1.2	1.1	

### Sustainability principles

The British Business Bank is committed to promoting sustainability. Concern for the environment and promoting a broader sustainability agenda are integral to our professional activities and the management of the organisation. We aim to follow and to promote good sustainability practice, to reduce the environmental impacts of all our activities and to help our clients and partners to do the same. To promote this we have a Corporate Social Responsibility Committee which drives recycling and environmental initiatives throughout the Bank.

### British Business Bank plc - Modern Slavery Act Statement

#### Introduction

This statement is made pursuant to section 54 of the Modern Slavery Act (the "Act") and constitutes the British Business Bank's modern slavery and human trafficking statement, as required by the Act for our financial year ended 31 March 2017.

The British Business Bank plc is committed to the principles of the Act and the abolition of modern slavery and human trafficking. We acknowledge the undertakings in the Act and endeavour to create a culture of transparency with regards to the supply of goods and services to us.

We are committed to ensuring that our supply chain and any part of our business are free from any slavery and/or human trafficking.

In the financial year which ended on 31 March 2017, the Bank has taken the following steps in order to combat human trafficking and slavery ('Modern Slavery'):

- Procured and engaged suppliers and advisers in each case in accordance with a set of policies and procedures which help minimise the risk of Modern Slavery occurring in the Bank, including by only engaging with reputable and credible suppliers.
- Created a system of company policies, by which Bank employees can identify risks and report wrongdoing. These make it easy for staff to report concerns at an early stage, including concerns relating to Modern Slavery.
- Ensured that any terms and conditions that the Bank signs up to with suppliers (for the provision of services/goods) are subject to the laws of England and Wales and are therefore bound by the Modern Slavery Act 2015.

### Next steps

We are currently reviewing our supply chain protocols and we intend to undertake the following activities:

- (a) Make all staff aware of the Act and inform them of the appropriate action to take if they suspect a case of slavery or human trafficking.
- (b) Put together a working group to assess the parts of the Bank's business and supply chains where there might be a risk of slavery or human trafficking and what steps the Bank should take to manage these risks and to ensure that Modern Slavery is not present anywhere within the Bank's operations.
- (c) Conduct a further review of the policies and procedures of the Bank to consider whether they should be enhanced or supplemented in relation to Modern Slavery.
- (d) Conduct a further review of the Bank's due diligence processes and documentation standards in relation to Modern Slavery to identify any suitable amendments to such processes or documentation standards.
- (e) Consider whether it would be appropriate to include a specific requirement in our procurement vetting process for prospective suppliers to disclose their position on human slavery and trafficking and to provide statements as appropriate.
- (f) Consider whether it would be appropriate to include reference to, and compliance with, the Act in our supplier engagement process, supplier audit procedures, and contractual arrangements with third party suppliers.

### Approval procedure

This statement, which will be reviewed annually and updated as required, has been reviewed and approved by the Board of Directors of British Business Bank plc on 13 July.

**Keith Morgan**  
Chief Executive Officer

13 July 2017

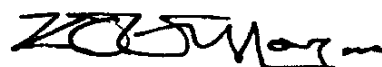
### Auditors

Each of the persons who are a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware;
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information, and to establish that the Company's auditors are aware of that information.

This information is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Approved by the Board of Directors,



**Keith Morgan**  
Chief Executive Officer

13 July 2017



# Corporate governance statement

The British Business Bank constitution consists of its Articles of Association and a Shareholder Relationship Framework Document between the British Business Bank and BEIS which requires that the British Business Bank plc operates, so far as is practicable, a corporate governance framework that accords with best practice and complies with the provisions of the UK Corporate Governance Code 2014 (other than Section E Relations with Shareholders) or that it specifies and explains any non-compliance in its Annual Report. The September 2014 Corporate Governance Code is freely available from the Financial Reporting Council.

The Corporate Governance Code acts as a guide to a range of key issues to ensure effective Board practice. The Code is split between a number of chapters and the principles of leadership, effectiveness, and accountability are values that the Board considers to be critical to the success of our business.

Apart from those set out in this Annual Report, the Board is not aware of any deviations from the relevant aspects of the Code in the period since 1 April 2016 insofar as it applies to the British Business Bank.

## Role and responsibility of the Board of Directors of the Company

British Business Bank plc is led by its Board of Directors which is collectively responsible for the long-term success, and in consultation with BEIS, the strategy of the British Business Bank plc.

As set out in the Shareholder Relationship Framework Document, the Board requires no fewer than eight Directors including six Non-executive Directors. We are currently working with the shareholder to fulfil the obligation to have six Non-executive Directors appointed to the Board. Independent Non-executive Directors are to constitute the majority of the Board. Our Board and Committees have the appropriate balance of skills, experience and independence to enable them to discharge their duties and responsibilities effectively. The Board considers that the Chair was independent on appointment and that all Non-executive Directors other than Ceri Smith are independent for the purposes of the Code. Ceri Smith is the Shareholder Representative Director.

Matters reserved for the Board include the strategic direction of the business, significant investments, terms of reference of all committees, risk management and internal/external controls and appointments to the Board and committees.

Our Non-executive Directors scrutinise the performance of management in meeting agreed goals and objectives. As part of their Remuneration Committee membership, they are responsible for setting appropriate levels of remuneration for Executive Directors and staff in consultation with our Shareholder. This is further explained in the Directors' Remuneration Report at page 60.

The Chair is responsible for leading the Board and its discussions and for encouraging open debate and challenge. The Chief Executive leads the Executive in the day to day running of the business and the implementation of strategy and is supported in this by the Senior Management Team. The Chief Executive is the Accounting Officer. He has direct accountability to the Shareholder.

The responsibilities of an Accounting Officer include responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, keeping proper records and safeguarding the Bank's assets.

The Senior Independent Director is Christina McComb. The Senior Independent Director's responsibilities are to: work closely with the Chair, act as an intermediary for other Directors as and when necessary and meet with other Non-executive Directors to review the Chair's performance. Christina McComb has been acting as Interim Chair pending the appointment of the new Chair.

The Shareholder, UK Government Investment (UKGI), conducted a review of Christina McComb prior to her appointment as Senior Independent Director and again prior to her re-appointment. The exercise to appraise the Chair's performance was conducted by questionnaire and discussed among the Non-Executive Directors.

### Appointment and removal of directors

The Shareholder Relationship Framework Document provides that no appointment or removal of a director of the Company or appointment or removal of any such director to or from an executive position, can be made without the prior written consent of the Shareholder. In accordance with the Shareholder Relationship Framework Document, the Chair and the Senior Independent Director were appointed in a process chaired by a commissioner from the Office of the Commissioner for Public Appointments during the year.

The composition of the Board during the year is set out on page 39 of the Directors' report.

In May 2016 Ronald Emerson gave notification of his intention to resign from the Board with effect from 30 September 2016 and Christina McComb was appointed by the Shareholder as Interim Chair of the Board from 1 October 2016 until the new Chair was appointed. Consequently the Board appointed

Teresa Graham to chair the Remuneration Committee during this period and appointed Teresa Graham to the Nomination Committee for the same period. During the interim period the Board operated without a senior independent director.

The shareholder selected Korn Ferry as recruitment consultants for the appointment of a new Chair. In April 2017 our shareholder announced the appointment of our new Chair, Lord Smith of Kelvin, as the new Chair of the British Business Bank.

Earlier in the year, Ridgeway Partners were appointed as recruitment consultants for the appointment of new Board Members for the British Business Bank and British Business Bank Investment Limited<sup>1</sup>. Following receipt of the necessary consents from the Secretary of State during May 2016, Neeta Atkar was appointed as a Non-executive Director and the new Chair of the Risk Committee in July 2016 at which point Teresa Graham stepped down as interim Chair of the Risk Committee.

In June 2017 the three year terms of Colin Glass, Teresa Graham and Caroline Green ended and they stepped down from the Board.

The biographies of all Board members can be found at: [www.british-business-bank.co.uk/our-people/](http://www.british-business-bank.co.uk/our-people/)

### Annual director election

At the 2014 Annual General Meeting (AGM) all of the Non-executive Directors and Keith Morgan were each re-elected for a period of three years. At the 2016 Annual General Meeting, the appointment of Neeta Atkar was confirmed for a period of three years and the re-election of Christina McComb as Senior Independent Director for a period of three years and as interim Chair of the Board was confirmed. In February 2017 the directors approved the re-appointment of Jonathan Britton as a director and Chair of the Audit Committee for a period of three years.

### Board Information

All Directors are provided with updates on corporate governance developments, legislative and regulatory changes, and relevant industry and technical information. The Board is supplied in a timely manner with the appropriate information to enable it to discharge its duties and any further back-up papers and information are readily available to all Directors on request to the Company Secretary. Since 2015 the Board has been using electronic delivery and format for board papers and information, to increase efficiency, confidentiality and sustainability.

1. Ridgeway Partners have no other connection with the Bank.



## Board Committees

The Board of Directors of the Bank has been set up along with Board-level committees, notably Risk, Audit, Remuneration and Nomination. To ensure robust and effective decision-making within the Group structure the British Business Bank Board has approved terms of reference for each committee.

### Audit Committee Report

Under the chairmanship of Jonathan Britton, the other members of the committee during the year were Teresa Graham, Caroline Green and Neeta Atkar, who are all independent Non-executive Directors. The Chief Executive officer, Chief Finance Officer, Chief Risk Officer, General Counsel and Head of Internal Audit attend Committee meetings along with the external auditors who are invited to attend and report at all meetings. The committee also meets privately with both internal and external audit. The Committee met six times during the year in May 2016, June 2016, July 2016, September 2016, December 2016 and March 2017 and attendance can be found on page 53.

### Role

The Committee's role is to review, monitor and make recommendations to the Board relating to the going-concern nature of the Bank, the integrity of financial reporting, the financial statements and any issues and judgements they contain, the adequacy and effectiveness of the internal and external controls and overseeing the relationship with the Bank's external auditor. The committee also has oversight of the internal audit and audit planning process of the Bank.

During the financial year 2016/17, the Audit Committee considered and approved the following matters:

#### In relation to financial statements:

- The oversight of the Bank's financial reporting process and the process for preparation of the consolidated accounts.
- Reviewed the accounting policies adopted to ensure the Bank as a whole complies with the applicable accounting standards and presents consolidated accounts that are true and fair.
- Accounting treatment for investments and impairments and critical accounting judgements
- The process for preparing the consolidated accounts.
- IFRS 9 accounting implications.
- Group and subsidiary audit exemptions.

In relation to internal and external audit:

- Appointment of external auditors.
- Review of external audit planning and progress.
- External audit management letter.
- Approval of the internal audit plan and review of progress against this plan.
- Reviewed the Head of Internal Audit's annual report and opinion.

In relation to governance and other matters:

- Assurance mapping and whistleblowing policy.
- The migration of accounting and outsourcing arrangement that the Bank receives from UKSBS to another provider.
- Approval of amendments to its Terms of Reference.
- Accounting treatment of the proposed SULCo transaction and review of accounting policies.



#### Monks & Co Clothing

Amy Barker of Kent-based Monks & Co Clothing received £6k from the Start Up Loans programme, enabling her to invest in stock and develop her website.

As required by the Shareholder Relationship Framework Document, the Bank is audited by the Comptroller and Auditor General. The National Audit Office carries out the external audit for and on behalf of the Comptroller and Auditor General. The external auditors have not conducted any non-audit services during the financial year and the committee considers that the external auditor is both objective and independent.

The significant issues considered by the committee, with input from the External Auditor, during the year included methodologies and procedures for determining asset valuations and provisions, significant accounting policies, decisions and judgments, the contents of the Annual Report and Accounts of the Company and the financial and accounting aspects of the combination with SULCo.

External audit brought four matters to the Audit Committee's attention in their 2015/16 management letter.

These were:

- Documenting decisions around accounting treatment.
- The approach to the unwinding of the ECF impairment.
- Issues with the accounts production process.
- Staff contracts.

All of these issues were addressed and their resolution discussed and agreed by the committee.

As part of an overall Board evaluation, the effectiveness of the committee was assessed. The evaluation determined that the committee was operating effectively, but suggested some small improvements that could be made.

Signed for and on behalf of the Audit Committee



**Jonathan Britton**  
Chair of the Audit Committee

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### **Remuneration Committee**

The Remuneration Committee operated under the chairmanship of the Senior Independent Director, Christina McComb until she became the interim Chair of the Board in October 2016 at which point Teresa Graham was appointed as the interim Chair of the Remuneration Committee. The Remuneration Committee also comprised the Chair, Ron Emerson until he stepped down on 30 September 2016, and Ceri Smith. The committee met six times during the year in April 2016, June 2016, September 2016, November 2016, February 2017 and March 2017. Attendance can be found on page 53.

#### **Role**

The committee's role is to set the remuneration policy for all Executive Directors, the Chair and all other senior management, including pension rights and any compensation payments. It also sets the terms of the Long and Short-Term Incentive Plans and any incentive schemes the British Business Bank plc and its subsidiaries may operate in

accordance with the parameters of the Shareholder Relationship Framework Document.

During the financial year 2016/17, the Remuneration Committee considered the objective setting and structure of all compensation payments to Directors and senior management, the administration of the Long and Short-Term Incentive Plans of the Bank, review of market benchmarks for remuneration, the performance evaluation of senior management, approval of a private healthcare proposal, the introduction of a cash allowance in lieu of pension for employees who have reached their lifetime pension allowance, review of its Terms of Reference and employment and remuneration issues related to the SULCo transaction.

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### **Risk Committee**

The Risk Committee operated under the chairmanship of Teresa Graham in an interim capacity until the appointment of Neeta Atkar as the new Chair of the Risk Committee on 1 July 2016. Following the May meeting Teresa Graham stepped down from the Risk Committee. The Risk Committee also comprises independent Non-executive Directors, Christina McComb, Colin Glass, and Jonathan Britton and the Shareholder Director Ceri Smith. The Chief Executive, Chief Finance Officer, Chief Risk Officer, General Counsel and Head of Internal Audit also attend committee meetings. The committee met four times during the year in May 2016, September 2016, December 2016 and February 2017. Attendance can be found on page 53.

### Role

The Risk Committee advises the Board on the company's overall risk appetite and strategy, reviewing performance against risk, the strategic risk register and other management information relating to the risks facing the group. It reviews and approves the Bank's Risk Management Framework and satisfies itself that the framework is efficient and effective relative to the Bank's activities and risk profile.

During the financial year 2016/17, the Risk Committee considered and approved the following matters:

- Reviewed the assessment of the Risk Management Framework and recommended the updated version for approval to the Board.
- Considered our risk appetite quantification, and the outputs of macroeconomic stress tests on our portfolio and business plan.
- Reviewed qualitative and quantitative analysis of the various programme portfolios.
- Approved the Operational Risk Management Framework, Change Management Framework and Business Continuity Plan.
- Reviewed and approved policies on Model Governance, Credit and Investment Risk, Market Abuse and Insider Dealing, Information Security and Reputational Risk.

- Assessed our position in relation to State aid.
- Assessed the impact of market risk on the portfolio.
- Reviewed the Cyber Risk Roadmap and Information Strategy.
- Reviewed the risks associated and the assurance work undertaken in relation to the SULCo transaction.

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### Nomination Committee

The Nomination Committee operated under the chairmanship of Ron Emerson until his resignation on 30 September 2016 and from 1 October 2016 under the interim chairmanship of Christina McComb. Ceri Smith is also a member of the committee. From January 2017 Teresa Graham was appointed as an interim member.

### Role

The committee met during May 2016 and January 2017 and attendance details can be found at page 53. At the committee meeting, nominations of potential Directors were considered and recommended to the Board.



During the financial year 2016/17, the committee discussed succession planning for Executive Directors and senior management, appointment of further Non-executive Directors to the Board, re-appointment of existing directors, membership of the Audit, Risk and Remuneration Committees, review of its Terms of Reference, and undertaking an external evaluation of the Board and Audit and Risk Committees.

The Shareholder Relationship Framework Document provides that no appointment or removal of a director of the Company or appointment or removal of any such director to or from an executive position, can be made without the prior written consent of the Shareholder and appropriate consents to each directorship were obtained from the Shareholder.

The appointment of the Chair is a shareholder appointment, as such it was not appropriate to have a Nominations Committee process for the appointment.

#### Other committees

In addition, during 2016/17 Board committees were established to discuss the following adhoc matters:

- The identification of new premises in Sheffield and additional space in London;
- All matters related to the proposed transaction with the Start Up Loans Company ("SULCo"); and
- The role being performed by the Bank on the Northern Powerhouse Investment Fund and the Midlands Engine Investment Fund.

An existing Board Sub-Committee relating to the advice being provided to HM Treasury on finance platforms and credit reference agencies continued to meet during 2016/17.

The Bank has a number of Executive Committees including Investment Committees for each subsidiary and the Product Development Committee each of which consists of various members of the Bank's senior management together with Board members when it is required for particular investment decisions.

The Board, the Board Committees, and the Executive Committees have been structured to provide a strong governance framework. The Board Committees and Investment Committees each have Terms of Reference which set out respective duties and responsibilities. All appointments to the Board, the Board Committees and the Executive Committees are based on the diversity of contribution, experience and required skills, irrespective of gender, race or any other irrelevant criteria.

The Board is committed to ensure the diversity of its membership. All appointments to the Board are based on merit and on the experience and skills required, with due regard to the benefits of diversity.

#### Board and committee attendance

The table opposite sets out the attendance of Directors since 1 April 2016 who attended each Board and committee:



## Attendance at meetings and committees

The table set out below sets out the attendance of Directors since 1 April 2016 who attended each Board and Committee:

	Board	Audit	Risk	Remuneration	Nomination
<b>Total number of meetings</b>	9	6	4	6	2

### Chair

Ron Emerson (retired 30 September 2016)	4/4	-	-	2/3	1/1
Christina McComb (interim Chair from 1 October 2016)	8/9	-	3/4	6/6	1/2

### Non-executive Directors

Neeta Atkar (appointed 1 July 2016)	6/7	3/3	3/3	-	-
Jonathan Britton	9/9	6/6	2/4	-	-
Colin Glass	8/9	-	4/4	-	-
Teresa Graham	8/9	6/6	1/1	6/6	1/1
Caroline Green	9/9	5/6	-	-	-
Ceri Smith	9/9	-	3/4	6/6	2/2

### Executive Directors

Keith Morgan	9/9
Christopher Fox	9/9
Patrick Magee	9/9

## Board Performance

The Bank is committed to ensure that the Board and its committees operate effectively and are continually improving. During the year the Board conducted an external Board evaluation to monitor their effective operation. The external evaluation process was undertaken by Independent Audit following a competitive process to ensure value for money. A report detailing findings and suggested improvements has been accepted by the Board and an action plan is being established to implement key recommendations during 2017/18. Overall the review concluded that the Board was effective, demonstrating a clear commitment and enthusiasm for the objectives of the Bank.

## Conflicts of Interest

Each Director has a duty under the Companies Act 2006 to avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. As part of our Conflicts of Interest Policy, the Bank has adopted a formal procedure for disclosure, review and authorisation of Directors' conflict of interest, which requires written disclosure of any actual or potential conflicts of interest for all Directors and staff. The procedure requires Directors to notify formally the Chair or the Company Secretary as soon as they become aware of any actual or potential conflicts of interest with their duties to the Bank, or of any material change in existing or potential conflicts that may have been authorised by the Board.

The Board believes that outside interests can be beneficial for both the Executive and Company and has authorised the outside interest of the Chief Executive Officer in his role as a Non-executive Director at UK Asset Resolution.

The Bank has not made any political donations or incurred any political expenditure during the financial year.

# Risk management and internal control

The British Business Bank plc is committed to ensuring the best standards of Corporate Governance and is supported in this by the Board of Directors and Board Committees.

The Board has overall accountability and responsibility for the management of risk within the British Business Bank. Our Risk Management Framework has been designed to align to the size, scale and complexity of the British Business Bank and has been benchmarked against other financial services institutions. The British Business Bank is not an FCA/PRA regulated entity, although one of its subsidiaries representing approximately 1% of the portfolio, Capital for Enterprise Fund Management, is regulated by the FCA for controlling but not holding client money. The rest of the British Business Bank is not subject to regulatory supervision and the British Business Bank does not hold regulatory capital. The Bank is however subject to other applicable laws and regulations and aspires to meet standards of good practice. We have policies and procedures in place to ensure compliance with applicable laws and regulations, including Anti Money Laundering, Data Protection and Freedom of Information, and aspire to follow best practice where appropriate and applicable.

To ensure robust and effective decision making within the Bank, it has approved terms of reference for each executive level investment committees, for each subsidiary which makes investment decisions.

## Risk Management Framework

Our Risk Management Framework is a collection of tools, processes and methodologies that support the British Business Bank in identifying, assessing, monitoring and controlling the risks it faces.

The Risk Management Framework:

- demonstrates a clear link to the overall strategy and business plan of the British Business Bank;
- is owned by the Chief Risk Officer (CRO) and approved by the British Business Bank Board. Any changes to the Risk Management Framework are recommended by the Board Risk Committee to the Board for approval;
- outlines the risk management vision and objectives, and the approach for evolving the risk management capability of the British Business Bank;
- is reviewed on an annual basis and, if required, more frequently to reflect any significant material changes to the business, economic or regulatory outlook.

A discussion of how the Bank handles its risks in relation to financial instruments is set out in note 21 of the financial statements.

A yearly external review of the Risk Management Framework is undertaken to assess the effectiveness of risk management within the British Business Bank. This review, carried out by third party advisers, was last completed in autumn 2016. This review concluded that the design of the Risk Management Framework was appropriate to enable the Bank to identify, assess, control and monitor the risk profile against the Risk Appetite Statement. The findings of this review were presented to the Board Risk Committee and a summary was presented to the Board. The next review of the Risk Management Framework will take place in the third quarter of 2017/18 financial year.

Key elements of our Risk Management Framework include risk appetite and risk governance.

## Risk Appetite

The British Business Bank's Risk Appetite Policy acts as the link between overall business strategy, the risk strategy and the Risk Management Framework by bringing strategic context to identified risks, adopting clear escalation criteria, and informing the processes for the identification, assessment, control and monitoring of risk exposures.



The Risk Appetite Policy of the British Business Bank is based on the high-level design principle that risk appetite represents the level of risk the Board of the British Business Bank is willing to accept to deliver its public policy objectives.

The Board undertook a review of the British Business Bank's risk appetite in February 2017 in conjunction with setting its business plan for 2017/18.

The Risk Appetite Statement summarises the Board's appetite for the principal risks that the British

Business Bank is exposed to. It is tied to the risk categorisations detailed in the Risk Management Framework which outlines seven broad categories of Level 1 risks and 28 sub-categories of level 2 risk. The Risk Appetite Statement is as follows:

## Principal risks and risk appetite

Risk	Definition	Categories	Example mitigants
<b>Strategic and Business Risk</b>  <b>Risk appetite:</b> Low - Medium	The risks arising from a suboptimal business strategy or business model that may lead to financial loss, inappropriate management of public money, reputational damage or failure to meet internal and/or public policy objectives.	<ul style="list-style-type: none"> <li>– Risk that the Bank's current and planned products may not be fit for purpose.</li> <li>– Risk that the Bank does not meet its deployment or commitment targets.</li> <li>– Risk that the Bank is not effective in meeting its objectives.</li> </ul>	<ul style="list-style-type: none"> <li>– Both a clearly defined set of objectives and a robust governance model are in place.</li> <li>– New products are subject to market assessment and new product approval process.</li> <li>– Regular review of the strategic risk register by the senior team and Board Members.</li> <li>– Change function and Change Board to manage the growth of the organisation.</li> <li>– Regular review of market conditions, impact on SMEs and ongoing communication with stakeholders.</li> </ul>
<b>Credit and Investment Risk</b>  <b>Risk appetite:</b> Medium - High	The risk of direct or indirect losses in, on, and off the balance sheet positions as a result of the failure of a delivery partner or underlying borrower to meet its obligations in accordance with agreed terms, or loss of value in equity investments.	<ul style="list-style-type: none"> <li>– Risk of end borrower default, for example as a result of poor trading, or defects in the delivery process.</li> <li>– Whilst the majority of individual exposures to end borrowers are small, exposures to mid-cap companies are typically larger.</li> <li>– Delivery partner default or closure.</li> <li>– Venture Capital is subject to vintage risk, with the year the investment was made a significant risk factor.</li> <li>– Concentration within one industry or location creates a portfolio that is subject to greater risk than a more evenly balanced one.</li> </ul>	<ul style="list-style-type: none"> <li>– Delivery partner selection process includes robust due diligence, assessment of underwriting and sanctioning processes, and thereafter is subject to portfolio monitoring and regular review.</li> <li>– The credit quality of exposures is monitored closely.</li> <li>– The Bank aims to continue to invest throughout the economic cycle, therefore minimising the vintage risk.</li> <li>– The portfolio is monitored closely for concentration risk.</li> </ul>

## Principal risks and risk appetite

Risk	Definition	Categories	Example mitigants
<b>Market Risk</b> <b>Risk appetite:</b> Medium	The risk of direct or indirect losses that arise from fluctuations in the values of, or income from, assets due to movements in interest or exchange rates or credit spreads.	<ul style="list-style-type: none"> <li>– The Bank makes material losses due to foreign exchange movements through its investments.</li> <li>– The Bank investments are subject to interest rate fluctuations.</li> </ul>	<ul style="list-style-type: none"> <li>– The Bank has small foreign exchange exposure and does not hedge this exposure. This is in line with government policy.</li> <li>– The Bank conducts scenario testing of exposures sensitive to interest rate market valuation or FX movements.</li> <li>– The Bank requires some delivery partners to manage market risk directly within the terms of the investment.</li> </ul>
<b>Operational Risk</b> <b>Risk appetite:</b> Low – Medium	The risk of direct losses resulting from inadequate or failed internal processes, people and systems or indirect losses resulting from relationships with third parties or from external events.	<ul style="list-style-type: none"> <li>– Errors in execution, delivery, and processing.</li> <li>– Failure of internal controls or processes.</li> <li>– External or internal frauds.</li> <li>– Damage to physical assets, utilities disruption or systems failure.</li> <li>– Risk that Bank does not have, recruit or retain the right staff, with the right culture, to meet its objectives.</li> </ul>	<ul style="list-style-type: none"> <li>– Risk and Control Assessments with functional teams are held to assess risks and associated internal controls.</li> <li>– Operational Incidents management process in place.</li> <li>– Close liaison with BEIS counter fraud network and regular interaction with key business partners.</li> <li>– Target operating model planning and regular employee engagement, including Colleague Forum.</li> </ul>
<b>Information Risk</b> <b>Risk appetite:</b> Low	The risk that the Bank does not maintain the confidentiality, integrity, or availability of the information and data it generates, receives, processes or stores.	<ul style="list-style-type: none"> <li>– Risk of inaccurate or incomplete data processed within operations.</li> <li>– Breach of legal requirements relating to safe-keeping and disclosure of information.</li> <li>– Risk of business sensitive information being leaked or accidentally made available in public domain.</li> <li>– Threats of cyber-attacks that steal sensitive data relating to the Bank or its delivery partners as well as disrupt the Bank's functionality.</li> </ul>	<ul style="list-style-type: none"> <li>– Business information and data governance projects established within the Bank.</li> <li>– Cyber Essentials accreditation.</li> <li>– Information Risk Management Framework in place supported by policies and procedures covering information security, data protection, freedom of information, information classification and handling, IT acceptable use.</li> <li>– Mandatory staff training programme covering information security, cyber crime, data protection, and freedom of information.</li> <li>– The Bank Maintains BCP plans which contain robust disaster recovery of information technology systems.</li> </ul>

## Principal risks and risk appetite

Risk	Definition	Categories	Example mitigants
<b>Legal and Compliance Risk</b>  <b>Risk appetite:</b> Low	Risk of breaching applicable UK or EU laws and regulations, internal policies or procedures, exposing the Bank to legal action, fines and penalties, financial losses and reputational risk.	<ul style="list-style-type: none"> <li>– Risk that the Bank's regulated entity breaches regulatory requirements.</li> <li>– Breach of applicable laws relating to financial crime, money laundering and conflicts of interest.</li> <li>– Risk that the Bank enters into regulated activities within its programmes, without being regulated.</li> <li>– The Bank employees breach compliance standards.</li> </ul>	<ul style="list-style-type: none"> <li>– New products and programmes are assessed against the UK and EU regulatory environments.</li> <li>– All new investments are subject to Know Your Customer and anti-money laundering reviews.</li> <li>– The Bank has a Compliance Risk Management Framework and a suite of compliance related policies.</li> <li>– Bank employees are subject to a Code of Conduct policy, annual Compliance Declaration and mandatory e-Learning.</li> </ul>
<b>Reputational Risk</b>  <b>Risk appetite:</b> Low – Medium	The risk that the firm will act in a way which falls short of stakeholder expectations.	<ul style="list-style-type: none"> <li>– The Bank operates an outsourcing model which is subject to delivery partner conduct and performance.</li> </ul>	<ul style="list-style-type: none"> <li>– A Reputational Risk Policy is in place.</li> <li>– The Bank undertakes extensive due diligence on new delivery partners and monitors existing delivery partners.</li> <li>– Service Level Agreements are in place with delivery partners.</li> <li>– The Bank has a robust Complaints Policy in place.</li> </ul>

The Bank undertook an exercise to quantify the potential downside risks of a severe downturn against our Business Plan. This assessed the likely impact on our portfolio assuming a 1 in 20 year scenario across the various programmes, and a further scenario based upon Bank of England guidelines. The outcomes were considered by both the Board Risk Committee and the Board. Further detail on this exercise is covered in the corporate governance section.



The three lines of defence model implemented by the Bank is outlined below.

### Three lines of defence model

#### First line of defence

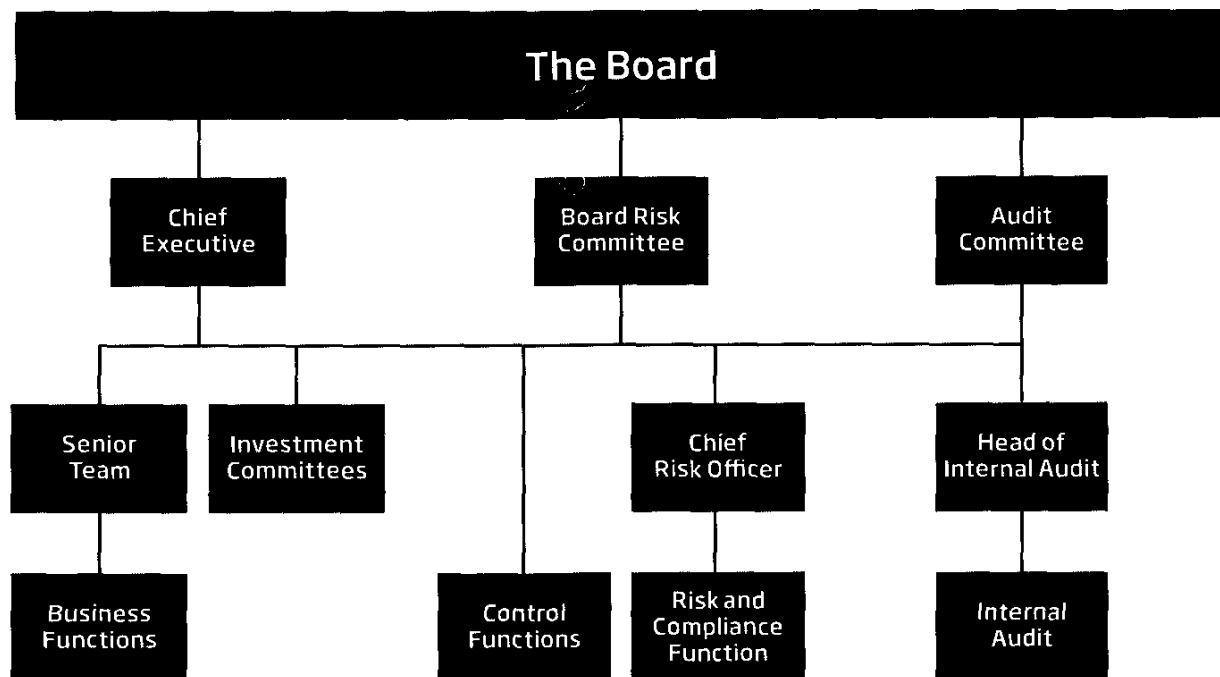
Day to day management and risk control

#### Second line of defence

Risk policies, methodologies and independent oversight and challenge

#### Third line of defence

Independent assurance



## Risk Governance

The British Business Bank risk governance is based upon a 'three lines of defence' model as outlined in the Risk Management Framework, where the:

- First line of defence is responsible for the day to day identification, reporting and management of their own risks.
- Second line of defence is responsible for designing risk and control policies and methodologies monitoring performance and compliance, identifying and reporting risks and providing independent and appropriate challenge to the first line of defence.
- Third line of defence provides independent assurance of the overall system of internal control including assessment of the risk governance framework.

The key principles of this model, as demonstrated by the diagram on previous page, are:

- The Board has overall accountability and responsibility for the management of risk within the Bank.
- The Board delegates specific risk management roles and responsibilities to the Board Risk Committee, the Audit Committee, CEO, CFO and the CRO.
- The CEO and CFO are supported in delivery of these responsibilities through direct reports from the senior team.
- The CRO is a member of the senior team and is also supported by the Risk and Compliance function in the delivery of their responsibilities.

The British Business Bank encourages a strong culture of risk awareness and transparency through robust risk governance, clear accountabilities, regular intranet updates and in-house live and computer based training.

Policies form an integral part of managing risk within the British Business Bank. We have in place an enterprise wide set of policies, frameworks and procedures covering the major parts of our business. They outline how we intend to function, taking account of regulatory or legal requirements and industry best practice. Policies are approved by the appropriate committees and communicated to staff. Colleagues are also subject to the British Business Bank Code of Conduct and annual compliance declarations.

Approved by the Board of Directors,



**Keith Morgan**  
Chief Executive Officer

13 July 2017



# Directors' remuneration report

## Chair's Foreword

On behalf of the Board, I am pleased to present the Remuneration Report for the British Business Bank for the year ended 31 March 2017. Those sections of the report that have been audited by the National Audit Office have been identified as such.

The committee's primary role is to provide robust, independent governance for executive remuneration, to ensure that reward for the Bank's executive team:

- supports the Bank's long term business strategy and values
- enables the Bank to recruit, motivate and retain talented individuals with appropriate skills and experience
- links executive reward to the Bank's performance against its long-term business plan.

This report is divided into two parts:

1. Policy on Executive Directors' and senior management remuneration.
2. Annual report on remuneration. This section outlines how the policy has been applied and includes details of remuneration for the senior team.

During the financial year 2016/17, the Bank continued to make significant progress, as outlined in the Chair's Statement. The committee has also played an important role in monitoring and reviewing a remuneration framework that reflects the particular circumstances of the Bank as a public owned company operating in a commercial environment. Accordingly, the committee has continued with an incentive scheme that is designed to reward senior employees based on the long-term sustainable success of the Bank. Key decisions made by the committee and recommended to the Board during the year were:

- agreeing the annual pay review for 2017
- reviewing the long term incentive plan (LTIP) appropriate to the particular circumstances of the Bank
- measuring corporate and individual performance targets for 2016/17 and the first cycle LTIP
- reviewing the overall remuneration policy and strategy for the Bank
- agreeing the remuneration approach for Start Up Loans Company with the SULCo Remuneration Committee which joined the group as a subsidiary on 1 April 2017
- introducing Private Medical cover for employees of the Bank
- introducing an allowance in lieu of pension payments for colleagues below Executive Director level who have reached their pension Lifetime Allowance.

In accordance with the rules of the Bank's long term incentive plan (LTIP), 2016/17 was the first year in which awards were assessed for the corporate performance element of the scheme over the three year cycle 2014/15 to 2016/17. Based on the performance of the Bank against its Key Performance Indicators and taking into account various other considerations, the committee concluded an award of 75% of the maximum was appropriate. Further details of awards of the senior executives are set out later in this report.

The Remuneration committee has continued to take an interest in broader market trends and carried out benchmarking of salaries and remuneration in 2016. In the context of the Bank's policy remit, the committee recognises that remuneration policy will need to be reviewed from time to time to ensure that it is meeting the requirements of our shareholder and is fit for purpose. Where appropriate, the committee will seek relevant external advice and guidance.

Looking ahead to 2017/18, the committee will be reviewing the business targets for the next period and setting stretching business and personal targets for the executive, in particular in the context of any new policy initiatives which the Bank has been asked to undertake.



**Christina McComb**

# Remuneration policy report

## Policy overview

The Remuneration Committee determines, on behalf of the Board, the Bank's policy on the remuneration of the Chair, Executive Directors and other members of the senior team.

The committee's terms of reference are available on the Bank's website.

While not covered by the FCA/PRA Remuneration Code for banks, the British Business Bank has sought where appropriate to meet these governance requirements, in addition to The Large and Medium-sized Companies and Groups Regulations 2013.

The committee will continue to review the remuneration strategy and approach to ensure that the Bank adopts leading practice with respect to its remuneration policy and can respond to business priorities.

## How the views of the shareholder have been taken into account

The shareholder-appointed Non-executive Director is a member of the Remuneration Committee. In addition, specific approval has been obtained from the shareholder for Executive Director remuneration and individual objectives and for the LTIP terms.

## The remuneration policy for directors and the senior team

In setting remuneration policy for the senior team, the Remuneration Committee has taken into account the following key factors:

- the need to attract and retain a high-calibre senior team to deliver the Bank's strategy in alignment with the interests of the shareholder
- the requirement to reward long-term performance and incentivise the right behaviours
- the efficient use of taxpayer resources and the requirement to deliver good value for money for the Exchequer as a whole.

The Bank has not consulted its employees on this policy, although it has considered the reward philosophy for employees in general. The focus for employees is on rewarding performance over the longer term and to have reward packages which attract high-calibre candidates, while delivering value for money.

Table 1 summarises the key elements of the Bank's remuneration policy for Executive Directors and the senior team, taking into account the factors above. The Executive Directors' service contracts are available for inspection at the Bank's registered office.

Under the remuneration policy, the total remuneration for each Executive Director depends on his or her own and the Bank's performance.



Table 1: Remuneration policy

Element	Operation, opportunity and performance framework
<b>Base salary</b>	
<b>Objective</b> To attract and retain high-calibre senior leaders.	<p>Base salaries are reviewed annually taking into account the nature of the role and responsibilities. Roles are benchmarked against relevant comparator organisations in the public and private sectors. The Remuneration Committee also takes into account the external environment and views of the shareholder.</p> <p>Any Executive Director salary increases in percentage terms will normally be in line with increases awarded to other colleagues, but may be higher in certain circumstances. The circumstances may include but are not limited to:</p> <ul style="list-style-type: none"> <li>– where there has been an increase in the scope or responsibility of an Executive Director's role</li> <li>– where a salary has fallen significantly below market positioning given the size and scale of the Bank.</li> </ul>
<b>Long term incentive plan (LTIP)</b>	
<b>Objective</b> To reward performance over the longer term	<p>Executive Directors and certain other senior executives are eligible to participate in the long term incentive plan (LTIP).</p> <p>The LTIP operates as a series of three year cycles. Objectives are set at the beginning of each cycle and progress is reviewed by the committee on an annual basis.</p> <p>Objectives are set in two categories: corporate and personal. The weighting between these categories may be varied over time, current at the discretion of the Committee, taking into account the requirements of the business and any relevant external factors. The weighting for the current LTIP is 60% to corporate targets and 40% to personal targets.</p> <p>Corporate targets cover rolling three year periods and will generally be in line with the Bank's business plan objectives. The current targets for the LTIP awards granted during the year and the threshold levels are set out in Annual Report on Remuneration and have no specific weightings. Personal targets are designed to take into account the specific responsibilities of individual senior leaders in the Bank.</p> <p>The current incentive is a maximum cash award of 50% of base salary. In the case of Executive Directors, awards are paid at the end of the relevant three-year cycle; in the case of the first cycle LTIP, in August 2017. In the case of other recipients of the LTIP, any awards in respect of personal objectives may be paid after two years and the corporate element after three years. There is no annual bonus award for Executive Directors and the senior team.</p>

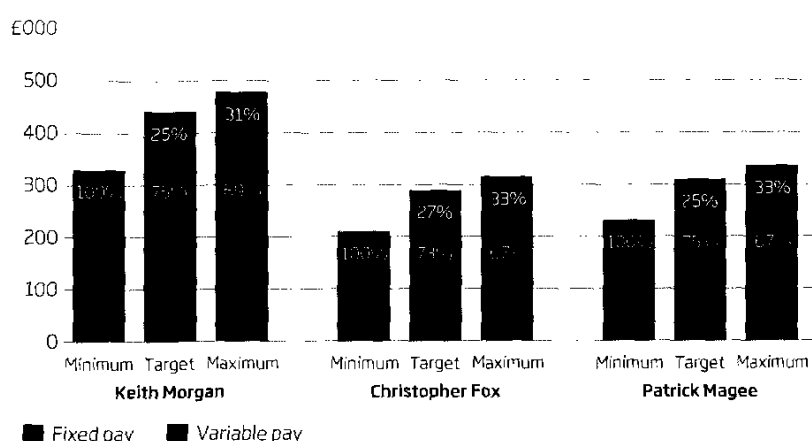


Table 1 continued: Remuneration policy

Element	Operation, opportunity and performance framework
<b>Long term incentive plan (LTIP)</b>	
<b>Objective</b> To reward performance over the longer term	<p>Although the Company is not governed by the FCA or PRA, the committee has determined that regulatory best practice should be adopted with regard to Recovery and Withholding Provisions and such provisions shall apply for a period of seven years from the start of the performance period. Recovery and withholding shall apply in a range of adverse circumstances, at the Committee's discretion, including financial accounts misstatement, significant failure of risk management, regulatory censure or breach of policy and procedures.</p> <p>As a general rule, if a participant ceases employment within the Company's Group before an award is paid, then the award opportunity shall normally be forfeited and lapse in full, although there are exceptions for participants categorised as 'good leavers'.</p> <p>The Remuneration Committee has ultimate discretion over the payment of any awards taking into account factors it considers relevant including the overall performance of the Bank.</p>
<b>Pension &amp; other benefits</b>	
<b>Objective</b> To provide an attractive and cost-effective package	<p>The Bank contributes up to a maximum 15% of base salary to its defined contribution scheme or an approved personal pension scheme, subject to a minimum employee contribution of 3%. This benefit is tiered depending on the grade of the colleague. The CEO receives a cash-in-lieu allowance of 10%. Any other colleague below Executive Director level who has reached his or her pension Lifetime Allowance may also receive a cash-in-lieu allowance of 10%.</p> <p>Current benefits provided are private medical insurance, illness income protection (now closed to new members) and life assurance. These are subject to review on an annual basis.</p>
<b>Loss of office payments</b>	
<b>Objective</b> To provide fair but not excessive contract features	<p>There are no defined terms for loss of office within service contracts. In line with policy, Executive Directors and the senior team are on six months' notice either side. Provision may be made for payment in lieu of notice, where this is deemed to be in the interest of the business. Any situation will be considered by the Committee on its merits.</p> <p>Should an individual be considered a 'good leaver' under the LTIP rules, an appropriate portion of their LTIPs may, at the discretion of the Remuneration Committee, be retained. All termination payments are subject to Cabinet Office Guidelines.</p>
<b>New Executive Director remuneration</b>	
<b>Objective</b> To attract and retain high-calibre senior leaders	<p>Remuneration for any new appointments will be set in accordance with the policy set out in this table. The same approach will be taken with respect to any internal appointments. We do not offer any signing-on payments or other compensation for loss of deferred compensation from previous employment.</p>

Table 2: Scenarios chart: ranges for Executive Director remuneration

The following chart shows how executives' remuneration could vary according to performance and assumes that the Directors are employed by the Bank for a whole financial year. The variable pay element is measured over a three-year period and is paid out after the end of the third year, subject to continued employment.



## Notes

1. Minimum = fixed pay only (salary and current cost of benefits and pension)
2. Target = fixed pay and 75% vesting of the LTIP
3. Maximum = fixed pay and 100% vesting of the LTIP
4. The actual awards are set out in table 5

### External appointments

Executive Directors may be invited to become Non-executive Directors in other companies. These appointments can enhance their knowledge and experience to the benefit of the Bank. It is the Bank's policy that Board approval is required before any external appointment may be accepted by an Executive Director. The Executive Director is permitted to retain any fees paid for such services. During the year, Keith Morgan served as a Non-executive Director at UK Asset Resolution Ltd and received a fee of £77,327. This role has been reviewed and approved by the Nominations Committee during 2017.

### Non-executive Directors

The Chair and the Non-executive Directors do not have service agreements with the Bank. Non-executive Directors are appointed under letters of appointment which provide for an initial term of service of three years. The appointment of a Non-executive Director can be terminated, by either party, giving written notice. Any increases in fees are subject to shareholder approval. There is no provision for compensation for loss of office. The dates of the current dates of appointment of the Non-executive Directors are shown in the Directors' report.

The terms and conditions of appointment of the Non-executive Directors are available for inspection at the Bank's registered office.

The fee levels paid to Non-Executive Directors reflect the time commitment and responsibilities, and are approved by the Shareholder.

The Board reviews the amount of each component of the fees on a periodic basis to assess whether they remain competitive and appropriate in light of changes in roles, responsibilities or time commitment of the Non-executive Directors. In accordance with common practice Non-executive Directors are reimbursed expenses incurred in performing their role.

Table 3 sets out the key elements of the Bank's remuneration policy for the Chair and other Non-executive Directors.

Table 3: Remuneration policy for Non-executive Directors

Element	Operation, opportunity and performance framework
<b>Basic fee - Chair</b>	
Remuneration is in the form of an annual cash fee, in line with practice in the UK	The Chair fee will be reviewed from time to time by the Board.
<b>Basic fee - Non-executive Directors</b>	
Remuneration is in the form of an annual cash fee, in line with practice in the UK	Non-executive Director remuneration is reviewed annually by the Chair and the Executive Directors. Any recommendations are subject to Board approval, with Non-executive Directors not voting on their own remuneration. Additional fees are paid to the Senior Independent Director and Chairs of the Audit, Risk and Remuneration Committees, in recognition of the additional time spent in respect of their committee activities. This is in line with UK practice generally.

#### Bank wide remuneration and incentive plans

The Bank aims to apply its remuneration policy in a consistent way for all staff.

Staff receive their basic salary, pension contributions, life assurance, optional private medical insurance and illness income protection (no longer open for new members). The Bank has three mutually exclusive incentive plans, all of which are designed to reward performance and achievement of the Bank's objectives.

These plans are payable wholly in cash, reflecting the fact that the Bank has a single shareholder (the Secretary of State for Business, Energy and Industrial Strategy) and does not issue shares to staff.

#### Short Term Incentive Plan (STIP)

Senior employees who are not eligible for the long term incentive plan are eligible to participate in the STIP. The purpose of this plan is to reward senior managers for their performance over the year as assessed against both their personal objectives (currently 40% of award) and the Bank's objectives (currently 60% of award). The maximum annual award is 30% of base salary. 50% of any award is paid after the relevant year end, with 25% deferred for one year and a further 25% deferred for two years.

The STIP rules incorporate withholding and recovery provisions in line with good practice and such provisions apply for a period of seven years from the start of the performance period.

#### Annual Bonus

Employees not eligible for the Long or Short Term Incentive Plans may participate in the annual bonus scheme which has a maximum award of 20% of base salary.

# Annual report on remuneration

This part of the report has been prepared in accordance with Part 3 of Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Amendment Regulations 2013. Disclosures are also made in accordance with the Companies Act 2006. The Bank has complied with the regulations where it believes it is appropriate to do so.

Although the Bank is not subject to the variable pay cap introduced under the European Union Capital Requirements Directive, it does comply with the cap.

## Performance assessment

None of the senior team receives an annual performance award or bonus. The first cycle LTIP matured on 31 March 2017, covering the period 2014/15 to 2016/17, and awards are payable in August 2017. Awards under the scheme are determined based on both corporate performance (making up 60% of the total potential award) and personal performance (making up 40% of the total potential award).

Taking into account performance against KPIs and other considerations, the Remuneration Committee has determined that a corporate performance pay-out of 75% is appropriate which is on-target for Corporate Performance.

## Membership of the Remuneration Committee

The Remuneration Committee comprises Christina McComb (Chair), Teresa Graham and Ceri Smith (representing the Shareholder). Teresa Graham has been the acting

Chair of the Remuneration Committee whilst Christina McComb has been the acting Chair of the Group. The committee members bring with them a range of expertise from diverse backgrounds designed both to support the Bank in its governance framework and to facilitate the relationship with the Shareholder. Informal discussion between committee members has also added value to the Bank's Remuneration policy and practice.

The Chief Executive, Chief Financial Officer, General Counsel and Human Resources Managing Director have been invited to join meetings, where their own remuneration is not the subject of discussion. The Assistant Company Secretary acts as Secretary to the committee.

## External advisers

The Remuneration Committee did not use advisers for the provision of remuneration advice, although it did review benchmarking data provided by Aon McLagan for a fee of £24,000.



Table 4: Original KPI targets, revised targets and actual outcomes

Objective	KPI	2016/17 Actual	2016/17 LTIP - original methodology		
			Lower	Stretch	Challenge
Increase Supply	KPI: Up to £10bn stock of finance facilitated through our programmes over 5 years. <i>Performance Assessment: missed the stretch target driven by much lower than expected demand for our ENABLE guarantee programme as the capital position of the large banks have recovered, partially offset by strong performance in BFP mid-cap leverage.</i>	£9.2bn	£8.0bn	£9.9bn	£10.5bn
			2016/17 LTIP - revised methodology		
			£8.4bn	£10.4bn	£11.1bn
More diverse finance market	KPI: Over 75% of our finance facilitated through providers other than the four largest banks over 5 years. <i>Performance Assessment: successful in conducting business outside of the big four and supported a range of alternative finance providers</i>	94%	70%	75%	80%
Manage taxpayers' resources efficiently	KPI: To earn greater than the Government's medium term cost of capital over the next 5 years measured by the 5 year gilt rate at the beginning of the plan. <i>Performance Assessment: good investment performance achieved in a benign economic environment, good cost control and guarantee claims materially lower than forecast.</i>	3.9%	1.2%	1.6%	1.8%
Improve SME understanding of finance options	KPI: Better provision of information (measured through average awareness of six alternative finance options from British Business Bank customer research). <i>Performance Assessment: outperformed in first two years and under-performed in the third year on the scorecard below.</i>	50%	47%	49%	51%
			2016/17 LTIP - revised methodology		
Improve SME understanding of finance options	Awareness	50%	N/A	50%	N/A
	Confidence	65%		66%	
	Shopping Around	69%		59%	
	Awareness of BBB in general	12%		15%	
	Attendance at BBB Events	59,693		11,660	
	Media Views Annual Value Equivalent	£8.04m		£3.54m	
	BFG distributed/downloaded	50,558		42,000	
	CRA/FP legislation	Live		Live	

Two of the KPIs were amended during the performance period. Specifically, the methodology for calculating the stock of finance was amended to provide greater consistency across products and timeframes. Further information is set out in a document published by the Bank in July 2015 and available on the Bank's website. The awareness KPI was changed at the end of the second year of the LTIP from a single measure to a dashboard of eight measures. For the purposes of the LTIP measurement, the Remuneration Committee has based its determination for this metric on performance against the old single measure for two years and against the dashboard for the final year.

The personal performance of the Executive Directors, as confirmed by the Remuneration Committee, is set out for each of the years 2014/15, 2015/16 and 2016/17 below. The 2014/15 and 2015/16 years' performance are used to determine the personal element of the first cycle LTIP.

#### Keith Morgan

Keith exceeded his personal objectives for both the 2014/15 and 2015/16 year. For 2014/15 the Remuneration Committee awarded 95% of maximum for personal performance and 80% of maximum for 2015/16. For 2016/17 the committee assessed personal performance as on-target and awarded 75%.

#### Christopher Fox

Christopher started late in the 2014/15 performance year (January 2015) so the committee made a decision to assess individual performance for a combined 15-month period for 2014/15 and 2015/16. The committee concluded that Christopher exceeded his personal performance objectives for this period and awarded 90% personal award. For 2016/17 the committee assessed personal performance as on-target and awarded 75%.

#### Patrick Magee

The Committee assessed that Patrick exceeded his personal objectives for the 2014/15 performance year and awarded 90% personal performance award. For 2015/16 and 2016/17 the committee assessed personal performance as on-target and awarded 75%.

Table 5: LTIP awards made to executive directors

Max amount: £000	Keith Morgan 149.5			Christopher Fox 105.0			Patrick Magee 105.0		
	Potential award £000	Performance awarded	Actual award £000	Potential award £000	Performance awarded	Actual award £000	Potential award £000	Performance awarded	Actual award £000
Personal Performance Y1	29.9	95%	28.4	4.7	90%	4.2	9.6	90%	8.6
Personal Performance Y2	29.9	80%	23.9	21.0	90%	18.9	21.0	75%	15.8
Corporate Performance	89.7	75%	67.3	46.8	75%	35.1	51.6	75%	38.7
<b>Total Award</b>	<b>149.5</b>		<b>119.6</b>	<b>72.5</b>		<b>58.2</b>	<b>82.2</b>		<b>63.1</b>

#### Notes

- Christopher Fox joined the Bank on 8 January 2015 and therefore his year one personal performance and corporate performance awards have been pro-rated.
- Patrick Magee joined the Bank's predecessor organisation on 16 October 2014 and therefore his year one personal performance and corporate performance awards have been pro-rated.

Table 6: Executive Director remuneration (audited)

	Year ended 31 March 2017					Year ended 31 March 2016			
	Salary £000	Taxable Benefits £000	Annual Incentive £000	Long term incentive £000	Pension Payments (including cash supplements) £000	Total £000	Salary £000	Pension Payments (including cash supplements) £000	Total £000
Keith Morgan	299.0	-	-	119.6	29.9	448.5	299.0	30.0	329.0
Christopher Fox	210.0	0.2	-	58.2	-	268.4	210.0	-	210.0
Patrick Magee	210.0	0.2	-	63.1	21.0	294.3	210.0	21.0	231.0
<b>Total</b>	<b>719.0</b>	<b>0.4</b>	<b>-</b>	<b>240.9</b>	<b>50.9</b>	<b>1,011.2</b>	<b>719.0</b>	<b>51.0</b>	<b>770.0</b>

## Notes

1. The Company has not made pension contributions for Keith Morgan but has instead paid a cash alternative to him.
2. The Executive Directors receive death in service and illness income protection benefits which are non-taxable.
3. No Executive Director received annual incentive payments in 2016/17. The long term incentive payments relate to the three year period ending 31 March 2017 and are payable in August 2017.

Table 9 overleaf sets out the corporate three-year performance targets for the Executive Directors, which have no specific weightings, for the third LTIP cycle.

Non-executive Directors are not remunerated in the same way as the Executive Directors and therefore have not been included in the table above. However they do receive compensation in the form of a fee as detailed in Table 10.

Table 7: Senior team remuneration (audited)

	Year ended 31 March 2017							Year ended 31 March 2016			
	Salary	Taxable	Annual	Corporate	Personal	Pension			Pension	Personal	
	£000	Benefits	Incentive	element	element	Payments		Salary	Payments	element	
		£000	£000	of first	of second	(including	Total	£000	(including	of first	Total
				cycle	cycle	cash	£000		cash	cycle	£000
				LTIP	LTIP	supplements)	£000		supplements)	LTIP	£000
				£000	£000				£000	£000	
Shanika											
Amarasekara	202.0	0.2	-	41.6	31.0	30.3	305.1	200.0	31.0	27.0	258.0
Mark Gray	202.0	0.2	-	45.0	30.0	30.3	307.5	200.0	30.0	30.0	260.0
<b>Total</b>	<b>404.0</b>	<b>0.4</b>	<b>-</b>	<b>86.6</b>	<b>61.0</b>	<b>60.6</b>	<b>612.6</b>	<b>400.0</b>	<b>61.0</b>	<b>57.0</b>	<b>518.0</b>

## Notes

1. The individuals above receive death in service and illness income protection benefits which are non-taxable.
2. The Remuneration Committee has reviewed performance of individuals for 2016/17 and has made provisional awards in the range of 75% - 80% for the senior team. (2015/16: 75%) Subject to continued performance, these awards are payable in August 2017 and August 2018.
3. Shanika Amarasekara, General Counsel and Company Secretary.
4. Mark Gray, Chief Risk Officer.

This Section of the Annual report on remuneration sets out the LTIP grants made during the year and which will vest in March 2019 subject to meeting the performance conditions.

Table 8: Third cycle long term incentive plan (LTIP)

The senior team are invited to participate in a long term incentive plan. The following individuals have elected to join the plan and have been granted interests during the 2016/17 year worth up to a maximum of 50% of salary. Any pay-out is subject to a number of conditions, including performance conditions.

Year ended March 2017							
	Type of interest £000	Total face value of award (% of salary)	Total face value of personal award £000	Total face value of corporate award £000	Total face value of award £000	Percentage of corporate award for reaching threshold targets	End of corporate performance period £000
Keith Morgan	Cash LTIP	50%	59.8	89.7	149.5	50%	31 Mar 19
Christopher Fox	Cash LTIP	50%	42.0	63.0	105.0	50%	31 Mar 19
Patrick Magee	Cash LTIP	50%	42.0	63.0	105.0	50%	31 Mar 19
Shanika Amarasekara	Cash LTIP	50%	40.4	60.6	101.0	50%	31 Mar 19
Mark Gray	Cash LTIP	50%	40.6	60.6	101.0	50%	31 Mar 19

Notes

1. Personal performance targets are not included in this calculation as they are not subject to threshold conditions.

Table 9: Group targets for the third cycle LTIP

Objective	2018/19 target from new business plan		
	Lower threshold	Stretch	Challenge
Increase stock of finance facilitated through British Business Bank programmes	£7.6bn	£9.5bn	£11.4bn
– of which SME	£5.4bn	£6.8bn	£7.5bn
More diverse finance market (measured) by finance facilitated through non-Big Four lenders	81%	86%	91%
Better provision of information (measured through a balances scorecard showing an average of green across each year in the plan (score in brackets))	amber/green (2)	green (4)	green (6)
Manage taxpayers' resources efficiency through earning an appropriate return on equity	2.3%	2.9%	3.2%



Table 10: Non-executive Director remuneration (audited)

	<b>Total Fees 2016/17 £000</b>	<b>Total Fees 2015/16 £000</b>
Ron Emerson (Chair)	60	120
Christina McComb (senior independent director)	83	45
Maria Turner	-	3
Jonathan Britton	30	30
Teresa Graham	29	30
Caroline Green	25	25
Colin Glass	25	25
Neeta Atkar	23	-
Ceri Smith	nil	nil

## Notes

1. Ron Emerson resigned from the Bank from 30 September 2016.
2. Christina McComb was appointed as interim chair from 1 October 2016 and her fee increased to £120k per annum, pro-rated as appropriate.
3. Teresa Graham acted as interim chairman of the Risk Committee until 1 July 2016. She was also appointed to Chair the Remuneration Committee in place of Christina McComb. She received an additional pro-rated fee of £5k per annum whilst she was chairing a board committee.
4. Neeta Atkar was appointed on 1 July 2016.
5. Ceri Smith is the shareholder representative and therefore does not receive a fee.

The base fee for Non-executive Directors is £25,000 and individuals receive an allowance of £5,000 for chairing a committee. There are no additional fees payable for individual committee membership.

### Relative Importance of Spend on Pay

No dividends have been paid by the Bank so we have set out below the percentage of revenue represented by total remuneration compared to 2015/16 to illustrate the relative importance of spend on pay.

	Total revenue (£k)	Total remuneration (£k)	%
2016/17	68,160	15,346	22%
2015/16	51,077	12,192	24%

### Changes in CEO/colleague pay and median comparison

The median salary of employees for 2016/17 was £58,000 (2015/16: £63,000). This compares to the CEO's annual base salary of £299,000. No employee earns more than the highest paid Director. The reduction in median salary in 2016/17 compared to 2015/16 is due to the growth of the business where additional roles have been recruited at a more junior level therefore reducing the median cost per employee.

The CEO did not receive a salary increase during the 2015/16 or 2016/17 performance year. A 1% general pay increase was awarded to colleagues below Executive Director in the 2016/17 performance year (awarded 1 April 2016) and the 2017/18 pay increase has been agreed as 1.9% for all colleagues below Executive Director level effective 1 April 2017.

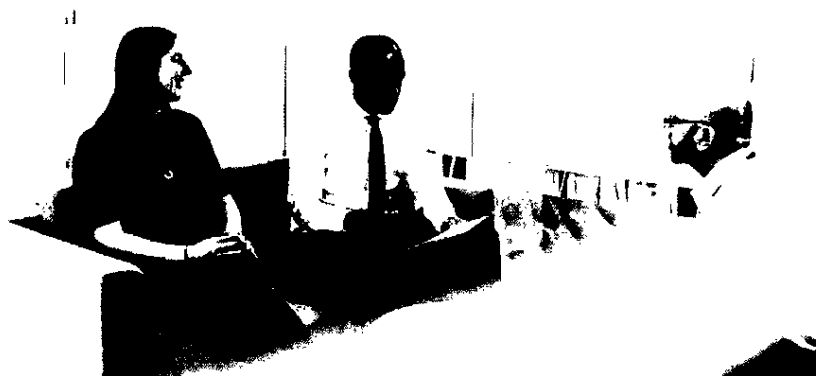
### Pension entitlements

The Bank does not offer a defined benefit pension scheme for new staff. However, staff that transferred into the Bank from the Department for Business Innovation and Skills (BIS), now the Department for Business, Energy and Industrial Strategy, are able to continue to participate in BEIS's defined benefit scheme. No Executive Directors have participated in a defined benefit scheme in 16/17 and only one colleague who transferred from BIS continues to participate in the BEIS defined benefit scheme.

Keith Morgan receives a cash allowance of 10% of base salary in lieu of pension contribution.

### Board of Directors Terms of Office

The dates of appointment and terms of office of Non-executive and Executive Directors are provided in the Directors' Report, page 39.



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### Implementation of the Remuneration Policy for 2017/18

For 2017/18, the Remuneration Committee will continue to implement the policy on a similar basis to 2016/17. The British Business Bank will seek approval from the Shareholder for any changes to the policy.

The business and personal objective themes for 2017/18 include delivery of strategic initiatives such as an enhanced information strategy, the Patient Capital review, delivery of the Start Up Loans integration, reviewing market gaps and opportunities for finance to the SME market and preparing the Bank for growth as it continues to scale-up.

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### Approval of the Directors' Remuneration Report

This Directors' Remuneration Report, including both the Policy and Annual Remuneration Report, has been approved by the Board of Directors.

Signed on behalf of the Board of Directors.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Cm'Comb'.

**Christina McComb**  
Chair of the Remuneration Committee

# Directors' responsibilities

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

Under UK Company law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent Company financial statements under IFRSs as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

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

- Make an assessment of the Company's ability to continue as a going concern.

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

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

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole

- The strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- The annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board



**Keith Morgan**  
Chief Executive Officer

13 July 2017



**Christopher Fox**  
Chief Financial Officer

13 July 2017

# Independent auditor's report to the members of British Business Bank plc

## Opinion on the group financial statements

In my opinion the group financial statements:

- give a true and fair view of the state of affairs of the British Business Bank plc group as at 31 March 2017 and of the group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the Companies Act 2006 and Article 4 of the IAS Regulation.

## Basis of opinions

I have audited the financial statements of the British Business Bank plc group for the year ended 31 March 2017 which comprise:

- the Consolidated Statement of Comprehensive Net Income;
- the Consolidated Statement of Financial Position;
- the Consolidated Statement of Changes in Equity;
- the Consolidated Cash Flow Statement; and
- the Notes to the consolidated financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

## Overview of my audit approach

### Matters significant to my audit

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year.

I have also set out how my audit addressed these specific areas in order to support the opinion on the financial statements as a whole and any comments I make on the results of my procedures should be read in this context.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around the risk of management override of controls, other than to the extent where this was part of my work on investment valuations as set out below, where my work has not identified any matters to report.

The areas of focus were discussed with the Audit Committee; their report on matters that they considered to be significant to the financial statements is set out on pages 49-50.

Key matter	My response
<p><b>Investment valuations</b></p> <p>The most significant balance in the financial statements of the British Business Bank plc group is investments, 85% of which are measured at fair value based on valuation techniques including inputs not based on observable market data.</p> <p>The majority of British Business Bank plc's investments are in debt funds meaning the level of estimation uncertainty is not significant. The funds are valued by fund managers who are independent of management so the level of management judgement or estimate is limited.</p> <p>The fair value of Enterprise Capital Fund investments are determined by management using models, based on inputs and assumptions including discount rates and the timing of cashflows, and are therefore subject to a higher degree of management estimate.</p>	<p>In auditing investment valuations I performed the following procedures:</p> <ul style="list-style-type: none"> <li>– I have tested the operating effectiveness of the British Business Bank plc's controls over investment valuations. This has included attendance at key internal meetings where I have observed management's review and challenge of valuations provided by fund managers or derived from valuation models.</li> <li>– I have undertaken a review of a sample of new investments and considered whether management's judgements on appropriate accounting treatments are consistent with the relevant accounting standards and the underlying substance and form of legal agreements;</li> <li>– where management relies on valuations provided by fund managers to estimate the value of its investments, I have considered the governance arrangements in place and process undertaken by management to review and challenge the valuations prior to their inclusion in the accounts. I have performed detailed procedures to enable me to gain assurance from the work of the fund managers. I considered the overall competence, capability and objectivity of the fund managers, as well as the scope of their work and its relevance to the accounts and my opinion. Where investments are held by British Business Bank Investments Limited, I have taken assurance from my work on the financial statements of that company;</li> <li>– where management uses models to estimate the value of its investments, I considered the design of the valuation models, the validity of the data inputs to those models, and the appropriateness of the key assumptions on which the models were based. I sought confirmation that management had reassessed the assumptions made in the prior year which underpin the valuation models to confirm that they remain appropriate at year end and challenged management on how it has addressed estimation uncertainty; and</li> <li>– I have assessed the accuracy and completeness of the review for potential impairments that management has performed in relation to its investments.</li> </ul> <p>The results of my audit procedures enabled me to conclude that the valuation of investments in the financial statements is not materially misstated.</p>

### Application of materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the group's financial statements at £24m, which is approximately 2% of total assets. The Bank develops and manages finance programmes designed to enhance the working of finance markets which it delivers through investments in partner organisations: I therefore chose assets as the benchmark because I consider it to be the principal consideration for users in assessing the financial performance of the Group.

I have determined that for payroll, management fee income, and operating expenditure misstatements of a lesser amount than overall materiality could influence the decisions of users of the accounts given the disproportionate size of these balances compared to value of investments and the level of public interest in the group's performance in these areas. I have therefore determined that the threshold to be applied to these components is £5.8m.

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I agreed with the Audit Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £250,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Total unadjusted audit differences reported to the Audit Committee would have had no impact on net assets.

### Scope of my audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition I read all the information and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

**Group audit approach**

My group audit scope focused on those balances assessed as being of the greatest significance to the group financial statements and their users. I considered how the subsidiaries should be aggregated to form the components of my group audit approach in line with International Standards of Auditing.

I gave particular consideration to the size and risk characteristics of the consolidated entities; how they are managed; and the audit exemptions taken by the British Business Bank plc. British Business Bank Investments Ltd, which is the largest subsidiary and holds £945m of the group's £1,047m net assets at 31 March 2017, is subject to separate governance processes and has its own ledger; I have therefore treated this as a single component.

The parent company and remaining subsidiaries are subject to common governance processes and share a ledger and so I have aggregated these to form a single component for the purposes of my audit. Both components are significant to the group in terms of value and risk. I have taken assurance from work performed by the auditors of British Business Bank Investments Ltd and have performed additional procedures to obtain assurance over the financial information of the parent and other subsidiaries.

**Other matters on which I report under the Companies Act****The strategic and directors' reports**

In my opinion, based on the work undertaken in the course of the audit, the information given in the strategic and directors' reports for the financial year are consistent with the financial statements and have been prepared in accordance with applicable law.

Based on my knowledge and understanding of the group and its environment obtained during the course of the audit, I have identified no material misstatements in these reports.

**The corporate governance statements**

In my opinion, based on the work undertaken in the course of the audit, the information given in the corporate governance statement in respect of internal control and risk management systems in relation to financial reporting processes is consistent with the financial statements and has been prepared in accordance with applicable law.

Based on my knowledge and understanding of the group and its environment obtained during the course of the audit, I have identified no material misstatements in this information.

**Matters on which I report by exception****Consistency of information in the Annual Report**

Under International Standards on Auditing (UK & Ireland), I am required to report to you if, in my opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, the knowledge of the group that I acquired in the course of performing my audit; or
- otherwise misleading.

In particular, I am required to consider:

- whether I have identified any inconsistencies between the knowledge that I acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable; and
- whether the annual report appropriately discloses those matters that I communicated to the Audit Committee which I consider should have been disclosed.

I have nothing to report arising from this duty.



### The directors' assessment of principal risks and future prospects

Under International Standards on Auditing (UK & Ireland), I am required to report to you if I have anything material to add, or to draw attention to, in relation to the directors' disclosures in the annual report and financial statements:

- confirming that they have carried out a robust assessment of principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- describing those risks and explaining how they are being managed or mitigated;
- on whether they considered it appropriate to adopt the going concern basis, and their identification of any material uncertainties to the entity's ability to continue over a period of at least twelve months from the date of approval of the financial statements; and
- explaining how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

I have nothing material to add, or to draw attention to, on these matters.

### Respective responsibilities of the directors and the auditor

As explained more fully in the Statement of Directors' responsibilities in respect of the Directors' Report and the Financial Statements, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and with International Standards on Auditing (UK & Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Other matter

I have reported separately, on pages 113 to 114, on the Parent Company Financial Statements of British Business Bank plc for the year ended 31 March 2017 and on the information in the Directors' Remuneration Report that is described as having been audited.

### Hilary Lower

Senior Statutory Auditor

13 July 2017

For and on behalf of the Comptroller and Auditor General (Statutory Auditor)

National Audit Office  
157-197 Buckingham Palace Road  
London SW1W 9SP

# Consolidated financial statements

## Consolidated statement of comprehensive net income

for the year to 31 March 2017

	Note	2017 £000	2016 £000
<b>INCOME</b>			
Interest income	4.1	52,501	39,459
Management fee	4.2	14,339	11,377
Other income	4.3	1,320	241
<b>Gross operating income</b>		<b>68,160</b>	<b>51,077</b>
Net gains on investment assets	6	4,670	457
<b>Net operating income</b>		<b>72,830</b>	<b>51,534</b>
<b>EXPENDITURE</b>			
Staff costs	7.1	(15,346)	(12,192)
Other operating expenditure	7.2	(7,332)	(7,243)
Depreciation and amortisation	7.3	(326)	(304)
<b>Operating expenditure</b>		<b>(23,004)</b>	<b>(19,739)</b>
<b>Net operating profit</b>		<b>49,826</b>	<b>31,795</b>
<b>ECF fair value adjustments</b>			
Impairment of ECF investment assets	12.3	(30,755)	(32,643)
Fair value gain on derivatives	12.5	5,408	6,638
Unwind of ECF fair value impairment	12.3	12,712	13,083
ECF fair value provision	16	(38,531)	(36,591)
<b>Net ECF fair value adjustments</b>		<b>(51,166)</b>	<b>(49,513)</b>
Proceeds of warranty claim	5	-	2,900
<b>Loss before tax</b>		<b>(1,340)</b>	<b>(14,818)</b>
Tax expense	8.1	(10,823)	(8,518)
<b>Loss for the year</b>		<b>(12,163)</b>	<b>(23,336)</b>
<b>Other comprehensive income for the year net of tax</b>			
Net gain on investments recognised in reserves	12.3	12,216	12,273
Deferred tax relating to ECF investments	8.1	1,499	1,804
<b>Total comprehensive profit/(loss) for the year</b>		<b>1,552</b>	<b>(9,259)</b>

All operations are continuing.

The net gain on investments recognised in reserves included within other comprehensive income will be reclassified to profit and loss in subsequent years if the gain on investments is realised.

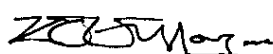
The notes on pages 84 to 112 form an integral part of the financial statements.

# Consolidated statement of financial position

as at 31 March 2017

	Note	2017 £000	2016 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Loans and receivables	12.1	138,405	72,887
Held to maturity investments	12.2	31,090	31,090
Available-for-sale financial assets	12.3	922,222	729,735
Assets designated at fair value through profit or loss	12.4	29,522	15,029
Derivative financial instruments	12.5	24,319	18,911
Property, plant and equipment	10	525	361
Intangible assets	11	50	119
<b>Total non-current assets</b>		<b>1,146,133</b>	<b>868,132</b>
<b>Current assets</b>			
Trade and other receivables	13	3,783	18,101
Cash and cash equivalents	14	58,432	58,382
<b>Total current assets</b>		<b>62,215</b>	<b>76,483</b>
<b>Total assets</b>		<b>1,208,348</b>	<b>944,615</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	15	(6,215)	(15,787)
Corporation tax	8.2	(5,897)	(5,710)
Provisions	16	(29,378)	(26,373)
<b>Total current liabilities</b>		<b>(41,490)</b>	<b>(47,870)</b>
<b>Total assets less current liabilities</b>		<b>1,166,858</b>	<b>896,745</b>
<b>Non-current liabilities</b>			
Trade and other payables	15	(818)	(88)
Deferred tax	8.3	(1,099)	(2,796)
Provisions	16	(117,485)	(81,839)
<b>Total liabilities</b>		<b>(160,892)</b>	<b>(132,593)</b>
<b>Net assets</b>		<b>1,047,456</b>	<b>812,022</b>
<b>Equity</b>			
Issued share capital	19	1,071,408	837,526
Financial instruments reserve		28,761	15,046
Retained earnings		(52,713)	(40,550)
<b>Total equity</b>		<b>1,047,456</b>	<b>812,022</b>

The financial statements of the group (parent company number 08616013) were approved by the Board of Directors and authorised for issue on 13 July 2017. They were signed on its behalf by:



**Keith Morgan**  
Chief Executive Officer

The notes on pages 84 to 112 form an integral part of the financial statements.

# Consolidated statement of changes in equity

as at 31 March 2017

	Note	Issued capital £000	Financial instrument reserve £000	Retained earnings £000	Total £000
<b>Opening balance as at 1 April 2015</b>		<b>664,326</b>	<b>969</b>	<b>(17,214)</b>	<b>648,081</b>
Net income after tax		-	-	(23,336)	(23,336)
Other comprehensive income, net of tax		-	14,077	-	14,077
<b>Total comprehensive income</b>		<b>-</b>	<b>14,077</b>	<b>(23,336)</b>	<b>(9,259)</b>
Issue of ordinary shares	19	173,200	-	-	173,200
<b>Balance at 31 March 2016</b>		<b>837,526</b>	<b>15,046</b>	<b>(40,550)</b>	<b>812,022</b>
<b>Opening balance as at 1 April 2016</b>		<b>837,526</b>	<b>15,046</b>	<b>(40,550)</b>	<b>812,022</b>
Net income after tax		-	-	(12,163)	(12,163)
Other comprehensive income, net of tax		-	13,715	-	13,715
<b>Total comprehensive income</b>		<b>-</b>	<b>13,715</b>	<b>(12,163)</b>	<b>1,552</b>
Issue of ordinary shares	19	233,882	-	-	233,882
<b>Balance at 31 March 2017</b>		<b>1,071,408</b>	<b>28,761</b>	<b>(52,713)</b>	<b>1,047,456</b>

# Consolidated cash flow statement

as at 31 March 2017

	Note	2017 £000	2016 £000
<b>Loss before tax</b>		<b>(1,340)</b>	<b>(14,818)</b>
<b>Cash flows from operating activities</b>			
Adjustments for:			
Unrealised net gains on investment assets	6	(4,670)	(457)
Depreciation and amortisation	7.3	326	304
Movement in accrued interest		(52,501)	(39,459)
Impairment of ECF investment assets	12.3	30,755	32,643
Unrealised fair value gain on derivatives	12.5	(5,408)	(6,638)
Unwind of ECF fair value impairment	12.3	(12,712)	(13,083)
ECF provision expense	16	38,531	36,591
Other provision expense	16	120	-
Payment of corporation tax	8	(10,834)	(7,384)
Movement in trade and other receivables	13	14,318	(13,039)
Movement in trade and other payables	15	(8,842)	8,884
Loss on disposal of intangible assets	11	-	14
<b>Net cash used for operating activities</b>		<b>(12,257)</b>	<b>(16,442)</b>
<b>Cash flows from investing activities</b>			
Purchase of loan and receivable assets	12.1	(79,905)	(25,329)
Repayment of loan and receivable assets	12.1	16,064	8,222
Interest received on loan and receivable assets		6,248	2,041
Loans and receivable assets transferred	12.2	-	(36,437)
Purchase of held to maturity assets	12.2	-	(30,000)
Interest received on held to maturity assets	12.3	2,550	-
Purchase of available-for-sale assets	12.3	(260,073)	(186,499)
Repayment of available-for-sale assets	12.3	57,467	70,377
Interest received on available-for-sale assets	12.3	45,906	37,605
Purchase of assets designated at fair value through profit or loss	12.4	(9,470)	(9,791)
Interest received on assets designated at fair value through profit or loss	12.4	59	409
Proceeds of disposal of investment in associate		-	8
Purchases of property, plant and equipment	10	(414)	(21)
Purchase of intangible assets	11	(7)	(9)
<b>Net cash used in investing activities</b>		<b>(221,575)</b>	<b>(169,424)</b>
<b>Cash flows from financing activities</b>			
Issue of new shares	19	233,882	173,200
<b>Net cash from financing activities</b>		<b>233,882</b>	<b>173,200</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>50</b>	<b>(12,666)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>58,382</b>	<b>71,048</b>
<b>Cash and cash equivalents at end of year</b>		<b>58,432</b>	<b>58,382</b>

The notes on pages 84 to 112 form an integral part of the financial statements.

# Notes to the consolidated financial statements

## for the year ended 31 March 2017

### 1. General information

The British Business Bank plc (the “Company” or “Group”) is incorporated in the United Kingdom under the Companies Act. The address of the registered office is Foundry House, 3 Millsands, Sheffield, S3 8NH. The nature of the British Business Bank Group’s operations and its principal activities are set out in the strategic report on pages 6 to 38.

### 2. Significant accounting policies

#### Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements are prepared in accordance with IFRS and interpretations in force at the reporting date.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and non-financial assets that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies following. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The principal accounting policies adopted are set out below.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 March 2017. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed in full to the owners of the Company in the absence of non-controlling interests. Total comprehensive income of the subsidiaries is also attributed in full to the owners of the Company in the absence of non-controlling interests.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

#### Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

#### Adoption of new and revised Standards

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

At the date of authorisation of these financial statements, the following Standards and interpretations which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 2 (amendments) *Classification and Measurement of Share-based Payment Transactions*;
- IFRS 9 *Financial Instruments*;
- IFRS 10 and IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;

- *IFRS 14 Regulatory Deferral Accounts;*
- *IFRS 15 Revenue from Contracts with Customers;*
- *IFRS 16 Leases;*
- *Annual Improvements to IFRSs 2014 - 2016 Cycle;*
- *IAS 7 (amendments) Statement of Cash Flows;*
- *IAS 12 (amendments) Recognition of Deferred Tax Assets for Unrealised Losses;*
- *IAS 40 (amendments) Transfers of Investment Property;*
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration.*

The Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future years, except that IFRS 9 will impact both the measurement and disclosures of financial instruments. During the year, the Directors have determined the Group will adopt IFRS 9 for the year ending 31 March 2019 whilst internally calculating first comparatives at 31 March 2018 and are in the process of undertaking a detailed review of the impact of the Standard. Until this detailed review has been completed it is not possible to provide a reasonable estimate of the effect on the Group's financial statements.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, Value Added Tax (VAT) and other sales-related taxes. Revenue is reduced for estimated rebates and other similar allowances.

### Dividend and interest income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

VAT is accounted for in the accounts, in that amounts are shown net of VAT except:

- Irrecoverable VAT is charged to the Consolidated Statement of Comprehensive Net Income, and included under the relevant expenditure heading.
- Irrecoverable VAT on the purchase of an asset is included in additions.

The net amount due to, or from, HM Revenue and Customs in respect of VAT is included within payables and receivables on the Consolidated Statement of Financial Position.

### Property, plant and equipment

Property, plant and equipment are carried at depreciated historical cost or where it is deemed to be lower, fair value.

Furniture and equipment and leasehold improvement are stated at cost less accumulated depreciation and any recognised impairment loss.

The Group capitalises property, plant and equipment purchased for a net value of £3,000 or more and which have a useful economic life in excess of one year.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

---

**Leasehold improvement**

Shorter of estimated remaining useful life or outstanding lease term

---

**IT equipment**

3 – 5 years

---

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

**Intangible assets acquired separately**

Intangible assets including IT programs and software licences, with finite useful lives that are acquired separately, are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives on the following bases:

---

**IT programs**

3 – 10 years

---

**Software licences**

Period of licence

---

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

**Impairment of property, plant and equipment and intangible assets**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Financial instruments**

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, where material, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The fair value of financial instruments is determined by reference to quoted market prices where an active market exists for the trade of these instruments. The fair value of financial instruments which are not traded in an active market is determined using generally accepted valuation techniques, including estimated discounted cash flows.



## Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Further details are provided in note 12.

## Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

## Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL when the financial asset is a derivative financial instrument, held for trading or it is designated as at FVTPL. The VC Catalyst investments have been designated as at FVTPL on the basis that their performance is evaluated internally by the Directors on a fair value basis.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

## Held-to-maturity investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

## Available for sale (AFS) financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The Group has investments in limited partnerships and venture capital investments which are classified as being AFS. Fair value is determined in the manner described in note 21. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the financial instrument reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the financial instrument reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

## Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, originated or acquired, that are not quoted in an active market.

Loans and receivables comprise cash and cash equivalents, receivables and loans. After initial recognition they are measured at amortised cost using the effective interest method, less any impairment. Gains and losses are recognised in the profit or loss through the amortisation process. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

## Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the year.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### De-recognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability

for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

#### Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

#### Financial guarantee contract liabilities

Financial liabilities for loan commitments below market rate and financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

Loan commitments liabilities are disclosed as provisions (see note 16).

#### Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The Group does not currently hold any financial liabilities at FVTPL.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

#### De-recognition of financial liabilities

The Group derecognises financial liabilities when and only when its obligations are discharged, cancelled or they expire.

#### Cash and cash equivalents

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

#### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. More detail is provided about the undrawn loan commitment provision in note 9.

### Contingent liabilities

The Group has contingent liabilities arising through financial guarantees under IAS 37. A contingent liability is a possible obligation depending on whether some uncertain future event occurs, or a present obligation but payment is not probable or the amount cannot be measured reliably. Contingent liabilities are not recognised but should instead be disclosed, unless the possibility of an outflow of economic resources is remote. Where the time value of money is material, contingent liabilities are stated at discounted amounts.

### Foreign exchange

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency) which is pounds sterling.

The Group applies IAS 21 The Effects of Changes in Foreign Exchange Rates and transactions that are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for a period is used. Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are retranslated at the rates of exchange ruling at that date. These translation differences are recognised in the Consolidated Statement of Comprehensive Net Income.

### Retirement costs

Payments to defined contribution retirement schemes are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement scheme.

### Employee benefits

In accordance with IAS 19 Employee benefits, the Group recognises short term employee benefits when an employee has rendered service in exchange for those benefits.

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

## 3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. This applies in particular to the valuation of Enterprise Capital Funds.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The estimates and assumptions that risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- Fluctuations in the fair values of available for sale assets and FVTPL assets, where quoted prices and other valuation models and techniques are used to determine estimated future cash flows, and include a number of other assumptions.
- Directors' judgements with regard to the impairment of assets.
- Fluctuations in the fair value of financial liabilities/guarantees measured using modelling techniques.

In addition, there is uncertainty in estimating the effective interest rate for various debt fund investments. The future returns from these investments are not only limited to contracted cash flows of interest and principal but also returns are inherently uncertain and will depend on a range of factors including the manager's success in originating lending opportunities, costs and fees, how the manager exercises discretion in trading off equity against debt components in loan structures, credit performance, and prevailing market conditions.

The Group has estimated effective interest rates for all debt fund investments on a consistent basis. As indication of sensitivity, a 25 basis points decrease in the effective interest rate would decrease interest income by around £2 million over a one year period.

## 4 Income

### 4.1 Interest income

An analysis of the Group's interest income is as follows:

	Note	2017 £000	2016 £000
Interest from loans and receivables	12.1	6,323	3,066
Interest from held to maturity investments	12.2	2,550	1,090
Interest from available-for-sale assets	12.3	43,628	35,303
<b>Total interest income</b>		<b>52,501</b>	<b>39,459</b>

### 4.2 Management fee

An analysis of the Group's management fee income is as follows:

	2017 £000	2016 £000
Management fee earned from:		
Angel Co-Fund	460	340
Department for Business, Energy and Industrial Strategy	10,075	10,650
Northern Powerhouse Investments Limited	2,386	-
Midlands Engine Investments Limited	1,414	-
Capital for Enterprise Fund LP	-	369
Other	4	18
<b>Total management fee income</b>	<b>14,339</b>	<b>11,377</b>

### 4.3 Other income

An analysis of the Group's other income is as follows:

	2017 £000	2016 £000
Arrangement and other fees	1,320	241
<b>Total other income</b>	<b>1,320</b>	<b>241</b>

## 5. Proceeds of warranty claim

On 1 November 2014 the Group acquired the share capital of British Business Finance Limited (BBFL) from British Business Holdco Limited (BBHL), a wholly owned subsidiary of BEIS, for consideration of £118.7m which was equal to the fair value of the net assets of BBFL at the transaction date.

In 2015/16 a re-assessment of the BBFL deferred tax liability as at 1 November 2014 was made by the Group's tax advisers who determined that the liability included within the fair value of the net assets of BBFL at that date was understated by £2.9m. Consequently the Group sought, and BEIS agreed to, payment of that amount under the terms of a tax covenant within the share purchase agreement. The amount was subsequently settled by BEIS.

## 6. Net gains on investment assets

	<b>Note</b>	<b>2017 £000</b>	<b>2016 £000</b>
Impairment of investments in associates		-	(6)
Impairment allowance on loans and receivables	12.1	(1,394)	(143)
Impairment of limited partnerships available-for sale assets	12.3	(67)	(170)
Impairment of non-ECF venture capital available-for-sale assets	12.3	(810)	(1,082)
Foreign exchange gains on available-for-sale financial assets	12.3	1,859	1,524
Fair value gains on assets held at fair value through profit and loss	12.4	5,082	334
		<b>4,670</b>	<b>457</b>

## 7. Operating Expenditure

### 7.1 Staff numbers and staff costs

The average monthly number of employees including executive directors was:

	<b>2017 No.</b>	<b>2016 No.</b>
Permanent staff	120	81
Seconded staff	6	11
Temporary and agency staff	18	15
	<b>144</b>	<b>107</b>

Their aggregate remuneration comprised:

	<b>2017 £000</b>	<b>2016 £000</b>
Wages and salaries – permanent staff including executive directors	8,668	6,270
Wages and salaries – seconded staff	537	1,018
Wages and salaries – temporary and agency staff	1,768	1,796
Non-executive Directors' fees	314	302
Short and long term incentive plans and bonus scheme	1,641	908
Social security costs	1,265	915
Pension costs	1,153	983
<b>Total staff costs</b>	<b>15,346</b>	<b>12,192</b>

**7.2 Other operating expenditure**

	2017 £000	2016 £000
Professional fees – investment scheme design and transactions	2,679	2,404
– operational fees	827	658
Accommodation and office services	1,913	1,887
Marketing	618	766
Auditor's remuneration	109	116
Staff related costs, including training and travel	856	518
Other purchase of goods and services	330	894
	<b>7,332</b>	<b>7,243</b>

Auditor's remuneration relates to fees payable for the audit of the Group's annual accounts. The Group's auditors did not provide any non-audit services.

**7.3 Depreciation and amortisation**

	Note	2017 £000	2016 £000
Property, plant and equipment depreciation	10	250	228
Intangible assets amortisation	11	76	76
		<b>326</b>	<b>304</b>

**8. Taxation****8.1 Tax expense**

	2017 £000	2016 £000
<b>Current tax expense</b>		
Current year	10,558	9,218
Adjustment in respect of prior years	463	(526)
<b>Total current tax expense</b>	<b>11,021</b>	<b>8,692</b>
<b>Deferred tax income</b>		
Current year	(1,697)	(1,961)
Adjustment in respect of prior years	-	(17)
<b>Total deferred tax income</b>	<b>(1,697)</b>	<b>(1,978)</b>
<b>Total tax expense</b>	<b>9,324</b>	<b>6,714</b>
Recognised through profit and loss	10,823	8,518
Recognised through other comprehensive income	(1,499)	(1,804)
<b>Total tax expense</b>	<b>9,324</b>	<b>6,714</b>

Corporation tax is calculated at 20% (31 March 2016: 20%) of the estimated taxable profit for the year. Deferred tax primarily relates to the Group's investments in Enterprise Capital Funds. It is calculated at 17% (31 March 2016: 18%) of the estimated unrealised gains within the funds. This is a temporary timing difference and the tax will become payable once the gains are realised in the underlying funds, for example through investment exits.

The Group's investments in Enterprise Capital Funds comprises interests in Limited Partnerships. Temporary accounting movements in relation to these investments are either added back or deducted from the taxable profit or loss. The Group is subject to tax on estimated realised gains or losses arising in the individual limited partnerships. The reconciliation below takes account of these adjustments.

The tables below reconcile the tax charge for the year.

	Profit/(loss) before tax		Current tax	
	2017 £000	2016 £000	2017 £000	2016 £000
Net operating loss before tax	(1,340)	(14,818)	(268)	(2,963)
Net gain on investments recognised in reserves	12,216	12,273	2,443	2,455
Permanent disallowances relating to:				
ECF provision expense	38,531	36,591	7,706	7,318
Unwind of ECF fair value impairment	(12,712)	(13,083)	(2,542)	(2,617)
Other permanent disallowances	(1,027)	(1,844)	(205)	(368)
Timing differences relating to:				
ECF derivative fair value movement	(5,408)	(6,638)	(1,082)	(1,328)
ECF accrued return	(9,483)	(8,430)	(1,897)	(1,686)
ECF impairment	30,755	32,643	6,151	6,529
ECF realised (losses)/gains	(6,029)	9,097	(1,206)	1,819
Long term Incentive Plan accrued expenditure	450	112	90	22
Other timing differences	810	1,082	162	216
Losses carried/(brought) forward	6,029	(896)	1,206	(179)
<b>Profits chargeable to current tax</b>	<b>52,792</b>	<b>46,089</b>	<b>10,558</b>	<b>9,218</b>

	Unrealised losses		Deferred tax	
	2017 £000	2016 £000	2017 £000	2016 £000
Unrealised losses on ECF investments	(8,818)	(10,022)	(1,499)	(1,804)
Other unrealised losses	(1,165)	(872)	(198)	(157)
<b>Unrealised losses subject to deferred tax</b>	<b>(9,983)</b>	<b>(10,894)</b>	<b>(1,697)</b>	<b>(1,961)</b>

## 8.2 Corporation tax payable

	2017 £000	2016 £000
Corporation tax payable at 31 March 2016	5,710	4,402
Tax expense for the year	11,021	8,692
Tax paid	(10,834)	(7,384)
<b>Corporation tax payable at 31 March 2017</b>	<b>5,897</b>	<b>5,710</b>

## 8.3 Deferred tax liability

	2017 £000	2016 £000
Deferred tax liability at 31 March 2016	2,796	4,774
Movement in the year	(1,697)	(1,978)
<b>Deferred tax liability at 31 March 2017</b>	<b>1,099</b>	<b>2,796</b>

## 9. Operating segments

The Group's performance and results are managed internally as follows:

- British Business Bank entities: these are split into British Business Finance Limited (BBFL), British Business Bank Investments Ltd (BBBIL) and the overall Group results.
- Programmes administered on behalf of BEIS: In addition to its own operations, the British Business Bank also, through its subsidiary British Business Financial Services Ltd (BBFSL), administers assets on behalf of the Department for Business, Energy and Industrial Strategy. These assets do not form part of the British Business Bank plc Group financial statements but are reported to management. The financial performance and position of these programmes is included within the Strategic Report. These figures are not part of the audited financial statements.
- Business units: The Group's business units span the different subsidiaries to pool expertise.

### Group profit and loss for the year ending 31 March 2017

	BBFL £000	BBBIL £000	Company plc and BBFSL £000	Intra-group eliminations £000	Total Group £000
<b>Income</b>					
Investment Programmes	-	43,018	-	-	43,018
Venture Capital Solutions	9,483	-	-	-	9,483
Other income	120	1,324	27,751	(13,536)	15,659
	9,603	44,342	27,751	(13,536)	68,160
<b>Net investment income</b>					
Investment Programmes	-	5,480	-	-	5,480
Venture Capital Solutions (ex ECF)	(810)	-	-	-	(810)
	(810)	5,480	-	-	4,670
<b>Operational Costs</b>					
Staff costs	(802)	(1,099)	(13,445)	-	(15,346)
Professional services	(115)	(919)	(5,262)	-	(6,296)
General operations	(2,683)	(3,399)	(8,816)	13,536	(1,362)
	(3,600)	(5,417)	(27,523)	13,536	(23,004)
<b>Net operating profit</b>	<b>5,193</b>	<b>44,405</b>	<b>228</b>	<b>-</b>	<b>49,826</b>
Impairment of ECF investment assets	(30,755)	-	-	-	(30,755)
Fair value gain on derivatives	5,408	-	-	-	5,408
ECF fair value provision expense	(38,531)	-	-	-	(38,531)
Unwind of ECF fair value impairment	12,712	-	-	-	12,712
<b>Earnings on an IFRS basis</b>	<b>(45,973)</b>	<b>44,405</b>	<b>228</b>	<b>-</b>	<b>(1,340)</b>



**Group profit and loss for the year ending 31 March 2016**

	BBFL £000	BBBIL £000	Company plc and BBFSL £000	Intra-group eliminations £000	Total Group £000
<b>Income</b>					
Investment Programmes	-	31,029	-	-	31,029
Venture Capital Solutions	8,430	-	-	-	8,430
Other income	578	336	23,765	(13,061)	11,618
	9,008	31,365	23,765	(13,061)	51,077
<b>Net investment costs</b>					
Investment Programmes	-	1,545	-	-	1,545
Venture Capital Solutions (ex ECF)	(1,088)	-	-	-	(1,088)
	(1,088)	1,545	-	-	457
<b>Operational Costs</b>					
Staff costs	(786)	(969)	(10,437)	-	(12,192)
Professional services	(202)	(676)	(2,763)	-	(3,641)
General operations	(3,054)	(3,692)	(10,221)	13,061	(3,906)
	(4,042)	(5,337)	(23,421)	13,061	(19,739)
<b>Net operating profit</b>	<b>3,878</b>	<b>27,573</b>	<b>344</b>	<b>-</b>	<b>31,795</b>
Impairment of ECF investment assets	(32,643)	-	-	-	(32,643)
Fair value gain on derivatives	6,638	-	-	-	6,638
ECF fair value provision expense	(36,591)	-	-	-	(36,591)
Unwind of ECF fair value impairment	13,083	-	-	-	13,083
Proceeds of warranty claim	-	-	2,900	-	2,900
<b>Earnings on an IFRS basis</b>	<b>(45,635)</b>	<b>27,573</b>	<b>3,244</b>	<b>-</b>	<b>(14,818)</b>

**ECFs**

The British Business Bank accepts a lower than market rate return from ECF investments in order to encourage private sector investors to invest. Although the Bank expects to make a positive return from these investments, this return is less than that required by the private sector. Accounting standards require the Bank to recognise a liability when it makes a commitment to a fund. The Bank records this liability as a provision. When a commitment is drawn the Bank impairs the resulting investment and utilises the provision by a corresponding amount. This results in significant upfront expenditure when new ECF commitments are entered into. This expenditure gradually reverses over the lifetime of the investment as the impairment is reversed. The expenditure doesn't relate to an underlying loss on ECF investments and is therefore excluded from the Group's financial target. The table below summarises the amounts relating to the ECFs that have been recognised in arriving at the Group loss before tax in the Consolidated Statement of Comprehensive Net Income.

	2017 £000	2016 £000
Interest income	9,483	8,430
Fair value gains on derivatives	5,408	6,638
Impairment	(30,755)	(32,643)
Unwind of impairment	12,712	13,083
Provision utilised/released in year (note 16)	19,607	10,242
Provision released in year (note 16)	2,876	2,042
	19,331	7,792
Provision against future commitments (note 16)	(61,014)	(48,875)
Net loss on Enterprise Capital Funds	(41,683)	(41,083)

**Group balance sheet as at 31 March 2017**

	BBFL £000	BBBIL £000	Company plc £000	Total Group £000
<b>Investment assets</b>				
Investment Programme				
<i>BFP Mid Cap</i>	-	587,072	-	587,072
<i>Investment Programme</i>	-	288,740	-	288,740
<i>BFP Small Cap</i>	-	40,148	-	40,148
Venture Capital Solutions				
<i>Enterprise Capital Fund</i>	195,546	-	-	195,546
<i>VC Catalyst</i>	-	29,522	-	29,522
Other venture capital investments	4,530	-	-	4,530
<b>Total investment assets</b>	<b>200,076</b>	<b>945,482</b>	<b>-</b>	<b>1,145,558</b>
ECF fair value provision	(146,743)	-	-	(146,743)
<b>Net investment assets</b>	<b>53,333</b>	<b>945,482</b>	<b>-</b>	<b>998,815</b>
<b>Other assets/(liabilities)</b>				
Cash	2,884	9,579	45,969	58,432
Tangible and intangible assets	-	-	575	575
Net other payables	(199)	(10,302)	135	(10,366)
<b>Total net assets</b>	<b>56,018</b>	<b>944,759</b>	<b>46,679</b>	<b>1,047,456</b>

**Group balance sheet as at 31 March 2016**

	BBFL £000	BBBIL £000	Company plc £000	Total Group £000
<b>Investment assets</b>				
Investment Programme				
<i>BFP Mid Cap</i>	-	499,641	-	499,641
<i>Investment Programme</i>	-	147,771	-	147,771
<i>BFP Small Cap</i>	-	39,572	-	39,572
Venture Capital Solutions				
<i>Enterprise Capital Fund</i>	155,224	-	-	155,224
<i>VC Catalyst</i>	-	15,029	-	15,029
Other venture capital investments	10,415	-	-	10,415
<b>Total investment assets</b>	<b>165,639</b>	<b>702,013</b>	<b>-</b>	<b>867,652</b>
ECF fair value provision	(108,212)	-	-	(108,212)
<b>Net investment assets</b>	<b>57,427</b>	<b>702,013</b>	<b>-</b>	<b>759,440</b>
<b>Other assets/(liabilities)</b>				
Cash	8,157	3,389	46,836	58,382
Tangible and intangible assets	-	-	480	480
Net other payables	(2,140)	3,911	(8,051)	(6,280)
<b>Total net assets</b>	<b>63,444</b>	<b>709,313</b>	<b>39,265</b>	<b>812,022</b>

## 10. Property, plant and equipment

## As at 31 March 2017

	Leasehold improvement £000	IT equipment £000	Total £000
<b>Cost or valuation</b>			
At 31 March 2016	140	541	681
Additions	52	362	414
At 31 March 2017	192	903	1,095
<b>Accumulated depreciation and impairment</b>			
At 31 March 2016	(39)	(281)	(320)
Charge for the year	(77)	(173)	(250)
At 31 March 2017	(116)	(454)	(570)
<b>Carrying amount</b>			
At 31 March 2017	76	449	525
At 31 March 2016	101	260	361

## As at 31 March 2016

	Leasehold improvement £000	IT equipment £000	Total £000
<b>Cost or valuation</b>			
At 31 March 2015	140	520	660
Additions	-	21	21
At 31 March 2016	140	541	681
<b>Accumulated depreciation and impairment</b>			
At 31 March 2015	(11)	(81)	(92)
Charge for the year	(28)	(200)	(228)
At 31 March 2016	(39)	(281)	(320)
<b>Carrying amount</b>			
At 31 March 2016	101	260	361
At 31 March 2015	129	439	568

## 11. Intangible assets

**As at 31 March 2017**

	IT £000	Software licences £000	Total £000
<b>Cost or valuation</b>			
At 31 March 2016	207	28	235
Additions	7	-	7
At 31 March 2017	214	28	242
<b>Accumulated amortisation and impairment</b>			
At 31 March 2016	(98)	(18)	(116)
Charge for the year	(66)	(10)	(76)
At 31 March 2017	(164)	(28)	(192)
<b>Carrying amount</b>			
At 31 March 2017	50	-	50
At 31 March 2016	109	10	119

**As at 31 March 2016**

	IT £000	Software licences £000	Total £000
<b>Cost or valuation</b>			
At 31 March 2015	213	27	240
Additions	8	1	9
Disposals	(14)	-	(14)
At 31 March 2016	207	28	235
<b>Accumulated amortisation and impairment</b>			
At 31 March 2015	(26)	(14)	(40)
Charge for the year	(72)	(4)	(76)
Released on disposals	-	-	-
At 31 March 2016	(98)	(18)	(116)
<b>Carrying amount</b>			
At 31 March 2016	109	10	119
At 31 March 2015	187	13	200

## 12. Investments

### Business Finance Partnership

British Business Bank Investments Limited ("BBBIL") manages the Business Finance Partnership programme.

The Business Finance Partnership (BFP) has two strands. The first strand is the BFP Mid Cap which invests in funds or funds managed by fund managers who lend to medium-sized businesses with turnover of up to £500m. All of the BFP Mid Cap investments are classified as available for sale assets. See note 12.3 for details.

The second strand is the BFP Small Cap which invests in debt funds and non-bank lenders that provide an alternative source of lending for small businesses with turnover up to £75m. The majority of the BFP Small Cap's investments are classified as available-for-sale assets. See note 12.3 for details.

Through an invoice discount firm, BBBIL purchases invoices from investors, releasing money that would otherwise be tied up for between 30 and 120 days. The investment is classified as loans and receivables. It also provides funding through peer to peer lending platforms making small part-loans to borrowers alongside other platform lenders. This lending is also classified as loans and receivables. See note 12.1 for details.

### Investment Programme

BBBIL manages the Investment Programme. It makes commercial investments that stimulate at least the same amount of investment from the private sector, encouraging new lenders into the market and the growth of smaller lenders. Most of BBBIL's investments through the Investment Programme are classified as available-for-sale assets. However as with the BFP Small Cap this programme has provided invoice discount finance and participated in peer to peer lending and in addition provided other credit facilities. This lending as above is classified as loans and receivables. See note 12.1 for details.

In addition, through the Investment Programme, BBBIL participated in a public issue of Tier 2 capital by Shawbrook Bank plc which issued fixed rate reset callable subordinated loan notes with an initial semi-annual coupon of 8½%. The issue was listed on the London Stock Exchange on 28 October 2015. See note 12.2 for details.

### VC Catalyst

The VC Catalyst Fund investments are funded by BBBIL. The VC Catalyst Fund invests in commercially viable venture capital funds that might otherwise fail to reach a satisfactory 'first close' – the point at which a fund has raised enough money to begin making investments in businesses. It enables private sector investment already committed to those funds to be unlocked and invested in growth companies.

The British Business Bank has chosen to account for all of its VC Catalyst investments at fair value through profit or loss as explained in the accounting policies in note 2. See note 12.4 for details.

### Enterprise Capital Funds

British Business Finance Limited ("BBFL") invests in Enterprise Capital Funds (ECFs). ECFs are commercially focused funds that bring together private and public money to make equity investments in high growth businesses. BBFL invests into funds on terms that improve the outcome for private sector investors when those funds are successful. It does this by taking an agreed prioritised return of 3–4.5%. In return BBFL is entitled to less of the remaining upside gain, in excess of the agreed return, if a fund is successful.

BBFL intentionally makes a trade-off between the prioritised return and potential upside gains. Overall, the terms mean that BBFL expects the ECFs to provide a positive return to government, but that this return will be lower than that typically sought by a private sector investor. This is in line with the Group's strategic objectives.

The investments which BBFL make in ECFs meet the accounting definition of a loan and are classified as available for sale assets. Any upside returns which the funds may generate are separately accounted for as derivatives.

Accounting standards require that available for sale assets are held at fair value, which is defined as the amount that a private sector investor would pay for the investments. This means that every ECF investment is impaired to reflect the fact that it will not provide the level of return sought by a private sector investor, even if it is providing a positive return. The impairment then reverses over the life of the asset to 'top-up' the prioritised return and provide a commercial rate of return in the accounts. This impairment is not as defined by IAS 39, however, the Directors believe this terminology is more useful to a reader of the financial statements. See note 12.3 for details.

In addition, BBFL signs ECF agreements committing to the prioritised return and reduced upside gain in advance of drawdowns. At the point that BBFL enters into a new commitment to provide a loan at below market rate it has to recognise a financial liability as it becomes probable that it will incur accounting losses. This is measured initially at fair value and the provision is utilised to cover the impairment when a drawdown is made. See note 16 for details.

Where a fund performs well enough to more than repay BBFL's prioritised return and capital the remaining return is accounted for as a derivative. These are detailed in note 12.5.

### Other Venture Capital Investments

BBFL also has three other smaller venture capital schemes: Bridges, Aspire and the Capital for Enterprise Fund. These are detailed in note 12.3.

## 12.1 Loans and receivables

## As at 31 March 2017

	Opening £000	Transfers £000	Additions £000	Repayments £000	Accrued Return £000	Impairment allowance £000	Closing £000
<b>Private companies</b>							
BFP Small Business	6,209	-	-	(4,093)	290	(74)	2,332
Investment Programme	66,678	2,996	79,905	(18,219)	6,033	(1,320)	136,073
<b>Total</b>	<b>72,887</b>	<b>2,996</b>	<b>79,905</b>	<b>(22,312)</b>	<b>6,323</b>	<b>(1,394)</b>	<b>138,405</b>

## As at 31 March 2016

	Opening £000	Transfers £000	Additions £000	Repayments £000	Accrued Return £000	Impairment allowance £000	Closing £000
<b>Private companies</b>							
BFP Small Business	3,397	8,289	1,308	(7,600)	654	161	6,209
Investment Programme	15,064	28,148	24,021	(2,663)	2,412	(304)	66,678
<b>Total</b>	<b>18,461</b>	<b>36,437</b>	<b>25,329</b>	<b>(10,263)</b>	<b>3,066</b>	<b>(143)</b>	<b>72,887</b>

At the start of the current year an investment was reclassified from available for sale assets to loans and receivables. This had been incorrectly classified as available for sale in the prior year, however, this investment was valued using amortised cost and therefore no amendment to the value shown in the prior year is required.

The carrying value of the loans and receivable assets approximates to their fair value.

## 12.2 Held to maturity investments

## As at 31 March 2017

	Opening £000	Transfers £000	Additions £000	Repayments £000	Accrued Return £000	Impairment allowance £000	Closing £000
<b>Private companies</b>							
Investment Programme	31,090	-	-	(2,550)	2,550	-	31,090
<b>Total</b>	<b>31,090</b>	<b>-</b>	<b>-</b>	<b>(2,550)</b>	<b>2,550</b>	<b>-</b>	<b>31,090</b>

## As at 31 March 2016

	Opening £000	Transfers £000	Additions £000	Repayments £000	Accrued Return £000	Impairment allowance £000	Closing £000
<b>Private companies</b>							
Investment Programme	-	-	30,000	-	1,090	-	31,090
<b>Total</b>	<b>-</b>	<b>-</b>	<b>30,000</b>	<b>-</b>	<b>1,090</b>	<b>-</b>	<b>31,090</b>

The above asset represents an investment in fixed rate reset callable subordinated loan notes with an initial semi-annual coupon of 8½% issued by Shawbrook Bank plc. The loan is expected to be held to maturity.

## 12.3 Available for sale assets

## At 31 March 2017

	Opening £000	Transfers £000	Additions £000	Repayments £000	Accrued interest £000	Revaluation £000	Unwind of fair value impairment £000	Foreign exchange gains/ (losses) £000	Impairment £000	Closing £000
<b>Limited Partnership Investments</b>										
BFP Mid Cap	499,641	-	124,716	(71,232)	26,191	7,756	-	-	-	587,072
BFP Small Business	33,363	-	8,214	(6,967)	1,689	598	-	986	(67)	37,816
Investment Programme	50,003	(2,996)	71,422	(6,607)	6,265	2,617	-	873	-	121,577
<b>Total</b>	<b>583,007</b>	<b>(2,996)</b>	<b>204,352</b>	<b>(84,806)</b>	<b>34,145</b>	<b>10,971</b>	<b>-</b>	<b>1,859</b>	<b>(67)</b>	<b>746,465</b>
<b>Venture Capital Investments</b>										
Enterprise Capital Funds	136,313	-	55,704	(12,230)	9,483	-	12,712	-	(30,755)	171,227
Bridges	1,311	-	17	-	-	-	-	-	(273)	1,055
Aspire	2,490	-	-	(295)	-	2	-	-	(537)	1,660
Capital for Enterprise Fund	6,614	-	-	(6,042)	-	1,243	-	-	-	1,815
<b>Total</b>	<b>146,728</b>	<b>-</b>	<b>55,721</b>	<b>(18,567)</b>	<b>9,483</b>	<b>1,245</b>	<b>12,712</b>	<b>-</b>	<b>(31,565)</b>	<b>175,757</b>
<b>Total available for sale assets</b>	<b>729,735</b>	<b>(2,996)</b>	<b>260,073</b>	<b>(103,373)</b>	<b>43,628</b>	<b>12,216</b>	<b>12,712</b>	<b>1,859</b>	<b>(31,632)</b>	<b>922,222</b>

Enterprise Capital Funds impairment includes impairment of additions of £19,607,000 (2016: £10,242,000) and impairment based on fund manager valuations of £11,148,000 (2016: £22,401,000).

## At 31 March 2016

	Opening £000	Additions £000	Repayments £000	Accrued interest £000	Revaluation £000	Unwind of fair value impairment £000	Foreign exchange gains/ (losses) £000	Impairment £000	Closing £000
<b>Limited Partnership Investments</b>									
BFP Mid Cap	426,029	112,838	(72,733)	22,781	10,726	-	-	-	499,641
BFP Small Business	25,246	9,468	(4,298)	1,251	1,043	-	823	(170)	33,363
Investment Programme	23,401	29,504	(6,988)	2,841	544	-	701	-	50,003
<b>Total</b>	<b>474,676</b>	<b>151,810</b>	<b>(84,019)</b>	<b>26,873</b>	<b>12,313</b>	<b>-</b>	<b>1,524</b>	<b>(170)</b>	<b>583,007</b>
<b>Venture Capital Investments</b>									
Enterprise Capital Funds	136,039	34,381	(22,977)	8,430	-	13,083	-	(32,643)	136,313
Bridges	1,393	-	(82)	-	-	-	-	-	1,311
Aspire	3,569	43	-	-	(40)	-	-	(1,082)	2,490
Capital for Enterprise Fund	7,253	265	(904)	-	-	-	-	-	6,614
<b>Total</b>	<b>148,254</b>	<b>34,689</b>	<b>(23,963)</b>	<b>8,430</b>	<b>(40)</b>	<b>13,083</b>	<b>-</b>	<b>(33,725)</b>	<b>146,728</b>
<b>Total available for sale assets</b>	<b>622,930</b>	<b>186,499</b>	<b>(107,982)</b>	<b>35,303</b>	<b>12,273</b>	<b>13,083</b>	<b>1,524</b>	<b>(33,895)</b>	<b>729,735</b>

**12.4 Assets designated at fair value through profit or loss****At 31 March 2017**

	Opening £000	Additions £000	Repayments £000	Revaluation £000	Closing £000
VC Catalyst	15,029	9,470	(59)	5,082	29,522
<b>Total</b>	<b>15,029</b>	<b>9,470</b>	<b>(59)</b>	<b>5,082</b>	<b>29,522</b>

**At 31 March 2016**

	Opening £000	Additions £000	Repayments £000	Revaluation £000	Closing £000
VC Catalyst	5,313	9,791	(409)	334	15,029
<b>Total</b>	<b>5,313</b>	<b>9,791</b>	<b>(409)</b>	<b>334</b>	<b>15,029</b>

**12.5 Derivatives****At 31 March 2017**

	Opening £000	Repayments £000	Revaluation £000	Closing £000
Enterprise Capital Funds	18,911	-	5,408	24,319
<b>Total</b>	<b>18,911</b>	<b>-</b>	<b>5,408</b>	<b>24,319</b>

**At 31 March 2016**

	Opening £000	Repayments £000	Revaluation £000	Closing £000
Enterprise Capital Funds	12,273	-	6,638	18,911
<b>Total</b>	<b>12,273</b>	<b>-</b>	<b>6,638</b>	<b>18,911</b>

**13. Trade and other receivables**

	2017 £000	2016 £000
<b>Amounts receivable within one year</b>		
Trade receivables	626	15,982
Accrued income	2,819	1,761
Prepayments	304	130
Other receivables	34	228
	<b>3,783</b>	<b>18,101</b>

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

Of the amount above, £0.5 million (31 March 2016: £2.1 million) of trade receivables and £2.6 million (31 March 2016: £1.8 million) of accrued income are receivable from the Department for Business, Energy and Industrial Strategy. Of the amount above, £0.1 million of accrued income is receivable from Northern Powerhouse Investments Limited and £0.1 million of accrued income is receivable from Midlands Engine Investments Limited.

The trade receivables balance includes £12.3m of cash in transit at 31 March 2016 that had been paid to acquire assets but where the cash had not been received by the counterparty at the previous year end date.



#### 14. Cash and cash equivalents

The following balances were held at year end:

	2017 £000	2016 £000
Government Banking Service	52,057	55,800
Commercial banks	6,375	2,582
<b>Balance as at 31 March 2017</b>	<b>58,432</b>	<b>58,382</b>

The British Business Bank generally maintains a cash balance of at least £50m to fund investments. As at 31 March 2017, the cash balance was £58.4m of which £34.1m was used to fund investments in April and May 2017. As the majority of the cash is held in the Government Banking Service there is minimal cost to the Exchequer.

#### 15. Trade and other payables

	2017 £000	2016 £000
<b>Amounts falling due within one year</b>		
Trade payables	143	347
VAT and social security	376	1,686
Shareholder loan	-	8,882
Accrued expenditure	3,472	2,892
Other payables	2,224	1,980
	<b>6,215</b>	<b>15,787</b>
<b>Amounts falling due after more than one year</b>		
Accrued expenditure	-	88
Other payables	818	-
	<b>818</b>	<b>88</b>

The shareholder loan is from the Department for Business, Energy and Industrial Strategy. All shareholder loans are subsequently converted to share capital.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

#### 16. Provisions

	Loan commitments £000	Disap'n provision £000	2017 £000	2016 £000
Opening balance	108,212	-	108,212	71,621
Provided in year on new ECFs	61,014	120	61,134	48,875
Provision utilised in year on drawdowns	(19,607)	-	(19,607)	(10,242)
Provision released in year	(2,876)	-	(2,876)	(2,042)
	<b>38,531</b>	<b>120</b>	<b>38,651</b>	<b>36,591</b>
<b>Closing balance</b>	<b>146,743</b>	<b>120</b>	<b>146,863</b>	<b>108,212</b>
<i>Of which:</i>				
Current	29,258	120	29,378	26,373
Non-current	117,485	-	117,485	81,839
	<b>146,743</b>	<b>120</b>	<b>146,863</b>	<b>108,212</b>

Non-current amounts relate to the undrawn loan commitments provision where based on historic and forecast information it is not anticipated the provision will be utilised with the next 12 months. Given the uncertain nature of timings of the drawdowns from ECFs the Directors believe this is the best estimate at the balance sheet date.

## 17. Contingent liabilities and indemnities

The Group has taken advantage of the exemption available under section 479A *Subsidiary companies: conditions for exemption from audit* of the Companies Act which exempts qualifying companies from the audit of their individual accounts for a financial year. The exemption is in respect of the following subsidiaries.

Subsidiary name	Registered No.
British Business Finance Limited	09091928
British Business Financial Services Limited	09174621
Capital for Enterprise Limited	06179047
Capital for Enterprise Fund Managers Limited	06826072
Capital for Enterprise (GP) Limited	SC354499
Aspire Holdco Limited	09263859

As required by the Act, the British Business Bank plc:

- Guarantees all outstanding liabilities to which the subsidiary companies are subject at the end of the financial year to which the guarantee relates, and until they are satisfied in full; and
- Asserts that the guarantee is enforceable against the British Business Bank plc by any person to whom the subsidiary companies are liable in respect of those liabilities.

Under the Bank's Help to Grow financial guarantee programme, which was new in the year, the Bank has entered in to financial guarantee agreements of £60 million. The Bank has guaranteed 75% of eligible lending to SMEs under these agreements and a counter guarantee is in place that guarantees 50% of the Bank's 75% of eligible lending. As at 31 March 2017 the amount lent under these financial guarantee agreements was £0.6 million (2016: Enil).

## 18. Capital and other commitments

### 18.1 Capital commitments

The British Business Bank plc had the following commitments at the balance sheet date in relation to its existing investment portfolio:

	2017 £000	2016 £000
<b>British Business Bank Investments Ltd</b>		
BFP Small Business	9,786	11,971
BFP Mid Cap	283,885	222,451
Investment Programme	282,236	256,782
VC Catalyst	58,874	54,609
<b>Venture Capital Solutions</b>		
Enterprise Capital Funds	304,762	253,594
Bridges Venture Fund	577	577
Capital for Enterprise Fund	-	-
<b>Other</b>		
Northern Powerhouse Investments Ltd	50,000	-
Midlands Engine Investments Ltd	32,500	-
	1,022,620	799,984

## 18.2 Operating lease commitments

The Bank's occupation of its registered office at Foundry House, 3 Millsands, Riverside Exchange, Sheffield S3 8NH is governed by a Memorandum of Terms of Occupation (MOTO) covering the period from 17 December 2012 to 30 June 2017. The Bank has signed an extension to the MOTO covering the period from 1 July 2017 to 30 November 2017.

For the year ended 31 March 2017, lease payments of £430,000 were recognised as an expense in the year.

The lease commitments as at 31 March 2017 are as follows:

	<1yr £000	1-5yrs £000	>5 yrs £000	Total £000
Operating lease	45	-	-	45

The lease commitments as at 31 March 2016 were:

	<1yr £000	1-5yrs £000	>5 yrs £000	Total £000
Operating lease	78	20	-	98

The Bank is in the process of negotiating a new MOTO to cover its occupation of office space at Fleetbank House, 2-6 Salisbury Square, London, EC4Y 8JX. The MOTO is expected to permit the Bank to occupy the space to 1 April 2019 with an option to break the agreement upon serving six months' notice.

For the year ended 31 March 2017, the Bank paid £81,000 in expenses in relation to occupying the offices (including service charges, rates and utilities).

## 19. Share capital

	2017 £000	2016 £000
1,071,407,935 (2016: 837,525,848) Issued and fully paid ordinary shares of £1 each:		
Brought forward	837,526	664,326
Shares issued for cash	233,882	173,200
Carried forward	1,071,408	837,526

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

## 20. Subsidiaries and other significant undertakings

The Group consists of a parent company, British Business Bank plc, incorporated in the UK and a number of subsidiaries held directly by the British Business Bank plc, which operate and are incorporated in the United Kingdom.

The subsidiary undertakings of the Company are shown below. The capital of each entity depends on its nature and consists of ordinary shares. All the subsidiary undertakings have the same registered address being, Foundry House, 3 Millsands, Sheffield, S3 8NH.

Subsidiary	Country of Incorporation	Nature of Business	Shares held by the Company
British Business Bank Investments Limited	UK	Makes commercial investments into providers of finance to smaller businesses plus venture capital fund investments	100%
British Business Finance Limited	UK	Manages and invests into schemes (generally with an element of State aid) on behalf of the Group	100%
British Business Financial Services Limited	UK	Administers investment schemes on behalf of the Department for Business, Energy and Industrial Strategy	100%
Capital for Enterprise Limited*	UK	Holding company	100%
Capital for Enterprise Fund Managers Limited*	UK	Acts as fund manager of Capital for Enterprise L.P.	100%
Capital for Enterprise (GP) Limited*	UK	Acts as general partner to Capital for Enterprise L.P.	100%
British Business Aspire Holdco Limited*	UK	Provides equity investments to women led SMEs	100%

\*Indicates investments are not directly held in these companies.

Details of the subsidiaries results, including their net assets as at the balance sheet date and their profit or loss for the year ended 31 March 2017, are provided in the segmental reporting note 9.

The British Business Bank Group also has the following significant holdings in undertakings other than subsidiaries.

Name	Country in which it is incorporated	Class of share held by the Group	Proportion held by the Group
BMS Finance S.A.R.L. Registered address: 55 Avenue Pasteur, L-2311, Luxembourg	Luxembourg	Not classified	49.8%
Industrial Lending 1 (Boost Fund) Registered address: 6 Rue Adolphe, L-1116, Luxembourg	Luxembourg	Class A shares	46.6%
Pricoa Sterling Corporate Bond Fund <sup>1</sup> Registered address: 70 Sir John Rogerson's Quay, Dublin 2, Ireland	Ireland	Not classified	67.7%
Urica Capital Limited <sup>2</sup> Registered address: PO Box 1075, 9 Castle Street, St Helier, Jersey, Channel Islands, JE4 2QP	Jersey	Not classified	50.0%
VRG Ventures Limited Registered address: Cardiff House, Tilling Road, London, NW2 1LJ	UK	Ordinary shares	28.4%
Muzinich UK Private Debt Fund Registered address: 49 Avenue J.F.K, L-1855, Luxembourg	Luxembourg	Not classified	21.0%

1. Pricoa's latest financial year end was 30 June 2017. The fund does not produce separate accounts and therefore figures for the fund are not available.

2. Urica's latest financial year end was 30 June 2017. At the balance sheet date it had not published accounts in respect of that year. As at 30 June 2016, its aggregate amount of capital and reserves was £6,999,129 and during its financial year it made a profit of £70,479.

## 21. Financial Instruments

### 21.1 Categories of financial instruments

The following table analyses the Group's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39 *Financial Instruments, Recognition and Measurement*. Assets and liabilities outside the scope of IAS 39 are shown separately.

At 31 March 2017

	Note	Assets held at FVTPL £000	Loans and receivables £000	Held to maturity investments £000	Available for sale assets £000	Liabilities held at amortised cost £000	Non- financial assets and liabilities £000	Total £000
<b>Assets</b>								
Property, plant and equipment	10	-	-	-	-	-	525	525
Intangible assets	11	-	-	-	-	-	50	50
Loans and receivables	12.1	-	138,405	-	-	-	-	138,405
Held to maturity investments	12.2	-	-	31,090	-	-	-	31,090
Available-for-sale financial assets	12.3	-	-	-	922,222	-	-	922,222
Designated at FVTPL	12.4	29,522	-	-	-	-	-	29,522
Derivatives	12.5	24,319	-	-	-	-	-	24,319
Trade and other receivables	13	-	3,479	-	-	-	-	3,479
Prepayments	13	-	-	-	-	-	304	304
Cash and cash equivalents	14	-	58,432	-	-	-	-	58,432
<b>Total assets</b>		<b>53,841</b>	<b>200,316</b>	<b>31,090</b>	<b>922,222</b>	<b>-</b>	<b>879</b>	<b>1,208,348</b>
<b>Liabilities</b>								
Trade and other payables	15	-	-	-	-	(6,657)	(376)	(7,033)
Corporation tax	8	-	-	-	-	-	(5,897)	(5,897)
Deferred tax	8	-	-	-	-	-	(1,099)	(1,099)
Provisions	16	-	-	-	-	(146,743)	(120)	(146,863)
<b>Total liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(153,400)</b>	<b>(7,492)</b>	<b>(160,892)</b>
<b>Net assets</b>		<b>53,841</b>	<b>200,316</b>	<b>31,090</b>	<b>922,222</b>	<b>(153,400)</b>	<b>(6,613)</b>	<b>1,047,456</b>

## At 31 March 2016

	Note	Assets held at FVTPL £000	Loans and receivables £000	Held to maturity investments £000	Available for sale assets £000	Liabilities held at amortised cost £000	Non- financial assets and liabilities £000	Total £000
<b>Assets</b>								
Property, plant and equipment	10	-	-	-	-	-	361	361
Intangible assets	11	-	-	-	-	-	119	119
Loans and receivables	12.1	-	72,887	-	-	-	-	72,887
Held to maturity investments	12.2	-	-	31,090	-	-	-	31,090
Available-for-sale financial assets	12.3	-	-	-	729,735	-	-	729,735
Designated at FVTPL	12.4	15,029	-	-	-	-	-	15,029
Derivatives	12.5	18,911	-	-	-	-	-	18,911
Trade and other receivables	13	-	17,971	-	-	-	-	17,971
Prepayments	13	-	-	-	-	-	130	130
Cash and cash equivalents	14	-	58,382	-	-	-	-	58,382
<b>Total assets</b>		<b>33,940</b>	<b>149,240</b>	<b>31,090</b>	<b>729,735</b>	<b>-</b>	<b>610</b>	<b>944,615</b>
<b>Liabilities</b>								
Trade and other payables	15	-	-	-	-	(14,189)	(1,686)	(15,875)
Corporation tax	8	-	-	-	-	-	(5,710)	(5,710)
Deferred tax	8	-	-	-	-	-	(2,796)	(2,796)
Provisions	16	-	-	-	-	(108,212)	-	(108,212)
<b>Total liabilities</b>						<b>(122,401)</b>	<b>(10,192)</b>	<b>(132,593)</b>
<b>Net assets</b>		<b>33,940</b>	<b>149,240</b>	<b>31,090</b>	<b>729,735</b>	<b>(122,401)</b>	<b>(9,582)</b>	<b>812,022</b>

## 21.2 Fair value measurements

The information set out below provides information about how the Group determines fair values of various financial assets and financial liabilities.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which 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 included within Level 1 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).

The Group's financial assets at fair value through profit or loss, available for sale assets and loans and receivables are all classified as Level 3 assets. The Group's held to maturity investments are classified as Level 1 assets.

At 31 March 2017, based on the valuation assessment available-for-sale assets were increased by £12.2 million (31 March 2016: £12.3 million) taken to Other Comprehensive Income.

At 31 March 2017, the fair value of derivative assets held was increased by £5.4 million (31 March 2016: £6.6million) taken to the Income Statement. In addition, the fair value of assets held as at fair value through profit or loss was increased by £5.0m (31 March 2016: £0.3m) taken to the Income Statement.

The investment portfolio consists of assets carried at amortised cost (loans and receivables and held to maturity investments) and fair value (available for sale assets, assets designated at fair value through profit and loss and derivatives). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

## Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

### Available for sale assets

For all AFS assets, except for the Enterprise Capital Funds, the investment valuation, a net asset valuation (NAV) which is determined on a fair value basis, is determined by investment managers on a regular basis (monthly or quarterly).

The Directors review the investment valuation reports periodically and are satisfied with the period-end valuations presented in the financial statements.

### Enterprise Capital Funds, assets designated at fair value through profit or loss & derivatives

The primary valuation methodology used for the debt element of investments is the discounted cash flow method. Fair value is estimated by deriving the present value of the investment using reasonable assumptions of expected future cash flows and the estimated repayment value and date, discounted at the appropriate risk-adjusted discount rate. The discount rate is estimated with reference to the market risk-free rate and a risk-adjusted premium.

Each investment has an annually reviewed and where appropriate updated model, which for each valuation assessment is updated for actual asset performance and key assumption and input changes.

Enterprise Capital Funds also contain a separately identified equity derivative. The derivatives are valued using the Black-Scholes model. The key inputs used in the derivative valuation are:

#### Input

Net amount drawn and fund valuation as at 31 March 2017

Time to fund exit - ranging from 0-10 years

Volatility - ranging from 19% to 20%

Dividend yield - ranging from 3.0% to 4.5%

Risk free rate

#### Assumptions in determining the input

Reported by fund managers

Assessed separately for each fund based on remaining investment period and estimated timetable for fund exits.

The VIX and the VXN indexes have been used as a proxy for the expected volatility for non-sector specific and technology specific funds respectively.

Set to equal the contractual return which funds must pay before any upside on the option is realised.

Derived from UK Government bonds.

**VC Catalyst**

The VC Catalyst investment valuation is a net asset valuation (NAV) which is determined on a fair value basis, and determined by investment managers on a regular basis (monthly or quarterly).

**Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)**

The Directors consider that the carrying amounts of the loans and receivables and held to maturity financial assets recorded at amortised cost in the financial statements approximate their fair values.

**21.3 Financial risk management**

The Group has exposure to a number of financial risks through the conduct of its operations. Details of the Group's risk management structure are provided in the Risk Management section of the Strategic Report.

This note presents information about the nature and extent of risks arising from the financial instruments.

The British Business Bank has exposure to the following risks from its use of financial instruments:

- Credit and investment risk
- Market risk

Liquidity risk is not deemed relevant for the Group as it is 100% Government funded, with all programmes pre-approved and committed to, and it does not have a leveraged balance sheet.

**Credit and Investment risk**

Credit and Investment risk is the risk of a loss due to the failure of a counterparty or a financial instrument to meet its obligations to pay the Group in accordance with agreed terms, or due to a loss of value in equity investments or the impact of credit spread movements. Credit risk also includes settlement risk when a counterparty fails to settle their side of a transaction and concentration risk. The Group's credit risk is also influenced by general macroeconomic conditions.

Credit risk may arise in any of the Group's assets where there is the potential for default including loans and receivables and available for sale investments with a contractual repayment.

The degree to which the Group is exposed to this credit risk depends on the individual characteristics of the contract counterparty and the nature of the investment. The amount of exposure, before taking into account any collateral or security, in each class of financial asset is limited to the amount invested at any given point in time. At 31 March 2017, the Group holds collateral for £52m of investments in the Investment Programme.

As part of the risk appetite process the Bank undertakes stress scenario modelling on its portfolio. Severe but plausible stressed scenarios featuring significant asset value corrections on fair value of investments and heightened portfolio defaults were applied to planned deployment and stock levels in each Programme within the Bank. The general approach is that these scenarios are chosen on the basis that they are as severe as a 1 in 20 year downside scenario (i.e. the worst year in the past 20 years). The output of this exercise reflects the risk undertaken by the Bank operating in underserved finance markets and demonstrates that the Bank would suffer significant losses if such a scenario were to materialise. We also undertook a stress test based upon Bank of England guidelines, stressing a number of macroeconomic variables and evaluating how their movements would impact on losses on the Bank's portfolio.

The findings of this exercise were considered by the Board and also communicated to key stakeholders.

The value of the investments in each class of financial asset is detailed in section 21.1 of this note and in notes 12 and 16 which also give details of total impairment losses during the year.

For some debt investments appropriate collateral is held, depending on the Group's programme criteria. The nature of collateral may change over time depending on the investments which the Group holds in any given year. The concentration of credit risk is limited due to the investment base being large and spread across the Group's operating segments. Accordingly, the Directors believe that there is no further credit provision required in excess of the provision for impairment losses and the specific provision for credit losses detailed opposite.



Credit risk assessment is carried out as part of the investment approval process and is revisited on an ongoing basis as part of the Group's portfolio management process.

In determining fair value the Group has made allowance against the value of certain loans and receivables, those being receivables purchased through an invoice discounter and part-loans to borrowers that are made alongside other platform lenders, in accordance with its provisioning policy. The basis of impairment allowance is different for the different categories of loans and receivables. In determining the recoverability of the amounts receivable, the Group considers past performance of recoveries.

With respect to receivables purchased through an invoice discounter the Group provides for all debts which are overdue by 90 days at a rate of 100% of the average overdue balance over the previous three months. In addition it makes 100% provision for all receivables in respect of which there is a known or expected problem in collection even if payment is not overdue by 90 days. At 31 March 2017 the gross value of receivables purchased through an invoice discounter was £4.3m of which £222,000 was overdue and fully provided.

The Group makes provision for all part-loans made to borrowers alongside other platform lenders which are overdue by 90 days at a rate of 100%. At 31 March 2017 the gross value of such receivables was £50.7m of which £2,596,000 was overdue by 90 days and fully provided.

No other repayments in respect of the Group's financial instruments were overdue at the balance sheet date

### Market risk

Market Risk is the risk of direct or indirect losses that arise from fluctuations in values of, or income from, assets or in movements in interest or exchange rates or credit spreads. The Group will identify market risk arising from an inability to exit an investment within the intended time frame.

### Interest rate risk

The British Business Bank's investments include a combination of fixed and variable rate loans. Interest rate risk is regularly monitored to ensure that the mix of variable and fixed rate borrowing is appropriate. The Group does not use derivatives to hedge interest rate risk.

LIBOR sensitivity of the Group's investments are estimated is as follows:

- The impact of a 1 percentage point increase in the interest rate applicable to investments would be an approximate increase in income of £8m over a one year period.
- The impact of a 0.25 percentage point decrease in the interest rate applicable to investments would be an approximate decrease in income of £1m over a one year period. Larger decreases would be mitigated by a significant element of LIBOR floors.

### Currency risk

The Group does not have material exposure to currency risk as the Group primarily invest in its functional currency, pounds sterling. There are some investments in funds which have a Europe wide investment mandate, and are denominated in Euros. A condition of these funds is that they invest into the UK at a fund level a larger amount than our financial investment. Approximately 3% of the Group's portfolio is in non-pounds sterling denominated investments. There is currently no policy to hedge this currency risk. Due to the small amount of investments currently held in non-pounds sterling no sensitivity analysis has been performed in respect of this area.

### Liquidity risk

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

Liquidity risk is not deemed significantly relevant to the Group as it is 100% Government funded, with all programmes pre-approved and committed to, and it does not have a leveraged balance sheet.

## 22. Related party transactions

Balances and transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed on page 112. Compensation paid to key management personnel is disclosed in the Directors' Remuneration Report.

The Department for Business, Energy and Industrial Strategy (BEIS) is the principal shareholder and parent of the British Business Bank plc. The British Business Bank plc provides services to BEIS in relation to some financial assets held by BEIS. In return, the British Business Bank recognises income in relation to the services provided. In addition, BEIS provided temporary staff to the the British Business Bank Group for which there are recharges.

Northern Powerhouse Investments Limited (NPIL) and Midlands Engine Investments Limited (MEIL) are related parties by virtue of having directors who are also directors of the British Business Bank plc. The Group has provided services in the year in the setting up of these funds in anticipation of them making investments.

**Trading transactions**

During the year, Group companies entered into the following transactions:

	2017 £000	2016 £000
<b>Income</b>		
Management fee – BEIS	10,075	10,650
Management fee – NPIL	2,386	-
Management fee – MEIL	1,414	-
Proceeds of warranty claim – BEIS	-	2,900
	<b>13,875</b>	<b>13,550</b>
<b>Expenditure</b>		
Staff seconded from BEIS	154	673
Rent – BEIS	437	350
Other – BEIS	67	-
	<b>658</b>	<b>1,023</b>
<b>Capital transactions</b>		
Shares issued – BEIS	233,882	173,200
Shareholder loan – BEIS	-	8,882
	<b>233,882</b>	<b>182,082</b>

**Amounts outstanding at year end**

As at the balance sheet date, the Group was owed £2.6 million from BEIS relating to the management fee (31 March 2016: £3.9m) and owed BEIS £0.6 million of which £0.2 million relates to seconded staff, £0.4 million rent and a shareholder loan of Enil (31 March 2016: £8.9m).

As at the balance sheet date, the Group was owed £0.1m from NPIL (31 March 2016: Enil) and £0.1m from MEIL (31 March 2016: Enil) relating to the management fee.

As at the balance sheet date, the Group has made loan commitments to NPIL of £50m (31 March 2016: Enil) and MEIL of £32.5m (31 March 2016: Enil). None of these amounts had been drawn down as at the balance sheet date.

**23. Events after the reporting date**

Following the year end, on 1 April 2017 the Group through British Business Finance Limited took control of the Start Up Loans Company following a reorganisation within the Group's parent undertaking. As this transaction did not take place until after the reporting date, the financial statements and accompanying notes do not include any amounts in respect of the Start Up Loans Company.

As at the date of these financial statements, there have been no other post reporting date events that require disclosure.

**24. Controlling party**

In the opinion of the Directors, the Group's parent company and ultimate controlling party is the Secretary of State for the Department for Business, Energy and Industrial Strategy. The consolidated financial statements of the Department for Business, Energy and Industrial Strategy are available from the government departments' website at GOV.UK.

# Independent auditor's report to the members of British Business Bank plc

I have audited the parent company financial statements of British Business Bank plc for the year ended 31 March 2017 which comprise:

- the Company Statement of Financial Position;
- the Company Statement of Changes in Equity;
- the Company Cash Flow Statement; and
- the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Director's Remuneration Report that is described as having been audited.

## Respective responsibilities of the directors and the auditor

As explained more fully in the Statement of Directors' responsibilities set out on page 74, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant

accounting estimates made by the directors; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the parent company's affairs as at 31 March 2017; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

**Opinion on other matters prescribed by the Companies Act 2006**

In my opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and these reports have been prepared in accordance with the applicable legal requirements; and
- In light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report.

**Matters on which I report by exception**

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

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

**Other matter**

I have reported separately, on pages 75 to 79, on the Group Financial Statements of British Business Bank plc for the year ended 31 March 2017.

**Hilary Lower**  
Senior Statutory Auditor

13 July 2017

For and on behalf of the Comptroller and Auditor General (Statutory Auditor)

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP

# Company financial statements

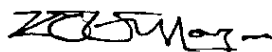
## Company Statement of Financial Position

as at 31 March 2017

	Note	2017 £000	2016 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		525	361
Intangible assets		50	119
Investments	2	976,072	750,611
<b>Total non-current assets</b>		<b>976,647</b>	<b>751,091</b>
<b>Current assets</b>			
Trade and other receivables	4	5,649	8,785
Deferred tax		131	93
Cash and cash equivalents	3	45,875	46,837
<b>Total current assets</b>		<b>51,655</b>	<b>55,715</b>
<b>Total assets</b>		<b>1,028,302</b>	<b>806,806</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	5	(4,779)	(15,491)
Corporation tax		(60)	(56)
Provisions		(120)	-
<b>Total current liabilities</b>		<b>(4,959)</b>	<b>(15,547)</b>
<b>Total assets less current liabilities</b>		<b>1,023,343</b>	<b>791,259</b>
<b>Non-current liabilities</b>			
Trade and other payables	5	(656)	(47)
Total non-current liabilities		(656)	(47)
<b>Total liabilities</b>		<b>(5,615)</b>	<b>(15,594)</b>
<b>Net assets</b>		<b>1,022,687</b>	<b>791,212</b>
<b>Equity</b>			
Issued share capital		1,071,408	837,526
Retained earnings		(48,721)	(46,314)
<b>Total equity</b>		<b>1,022,687</b>	<b>791,212</b>

The Company has taken advantage of section 408 of the Act and consequently the statement of comprehensive income (including the profit and loss account) of the parent company is not presented as part of these accounts. The loss of the parent company for the financial period amounted to £2,407,000 (2016: loss £46,250,000).

The financial statements of the company were approved by the Board of Directors and authorised for issue on 13 July 2017. They were signed on its behalf by:



**Keith Morgan**

Chief Executive Officer

The notes on pages 118 to 120 form an integral part of the financial statements.

# Company Statement of Changes in Equity

as at 31 March 2017

	Issued capital £000	Retained earnings £000	Total £000
<b>Opening balance as at 1 April 2015</b>	<b>664,326</b>	<b>(64)</b>	<b>664,262</b>
Net income after tax	-	(46,250)	(46,250)
<b>Total comprehensive income</b>	<b>-</b>	<b>(46,250)</b>	<b>(46,250)</b>
Issue of ordinary shares	173,200	-	173,200
<b>Balance at 31 March 2016</b>	<b>837,526</b>	<b>(46,314)</b>	<b>791,212</b>
<b>Opening balance as at 1 April 2016</b>	<b>837,526</b>	<b>(46,314)</b>	<b>791,212</b>
Net income after tax	-	(2,407)	(2,407)
<b>Total comprehensive income</b>	<b>-</b>	<b>(2,407)</b>	<b>(2,407)</b>
Issue of ordinary shares	233,882	-	233,882
<b>Balance at 31 March 2017</b>	<b>1,071,408</b>	<b>(48,721)</b>	<b>1,022,687</b>

# Company cash flow statement

as at 31 March 2017

	Note	2017 £000	2016 £000
<b>Loss before tax</b>		(2,398)	(46,323)
<b>Cash flows from operating activities</b>			
Adjustments for:			
Depreciation, bad debt and impairments		326	304
Impairment of investments in subsidiary undertakings	2	42,407	70,257
Loss on disposal of disposal of intangible assets		-	14
Corporation tax paid		(42)	(80)
Other provision expense		120	-
Movement in trade receivables	4	3,136	471
Movement in trade payables	5	(10,104)	9,856
<b>Net cash received from operating activities</b>		<b>33,445</b>	<b>34,499</b>
<b>Cash flows from investing activities</b>			
Purchase of available-for-sale assets	2	(267,868)	(202,000)
Purchases of property, plant and equipment		(414)	(21)
Purchase of intangible assets		(7)	(9)
<b>Net cash used in investing activities</b>		<b>(268,289)</b>	<b>(202,030)</b>
<b>Cash flows from financing activities</b>			
Issue of new shares		233,882	173,200
<b>Net cash from financing activities</b>		<b>233,882</b>	<b>173,200</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(962)</b>	<b>5,669</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>46,837</b>	<b>41,168</b>
<b>Cash and cash equivalents at end of year</b>		<b>45,875</b>	<b>46,837</b>

The notes on pages 118 to 120 form an integral part of the financial statements.

# Notes to the company financial statements

## 1. Significant accounting policies

### Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006 ('the Act').

The Company's financial accounting policies are consistent with those described in the consolidated accounts of the British Business Bank plc. Disclosures in relation to property, plant and equipment (note 10) intangible assets (note 11) and share capital (note 19) have not been repeated here as there are no differences to those provided in the consolidated accounts.

Investments in subsidiary undertakings are measured at cost less impairment in accordance with IAS 27.

These financial statements have been prepared on the going concern basis as described in the consolidated accounts of the British Business Bank plc, and under the historical cost convention. The financial statements are presented in pounds sterling, which is the Company's functional currency.

## 2. Investments

The Company acts as a holding company for the Group and has the following principal subsidiary undertakings which affected the Group's results or net assets:

Subsidiary	Nature of Business
British Business Bank Investments Limited (BBBIL)	Makes commercial investments into providers of finance to smaller businesses plus venture capital fund investments
British Business Finance Limited (BBFL)	Manages investment schemes on behalf of the Group
British Business Financial Services Limited (BBFSL)	Manages investment schemes on behalf of the Department for Business, Energy and Industrial Strategy

All subsidiary undertakings are wholly-owned and incorporated in the UK, all shareholdings are in the name of British Business Bank plc.

See note 20 for details of all subsidiary holdings of the company.



**At 31 March 2017**

	Investment in BBBIL £000	Investment in BBFL £000	Investment in BBFSL £000	Total £000
Opening balance	687,896	62,715	-	750,611
Investment in year	232,868	35,000	-	267,868
Impairment	-	(42,407)	-	(42,407)
<b>Closing Balance</b>	<b>920,764</b>	<b>55,308</b>	<b>-</b>	<b>976,072</b>

**At 31 March 2016**

	Investment in BBBIL £000	Investment in BBFL £000	Investment in BBFSL £000	Total £000
Opening balance	500,153	118,715	-	618,868
Investment in year	189,000	13,000	-	202,000
Impairment	(1,257)	(69,000)	-	(70,257)
<b>Closing Balance</b>	<b>687,896</b>	<b>62,715</b>	<b>-</b>	<b>750,611</b>

**3. Cash and cash equivalents**

The cash and cash equivalents balance represents cash held with the Government Banking Service.

**4. Trade and other receivables**

	2017 £000	2016 £000
<b>Amounts receivable within one year</b>		
Trade receivables	601	2,176
Prepayments	304	130
Intra-Group	4,147	6,286
Other receivables	597	193
	<b>5,649</b>	<b>8,785</b>

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

**5. Trade and other payables**

	2017 £000	2016 £000
<b>Amounts falling due within one year</b>		
Trade payables	141	310
VAT and social security	353	1,258
Accrued expenditure	2,264	1,886
Intra-Group	44	2,359
Other payables	1,977	9,678
	<b>4,779</b>	<b>15,491</b>
<b>Amounts after more than one year</b>		
Accrued expenditure	656	47
	<b>656</b>	<b>47</b>

The Directors consider that the carrying amount of trade payables approximates to their fair value.

## 6. Related party transactions

During the year under review British Business Bank plc was 100% owned by the UK Government, with the shareholder being the Secretary of State for the Department for Business, Energy and Industrial Strategy. The Company has elected to take the exemption under IAS 24 regarding disclosure of transactions with related parties because UK Government has control over both the Company and other entities. Compensation paid to key management personnel is disclosed in the Directors' Remuneration Report.

The Company trades with Government bodies on an arm's length basis on commercial terms in line with contractual agreements. The main Government bodies transacted with are the Department for Business, Energy and Industrial Strategy and the Company's principal subsidiary undertakings British Business Bank Investments Limited (BBBIL), British Business Finance Limited (BBFL) and British Business Financial Services Limited (BBFSL).

The Group's trading and other capital transactions with BEIS were all effected through the Company and are disclosed in note 22 of the consolidated financial statements.

The Company provided capital to BBBIL and BBFL as shown in note 2. In addition it made charges to its principal subsidiary undertakings in respect of services provided on their behalf amounting to £13.4 million (2016: £12.7 million).

## 7. Controlling party

In the opinion of the Directors, the company's ultimate controlling party is the Secretary of State for the Department for Business, Energy and Industrial Strategy. The consolidated financial statements of the Department for Business, Energy and Industrial Strategy are available from the government departments' website at GOV.UK. Copies of the group financial statements of the British Business Bank plc are available from Companies group financial statements of the British Business Bank plc are available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

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All figures source British Business Bank 31st March 2017 unless otherwise stated.

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Any enquiries regarding this publication should be sent to:

British Business Bank plc

Foundry House

3 Millsands

Sheffield S3 8NH



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