

British Business Bank plc



ENABLING SMALLER BUSINESSES TO GROW AND PROSPER

Annual Report
and Accounts 2019

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We help to drive economic growth by making finance markets work better for smaller businesses - wherever they are in the UK and wherever they are on their business journey, enabling them to prosper and grow.



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In 2018/19 the British Business Bank began putting in place the enhanced infrastructure and processes required by a rapidly growing organisation.



CHAIR'S STATEMENT

Delivering for the UK economy

The British Business Bank helps to drive economic growth by making finance markets work better for smaller businesses, wherever they are in the UK and wherever they are on their business journey, enabling them to prosper and grow.

In 2018/19 the British Business Bank began putting in place the enhanced infrastructure and processes required by a rapidly growing organisation, while at the same time delivering increased volumes and diversity of finance for UK smaller businesses.

These smaller businesses are of huge importance to our economy: they provide the majority of private sector jobs and turnover, and they make up over 99% of the country's business population.

New objectives

From 1 April 2018, our Shareholder assigned the Bank two new objectives:

- to be the centre of expertise on smaller business finance in the UK, providing advice and support to the Government
- to identify and help reduce regional imbalances in access to finance for smaller businesses across the UK.

In the last financial year, we began to deliver against these objectives. This is detailed in our strategic report, which describes our programmes to increase finance – and awareness of finance options – in specific UK regions, our delivery of a number of cross-government programmes and a marked increase in our research and analysis.

As part of this, in February 2019 we published our VC & Female Founders report in partnership with the BVCA and Diversity VC, which identified specific barriers faced by female-led firms in accessing venture capital. Our coordination and convening of 45 VC firms to produce this ground-breaking research was a good illustration of how well placed we are to set the agenda and lead the conversation, in partnership with the finance industry.

Additional funding for delivery

Over the past year, the Government has demonstrated confidence in the British Business Bank's capability to deliver for smaller businesses.

As well as an additional £200m of funding allocated to offset potential reductions in European funding to UK smaller businesses, we have been asked to support up to £1bn of smaller housebuilder finance, working alongside the Ministry of Housing, Communities and Local Government, and Homes England. The Government also committed to funding our Start Up Loans programme until 2021 at the 2018 Autumn Budget.

We launched a new subsidiary, British Patient Capital (BPC), in June 2018, with £2.5bn of funding and a mission to enable long-term investment in innovative UK companies so they become successful world-class businesses. We appointed the CEO of British Business Investments, Catherine Lewis La Torre, as CEO of BPC in October 2018, bringing both businesses under her leadership.

Our people

We responded to our expanding role and responsibilities by creating over 80 new roles and growing our colleague numbers to over 320. This rapid expansion has required us to upgrade our processes and infrastructure, and alongside that we have also developed a renewed focus on enabling our people to develop and grow along with the organisation.

We have continued the integration of the Start Up Loans Company following our merger in April 2017. This involved a greater sharing of resources, and consolidating our respective London operations from two offices into a single new premises in December 2018.

The Board

Caroline Green MBE stepped down as Non-executive Director in January 2019, and I would like to thank her for her valuable insights and contribution to the work of the Bank since 2013.

Five years on from the creation of the British Business Bank, we have built an organisation that is making a substantial difference to businesses across the UK. From the earliest stages – funding start-ups – through to providing the longer-term patient capital that businesses at the larger end of the SME scale require, we are playing a crucial part in enabling their growth and success.



Lord Smith of Kelvin
Chair





CHIEF EXECUTIVE'S STATEMENT

Delivering more widely, building our activity

Our results for 2018/19 show increased performance and delivery for the UK's smaller businesses.

Over the last five years, the British Business Bank has built a strong track record, intervening to improve finance markets for smaller UK businesses.

At the end of the last financial year, over 89,000 businesses were benefiting from £6.6bn of finance supported by the British Business Bank. As shown by the many examples in this report, our interventions apply to a wide variety of businesses of all sizes and stages – from start up businesses who received mentoring and finance from our Start Up Loans programme to high-growth scale-ups accessing, perhaps, multiple later-stage funding rounds.

In 2018/19, we increased our support for smaller businesses through our national and regional programmes, helping us to deliver successfully against our objectives:

- We made new commitments of £957m, contributing to an increase of 27% in the total stock of finance supported through our programmes.
- We provided 91.5% of our support through smaller banks, non-bank lenders, alternative lenders and equity providers, helping to improve diversity and choice.
- Our dedicated regional funds supported over £160m of finance, helping to address regional imbalances.
- We saw awareness of the Bank amongst businesses that may need finance increase from 13% to 28%.
- We provided advice and support to Government on an increasing number of cross-government projects, and published high profile, ground-breaking research into UK finance markets, including important research on gender diversity in the Venture Capital sector.
- We generated an adjusted return on capital of 3.6%, ahead of our target of 2.5%.

British Business Bank's financial statements for the year show a net operating profit of £42.4m (before adjustment for ECF loan commitments and interest payable) and a profit before tax of £81.2m.

A growing regional impact

Our regional funds have begun to make a significant contribution to the areas they support, with the Northern Powerhouse and Midlands Engine Investment Funds providing 16% and 20% of the equity finance deals in their respective regions in 2018. We also invested for the first time in a fund wholly dedicated to businesses located in Northern Ireland. Our new UK Network, which we set up in autumn 2018, is providing valuable feedback on regional and local finance markets and promoting our information products to smaller businesses across the country.

Working across Government

The Government increasingly calls on our expertise in smaller business finance markets to help it fulfil specific policy priorities. Last year, this included support for new housebuilding through our ENABLE Guarantee programmes, and for technology to improve national security through our National Security Strategic Investment Fund. We also continue to provide input into important ongoing initiatives such as the Industrial Strategy and EU Exit planning.

Providing valuable research into markets

2018/19 was a strong year for our research and analysis of markets, with February 2019's VC & Female Founders report in particular setting the agenda for the VC industry. In the coming year we will increase activity further, including publishing major research into export finance for smaller businesses and the feasibility of greater investment in patient capital funds by defined contribution pension schemes.

Building demand

Our provision of information to smaller businesses underwent a step-change in summer 2018 when we introduced our new online Finance Hub, which encourages and enables growth businesses to find, understand and get the right source of finance they need. As a key element of our new Demand Development Unit, the Hub has quickly proved its effectiveness, with 77% of users saying they would recommend the platform.

Delivering more patient capital

Last year we put in place the last of the measures recommended by 2017's Patient Capital Review, launching a new £500m Managed Funds Programme, a £100m Regional Angels Programme and our £2.5bn British Patient Capital (BPC) programme. BPC is already delivering strongly, and made 12 commitments totalling £333m over the year.

In 2018/19, the British Business Bank has grown rapidly, both in scope and delivery. The depth of that delivery – from the Start Up Loans programme providing £500m of loans since 2012, our Enterprise Finance Guarantee celebrating its 30,000 businesses funded milestone, to patient capital programmes to help ambitious high-growth companies become the world-class businesses of tomorrow – means we are well placed to support UK smaller businesses across every stage of development now and in the future.



Keith Morgan
Chief Executive Officer



“
The British Business Bank
has grown rapidly in both
scope and delivery.
”

Strategic report

Our mission and objectives

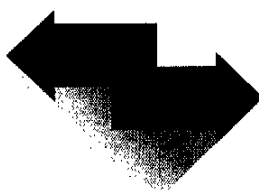
The British Business Bank's mission is to help drive economic growth by making finance markets work better for smaller businesses¹ – wherever they are in the UK and wherever they are on their business journey – enabling them to prosper and grow.

In 2018/19 the Bank had six key objectives:



Increase the supply of finance

to smaller businesses where markets don't work well



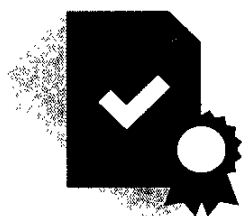
Help to create a more diverse finance market

for smaller businesses, with greater choice of options and providers



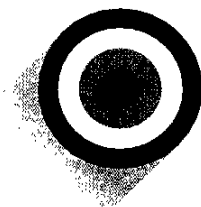
Identify and help to reduce regional imbalances in access to finance

for smaller businesses across the UK



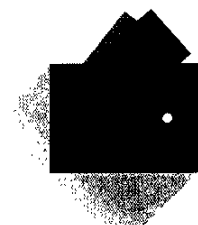
Encourage and enable SMEs

to seek the finance best suited to their needs



Be the centre of expertise on smaller business finance in the UK

providing advice and support to Government



Achieve the Bank's other objectives whilst managing taxpayers' money efficiently

within a robust risk management framework

1. Businesses with a turnover of up to £100m

Our smaller business finance programmes

The British Business Bank provides and manages a wide range of smaller business finance programmes for the Government. This includes programmes both on our own balance sheet and on those of Government departments – primarily the Department for Business, Energy and Industrial Strategy (BEIS).

We act as agents for these other programmes, which include the ENABLE programme, Enterprise Finance Guarantees and the Northern Powerhouse, Midlands Engine and Cornwall and Isles of Scilly Investment Funds.

Our Shareholder, BEIS, measures our success by assessing the performance of all the assets we manage, and this strategic report takes the same approach.

Our programmes are described below.

Debt

Start Up Loans

Loans and mentoring to help people start their own businesses or become self-employed.

Enterprise Finance Guarantee

Government-backed debt finance for viable smaller businesses lacking security.

ENABLE Guarantees

Guarantees which reduce the amount of regulatory capital that participating providers need to hold for their loans to small businesses, so that they are able to provide more lending.

ENABLE Funding

Cost-effective access to funding through the capital markets for smaller lenders, meaning they can provide more finance to businesses.

Investment Programme

Support to increase the volume and diversity of finance for smaller businesses by enabling the growth of new and alternative lenders.

Regional debt funding

Micro and small business debt finance in the Northern Powerhouse, Midlands Engine, and Cornwall and Isles of Scilly regions.

Equity

Angel CoFund

Equity co-investment alongside business angel syndicates to increase the volume of early stage finance available to smaller businesses.

Regional Angels Programme

Support to reduce regional imbalances in access to early stage equity finance across the UK.

Enterprise Capital Funds

Funds which increase the supply of early stage venture capital to high growth potential businesses and lower barriers for fund managers entering the VC market.

British Patient Capital

Investments in long-term venture and growth funds, enabling high growth firms to develop into world-class businesses

Managed Funds

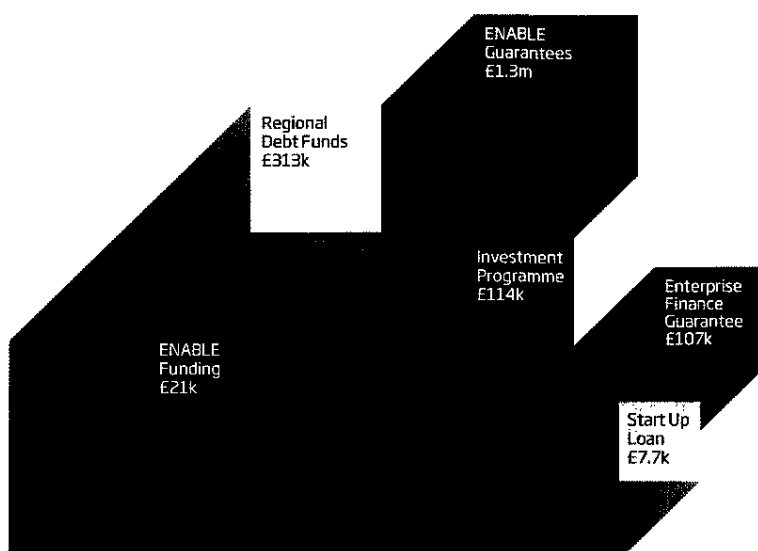
Investments into Funds of Funds designed to increase institutional funding of long-term patient capital for high growth innovative businesses.

Regional equity funding

Equity finance in the Northern Powerhouse, Midlands Engine, and Cornwall and Isles of Scilly regions.

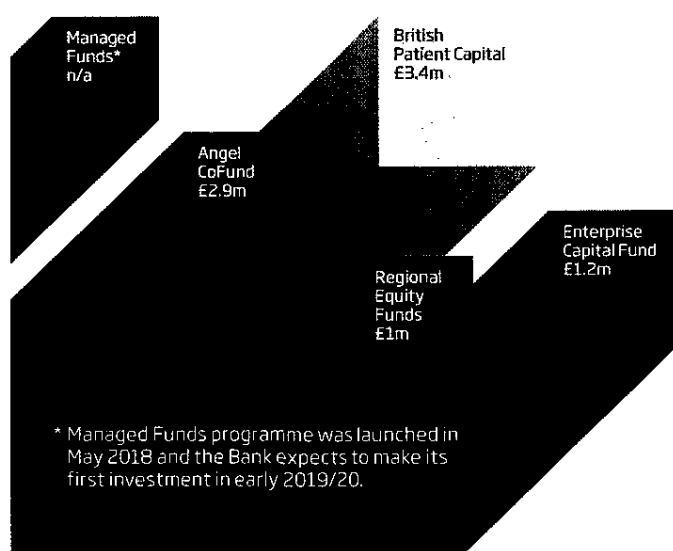
Average size of facility to smaller businesses - debt

As of December 2018



Average size of facility to smaller businesses - equity

As of December 2018



* Managed Funds programme was launched in May 2018 and the Bank expects to make its first investment in early 2019/20.

The state of the market

The number of SMEs fell to 5.7 million at the start of 2018 – 0.5% lower than at the start of 2017, and the first annual reduction since 2000. The economic environment has been challenging, and confidence has declined. The Bank of England reduced its economic growth forecast for 2019 to 1.2%, driven by weakening investment intentions and EU exit-related uncertainty. Nevertheless, our 2019 Small Business Finance Markets report found that 50% of smaller businesses aimed to grow in 2019.

Flows of finance to SMEs remain strong despite uncertainty about the economic environment

2018 saw total flows of finance to SMEs match or exceed those in 2017. Gross bank lending remained stable, while other forms of finance continued to increase, though more slowly than in 2017. The value of equity finance, asset finance and market-based lending grew by 4%, 3% and 18% respectively in 2018.

Many smaller businesses remain reluctant to use finance

SMEs' continued reluctance to use finance is driven by attitudes towards finance rather than circumstances. 73% of SMEs are willing to forgo some growth to avoid borrowing, and just 36% of smaller businesses used external finance in 2018, down from 38% in 2017. The outcome of this reluctance is that new finance applications are at a record low.

By contrast, awareness of alternatives to traditional finance continued to grow in 2018, with 52% of small businesses aware of peer-to-peer lending, 70% aware of crowdfunding platforms, and 69% aware of venture capital (up from 47%, 60%, and 62% respectively in 2017). This growth in awareness is one of our key objectives and an essential first step in enabling SMEs to seek the finance best suited to their needs.

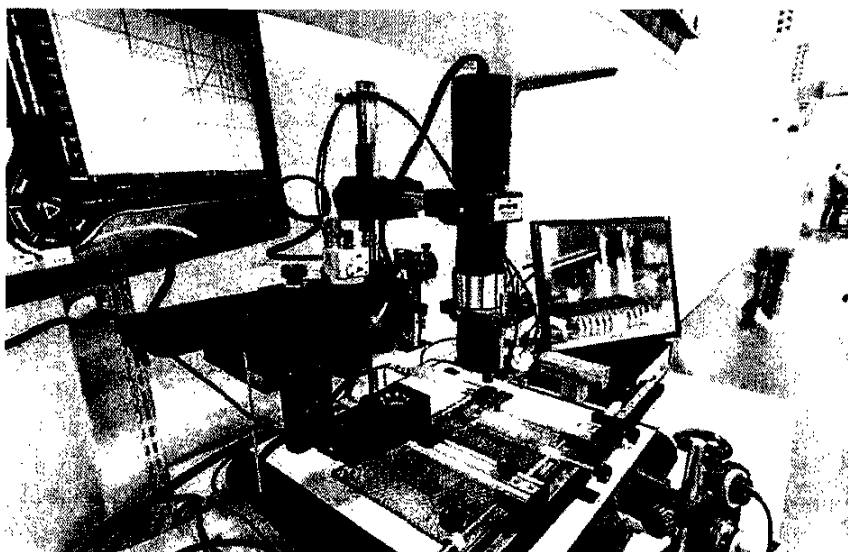
Access to finance is important to enable SMEs to deliver on their growth potential

Ensuring that growing businesses can access the finance they need is important for long-term UK productivity and competitiveness. Of those scale-up businesses that grew their annual turnover by 100% or more, 42% used equity finance to help achieve that growth.

However, there is still room for improvement in the financing of businesses with high growth potential. Despite the increase in equity finance as a proportion of gross domestic product (GDP) in recent years, the UK remains well behind the US, with equity investment to GDP ratios at 0.29% and 0.42% respectively in 2017.

There are considerable challenges in enabling viable firms in many parts of the UK to access the finance they need

The UK-wide picture on small business finance markets masks examples of notable success in some local areas, but also considerable challenges in many parts of the UK.



Forres-based electronic design, manufacturing and service support company Makar Technologies secured £50,000 of finance through British Business Bank EFG partner DSL Business Finance.

In terms of debt, bank lending volumes broadly match the regional distribution of the small business population.

In terms of equity, high growth firms are spread across the nations and regions of the UK, but deals remain concentrated in London. Almost half (46%) of equity deals are in London despite the fact that it accounts for just 20% share of high growth firms. Angel finance and venture capital (VC) remains clustered in a relatively small number of cities. This suggests that there is more to be done to increase the reach of this type of finance, and to support businesses with growth potential in many parts of the UK.

The increasing use of alternatives to traditional bank loans means that the finance markets are more diverse than before.



Our business model

Our expertise in finance markets for smaller UK businesses allows us to take an evidence-based and market-led approach to addressing the challenges faced by those businesses when accessing finance. We need to monitor finance markets continually and have close engagement with market players. This is increasingly critical in an uncertain economic environment. Our programmes are reviewed regularly and, where necessary, we adjust our existing programmes – and introduce new ones – to respond to market requirements and changes.

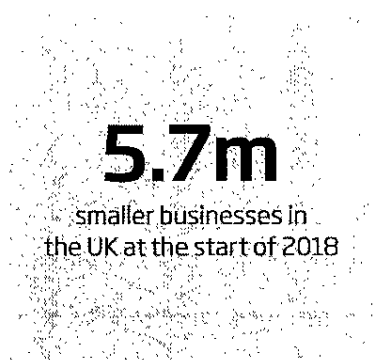
In doing so we are guided by both public policy objectives and private sector requirements. We maintain an appropriate balance between the two by providing policy advice to ministers, Government departments and public-sector agencies on the one hand, and carefully structuring interventions to unlock private sector investment on the other.

In 2018/19, the Bank established British Patient Capital (BPC) as a separate commercial subsidiary to enable long-term investment in innovative companies across the UK.

BPC was launched with a core team transferred from the Bank's Venture Solutions division. It was seeded with the VC Catalyst portfolio previously managed by British Business Investments.

The Bank has also created a new Demand Development Unit (DDU). This helps to stimulate demand by engaging directly with smaller businesses to inform them about their finance options.

The Start Up Loans Company, which merged with the British Business Bank last year, has continued its integration by relocating, along with the Bank's London operations, to a new shared office space.



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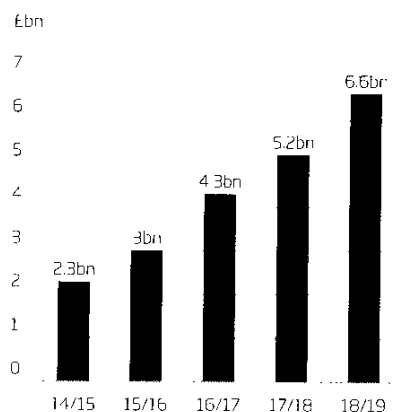
OBJECTIVE

Increase supply of finance in the UK

Why it is important

When we make markets work better and help smaller businesses to secure finance that they otherwise wouldn't get, we enable investment that benefits the entire UK economy.

Stock of finance for smaller businesses

**At a glance**

£6.6bn

Stock of finance supported,
as of end of March 2019

12

British Patient Capital
funds invested into

31

new commitments
made in 2018/19

A key objective of the Bank is to boost the supply of finance for smaller businesses in areas of the market that don't work well. We measure our success against this objective by measuring both how much finance we ourselves deploy, and how much the private sector contributes in addition to this.

Each year, the Bank influences this measurement by committing funding through our programmes. Once we have committed funding, our delivery partners typically take a number of years to draw the funding down as they finance smaller businesses. We then add the combined funds drawn to the 'stock' of finance. When a borrower repays a loan or an investment is realised, the 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 £957m.

As at the end of 2018/19, we had £6.6bn of stock of finance supported, an increase of 27% from £5.2bn the previous year.

This increase was driven primarily by the higher than expected leverage across most programmes, with the Investment Programme and the UK Innovation Investment Fund doing particularly well in this respect, as well as a higher number of ENABLE Guarantees.



CASE STUDY

Yorkshire Dama Cheese



Halifax
Yorkshire
& Humber

Programme: Start Up Loans

Razan Al-Sous decided to set up Yorkshire Dama Cheese after fleeing war-torn Syria with her husband and three children in 2012.

Arriving in Yorkshire, she struggled to find work despite having a degree in pharmacology. She noticed how the halloumi cheese sold in the UK was often of poor quality and decided to start making halloumi cheese using Yorkshire-sourced milk instead.

She used a £2,500 Start Up Loan to buy the equipment she needed. Her products are available in Morrisons and online. She has won several awards including the World Cheese Award Gold Prize 2016 and was nominated by former Prime Minister David Cameron for recognition on International Women's Day 2015.

89,000+

over 89,000
businesses supported
as of March 2019

A key objective of the Bank is to boost the supply of finance for smaller businesses in areas of the market that don't work well.

CASE STUDY**Dartington Crystal Holdings Ltd**

Torrington
South West

Programme:
Enterprise Finance Guarantee

Based in Torrington, North Devon, Dartington Crystal was founded in 1967 and is a leading UK brand in crystal and glassware.

As well as mouth-blown factory products, Dartington also designs, sources and markets quality crystal and glass from selected European suppliers. The company services the retail gift and table top sector as well as many specialist B2B and promotional markets.

In 2018, Dartington needed funding to finance a management buyout and approached Barclays, an accredited lender under the British Business Bank EFG Scheme. Dartington received the funding in November 2018 and is now focusing on its future growth.

Debt

Start Up Loans

Since it began in 2012, the Start Up Loans programme has delivered over 63,000 loans, providing over £500m of funding to an average of 25 businesses a day. The programme has contributed to the creation of more than 75,000 jobs.

Combining the British Business Bank with Start Up Loans in April 2017 has enabled us to take a more integrated approach to supporting microbusinesses, with the aim of delivering the Government's manifesto commitment of 75,000 Start Up Loans by 2020. The programme was extended for a further year at Autumn Budget 2018.

Enterprise Finance Guarantee

The Enterprise Finance Guarantee (EFG) is our flagship debt programme. Since its launch in 2009, it has supported the provision of over 30,500 business loans to a value of over £3.2bn.

It has a wide range of delivery partners, including all the major high street lenders. This means that it has a broad reach, which makes it a useful instrument for quickly targeting specific market requirements.

The EFG programme has continued to add new delivery partners through 2018/19, including through its new asset finance variant.

ENABLE Guarantees

The ENABLE Guarantee programme entered into £550m of transactions with three lenders in 2018/19.

We expanded ENABLE Guarantees to facilitate loans specifically targeted at the housebuilding sector in 2017 and launched a new ENABLE Build variant in April 2019, funded by the Ministry for Housing, Communities and Local Government (MHCLG).

ENABLE Funding

This year we entered into one new transaction for a total amount of £150m under our ENABLE Funding programme, bringing the total funding we have committed to smaller finance providers to over £590m.

Since the first transaction in September 2015, the programme has supported lending to more than 31,750 businesses.



CASE STUDY Bakedin



**Basingstoke
South East**

Programme: Start Up Loans

Joseph Munns and two friends struck upon the idea of making home-baking kits, inspired by the rising popularity of recipe boxes. The kits include cooking instructions, ingredients and baking equipment. The trio began selling the recipe kits at school fêtes, market stalls and street food festivals.

After using a Start Up Loan to fund their first professional label run, their products are now available in hundreds of retailers across the UK and as far afield as the USA, Germany and Iceland. They have launched The Baking Club, a subscription service that delivers a home-baking kit through the door. The kits include recipes by world-renowned French chef Michel Roux.

£500m+

Value of loans provided
by the Start Up Loans
programme since 2012

“We are working alongside MHCLG and Homes England to make available up to £1bn of ENABLE Build guarantees to increase funding for smaller housebuilders.”

Equity

Angel CoFund

Now in its seventh year of operation, the Angel CoFund has invested over £280m in over 87 companies, together with third party investors. Its portfolio of high-growth businesses is diverse, covering sectors such as healthcare and life sciences, digital media and information technologies (including Fintech), creative industries, and food.

In 2018, the Angel CoFund delivery team, who had previously been seconded from the British Business Bank, became permanent employees of Akero Capital Partners, a new management vehicle with greater independence and the ability to raise additional commercial capital.

Enterprise Capital Funds

There are now 28 Enterprise Capital Funds, with a total investment capacity of £1.2bn, including £500m of private sector commitments. In 2018/19, the ECF programme received in the region of 85 enquiries, of which six are currently in early stage discussions and two in the due diligence process.

British Patient Capital

British Patient Capital (BPC) launched in June 2018, having been announced at the Chancellor's 2017 Autumn Budget following the Patient Capital Review. It supports UK businesses with high growth potential to access the long-term financing that will enable them to grow into world-class businesses. Over the next 10 years, BPC's investment aims to unlock a total of £7.5bn of additional funding.

BPC was seeded with around £400m of existing and approved venture and growth fund commitments from British Business Investments (BBI), a commercial subsidiary of the British Business Bank. In the past year, 12 investments were completed, with BPC committing to over £330m exceeding the very ambitious targets set by Government.

Managed Funds

The Managed Funds programme, part of BBI, was launched in May 2018. The programme aims to invest £500m in large-scale funds of funds to boost the amount of patient capital available to the UK's high growth potential businesses.



There are now 28 Enterprise Capital Funds, with a total investment capacity of £1.2bn.



£333m

new commitments
made by BPC

British Patient Capital made £333m of new commitments to 12 VC funds in 2018/19

Fund managers	Target market	Bank contribution
Crane I LLP	Backing the next generation of ambitious intelligent computing founders, solving large problems for the enterprise.	£25m
Dawn Opps	Early stage VC firm based in London investing in software-as-a-service (SaaS) and Fintech companies that develop world-leading technology to improve business value chains and productivity.	£49m
Draper Esprit	A London-based listed venture capital firm that invests in high-growth early-stage and growth firms in the SaaS, hardware and deep tech, digital health and wellness, and consumer technology sectors.	£30m
IQ Capital III	Cambridge-based venture capital firm that invests in UK deep tech across sectors including machine learning, AI, engineering and materials, and data-focused propositions based on disruptive algorithms.	£33m
Nauta Sidecar Tech I	Focusing on B2B software companies at late seed and Series A stages.	£11m
NVM	Invests in ambitious UK management teams to help them accelerate their growth and build successful businesses.	£20m
A further six funds have closed and are yet to be announced		£165m

British Business Bank: helping to create Unicorns

The British Business Bank is the largest UK based Venture Capital Limited Partner investing in UK VC. A unicorn is a privately held VC backed company valued at more than \$1bn.

Through its investments the Bank has four UK companies within its current equity portfolio that have unicorn status.

Unicorn	Description	The Bank's Programme	Funding Partner
 IMPROBABLE	Platform for third parties to build vast virtual and simulated worlds	Enterprise Capital Fund	Amadeus
	Digital banking alternative that includes a pre-paid debit card, currency exchange, cryptocurrency exchange and P2P payments	UK Innovation Investment Fund British Patient Capital	Balderton Draper Esprit
 TransferWise	Money transfer service allowing private individuals and businesses to send money abroad without hidden charges	British Patient Capital	Draper Esprit
GRAPHCORE	Developer of computer chips/ processing units for use in AI and machine learning applications	Enterprise Capital Fund British Patient Capital	Amadeus ASF Draper Esprit

The Bank's programmes have also invested in the following companies which became valued at more than \$1bn dollars. These companies were unicorns but are no longer privately held, having gone through a trade sale or listing on a public market.

Unicorn	Description	The Bank's Programme	Funding Partner
	Developer of robotic process automation software that transforms core business processes to drive innovation	Legacy Fund	RisingStars Growth Fund
	High street and online fashion boutique	British Patient Capital UK Innovation Investment Fund	SEP V (Scottish Equity Partners) SEP IV (Scottish Equity Partners)
	Leading international company specialising in cloud-based email management	Enterprise Capital Fund	Dawn Capital
	Online real estate agent that helps its clients to sell, buy, and let their properties	UK Innovation Investment Fund	DN Capital

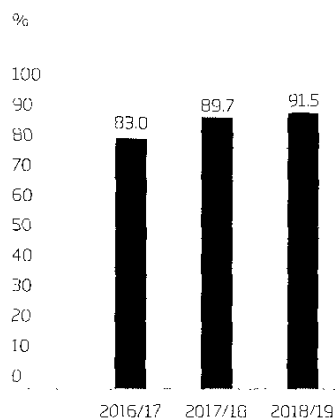
OBJECTIVE

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.

Percentage through non-Big-Five banks



16/17 data is for non-Big Four banks

At a glance

13

new delivery partners
announced in 2018/19

£212m

in support of asset
finance

£275m

of facilities for three
challenger banks during
the year

As well as boosting the supply of finance to smaller businesses, it's equally important to spread that supply across a range of products, providers, and funding sources. This diversity can improve access to finance for a wider range of businesses, improve the terms and ease of use of finance for small businesses, and increase the likelihood that firms get the most appropriate form of finance for their needs.

The main way we measure our performance for this objective is by assessing the proportion of the stock we support through smaller finance providers. By increasing provider diversity we also help with the other dimensions of a diversified finance market, as different providers will offer a wider range of products and tap alternative sources of funding.

In 2018/19, we committed capital to 14 new funds across our venture capital and growth capital programmes, including to new and existing delivery partners. Additionally, the Bank announced new delivery partners under its Investment Programme and ENABLE programmes, and accredited several new providers under EFG. The total number of finance providers we now work with is over 130.

A diversity of finance options can improve access to finance for a wider range of businesses and improve the terms and ease of use of finance for small businesses.



CASE STUDY

Doctify



London
London

Programme:

Enterprise Capital Fund

Doctify is a healthtech platform built by medics for healthcare providers, doctors and patients.

It was founded by two NHS surgeons when they spotted the need for an online platform that links patients with the right medical specialist.

Doctify allows patients to search for a health specialist for 47 different medical specialities, including cardiology, oncology and paediatrics. Patients can read reviews from other patients and information about each provider.

Enterprise Capital Fund partner Amadeus has led the last two funding rounds for Doctify, with funding used to develop the product, build the executive team and fuel growth. Doctify is today the UK's leading healthcare review platform with sales doubling every year for the past three years.

£115m

committed to three direct lending funds in 2018/19

CASE STUDY

FungiAlert



Rothamsted
East of England

Programme: Enterprise Capital Fund

FungiAlert provides soil and water health screening. Their patented technology, SporSenZ, is the first, in-the-field sensor which samples microorganisms in soil and water.

Analysis of samples alerts growers to the risk of infection before visible symptoms appear, leading to improved disease management strategies, increased yields, and improved soil-health.

In 2017, founders Kerry Weaver and Angela de Manzanos raised £420,000 in a funding round led by Sussex Place Ventures – £370,000 through an Enterprise Capital Fund – to hire new team members, purchase key equipment and undertake field trials.

After launching their first product, they raised a further £350,000 to build an experienced sales team, support product development research and to expand internationally.

The Bank has worked to improve diversity by supporting finance providers in the following areas.

Challenger banks

While 2018 saw a generally favourable commercial market for capital raising, we continued to work with challenger banks, including investing £25m in a tier 2 issue from Secure Trust Bank.

FinTech

In 2018/19 we committed £25m to business cash advance provider Liberis. As part of our ongoing support to the peer-to-peer (P2P) sector, we extended the investment period for Funding Circle and Market Invoice, and made a £20m commitment to ESF Capital (operator of the ThinCats P2P platform), participating alongside institutional and retail investors.

Asset finance and asset-based lending

We continued our support for these types of finance in 2018/19, including a £12m commitment from our BBI Investment Programme and £210m through ENABLE Funding. We also accredited nine providers under the new asset finance variant of our flagship Enterprise Finance Guarantee programme.

Direct lending funds

In 2018/19 British Business Investments made three transactions with a total value of £115m. This takes our direct lending lifetime commitments to £529m.

“We accredited nine providers under the new asset finance variant of our flagship Enterprise Finance Guarantee programme.”



CASE STUDY

Bobbin Bikes



London
London

Programme:

British Business Investments – FinTech

Founders Tom and Sian were inspired to create Bobbin Bikes after a trip to Amsterdam.

Back in London, they soon realised that no shops were selling the bikes they had grown to love in the Netherlands.

Founded in 2007, Bobbin Bikes offers a range of bicycles for everyday cyclists across the world and is known for its brightly-coloured bikes with long handlebars and baskets.

In 2016 the team decided to add a new online sales channel to go with their shop. They needed financial support to buy more stock and fulfil their new orders. After contacting Funding Circle, a partner in British Business Investments' FinTech portfolio, the team received £250,000 to implement their growth plans.



OBJECTIVE

Identify and help to reduce regional imbalances in access to finance for smaller businesses across the UK

Why it is important

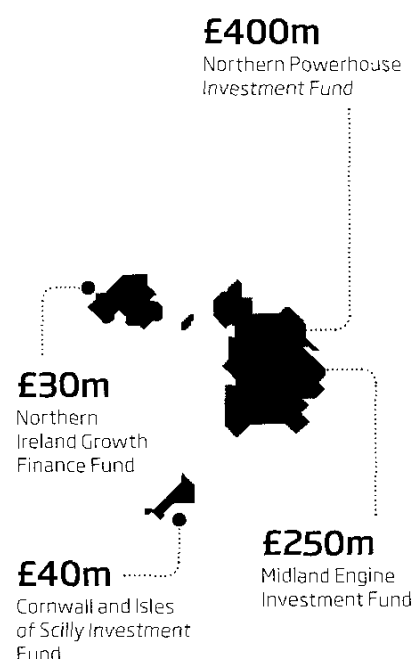
There continue to be regional disparities, particularly in the availability of equity and higher risk debt investment. These are further exacerbated by a lack of awareness and confidence among smaller businesses seeking finance, especially those outside London and the South East.

This means that businesses in these regions, and by extension these regions' entire economies, potentially miss out on growth opportunities.

At a glance

£200m+

Over £200m of NPIF investments

Regional funds

Together with programmes which fund businesses throughout the UK, the Bank also supports four regionally-dedicated funds.

£100m

Regional Angels Programme launched

Regional funds

The Bank has three regional investment funds focused on specific areas of the UK – the Northern Powerhouse, Midlands Engine, and the Cornwall and Isles of Scilly Investment Funds. In addition, in 2018/19, we invested for the first time in a fund dedicated to Northern Ireland.

Northern Powerhouse Investment Fund

We celebrated the second anniversary of the £400m Northern Powerhouse Investment Fund (NPIF) in February 2019. The fund has supported £203m of finance for local smaller businesses, including £99m from the private sector.

Midlands Engine Investment Fund

In its first year the £250m Midlands Engine Investment Fund (MEIF) invested £41m through debt and equity funds of which £17m came from the private sector.

Cornwall and Isles of Scilly Investment Fund

The Bank, working alongside the Cornwall and Isles of Scilly Local Enterprise Partnership, launched the £40m Cornwall and Isles of Scilly Investment Fund (CioS) in June 2018. The first loan from the fund was made in December 2018, and the first equity investment in January 2019.

Northern Ireland

December 2018 saw the launch of the Bank's first fund focusing exclusively on supporting small businesses in Northern Ireland. The £30m fund comprised a £10.5m investment from the Bank, £7.5m from Invest Northern Ireland, and £12m from the private sector.



CASE STUDY

Locate Bio



Nottingham
East Midlands

Fund Manager:
Mercia Technologies

Programme:
Midlands Engine Investment Fund

Locate Bio Ltd is a cell and gene therapy company headquartered within MedCity in Nottingham.

Following the appointment of Nick Staples as the new CEO in late 2018, the company sought funding to expand into the fast growing cell and gene therapy field, utilising its next generation proprietary technologies.

It received a £2m investment from Mercia Technologies, with £400k provided from the Midlands Engine Investment Fund. Locate Bio used the funding to help develop its current pipeline of high value bone fusion programmes, to further develop its IntraStem non-viral gene therapy technology, and employ six more team members.

800+

number of UK Network
meetings held across
the UK

£41m

Invested through
MEIF investments



In 2018/19, we invested for the first time in a fund dedicated to Northern Ireland.



CASE STUDY**Sign Solutions**

Redditch
West Midlands

Fund Manager: Midven

Programme:
Midlands Engine Investment Fund

Sign Solutions, specialists in providing high quality communication support services for Deaf and hard of hearing individuals in the public and private sector, secured investment from venture capital firm Midven, through the Midlands Engine Investment Fund.

Historically focused on the provision of face-to-face interpreters, BSL translations and training, Redditch-based Sign Solutions was founded in 1998 and provides all types of interpretation services, for deaf people nationwide, 24 hours a day, seven days a week, 365 days a year.

Sign Solutions aims to use its current reputation as one of the market leaders in this field to conquer the rapidly growing video interpreting market. With Midven's investment, seven jobs will be created at Sign Solutions over the next two years, with further plans to invest in developing its service and make it available in new areas.



New programmes for the regions

In 2018/19, the Bank launched two new initiatives under this objective. These were:

- a £100m Regional Angels programme (October 2018)
- a UK Network (autumn 2018).

Regional Angels programme

Angel investors play a vital role in the economy: they bring patient capital, business experience and skills to support the growth of smaller businesses. However, The Treasury's consultation – 'Financing growth in innovative firms', highlighted continuing difficulties for businesses in accessing earlier stage capital in some parts of the UK. Our new Regional Angels programme is designed to help develop clusters of angels outside of London and the South East.

In 2018/19 we received a broad regional spread of interest in the programme, with a varied set of investors including angel networks and syndicates, equity platforms, and angel funds and managers. We expect to make our first transactions through the programme in early 2019/20.

UK Network

Our UK Network was launched in autumn 2018. This was a major step for the Bank, meaning for the first time we have a geographically dispersed field-based team, with each team member focused on the smaller business finance markets of their particular region. The network will help the Bank to understand and improve finance markets at regional and sub-regional levels.

Over the relatively short period of time that the UK Network has been running, it has held more than 800 meetings with smaller businesses and their intermediaries, presented at over 50 external events, and attended 150 more. The network will use the information and insight it gains from these meetings to inform the Bank's ongoing regional strategy, and to identify opportunities to improve collaboration and co-ordination within and across regions. It also provides us with a way to promote our smaller business-facing products such as the Finance Hub and the Business Finance Guide.



Kalopsia Collective CIC Programme: Enterprise Finance Guarantee

Edinburgh based Kalopsia is a social enterprise batch textile manufacturer. Founded in 2012, it creates white label goods with the aim to produce ethical and sustainable commercial products. In 2018, it received funding through Scottish Enterprise Finance Guarantee partner DSL Business Finance to expand its number of employees and equip the business with additional machinery.



For the first time we have a geographically dispersed field-based team, with each team member focused on the smaller business finance markets of their particular region.

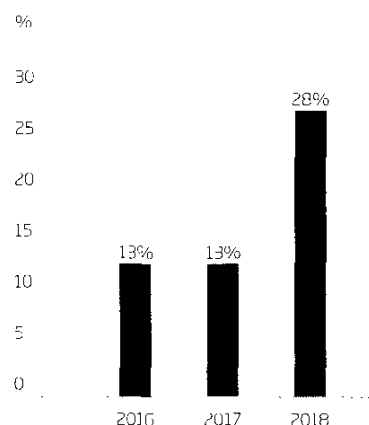
OBJECTIVE

Encourage and enable SMEs to seek the finance best suited to their needs

Why it is important

Seeking and finding the right finance, at the right time, can enable businesses to diversify, expand or enter new markets, meaning they are more likely to achieve their full growth potential.

Awareness of the Bank amongst businesses who might seek finance



Data is for Q4 in each year shown

At a glance

200,000+
visits to the Finance Hub

90,000+
unique visits to the
Business Finance Guides'
website

77%
of survey respondents
would recommend the
British Business Bank's
Finance Hub

To help us achieve this objective, we created a new Demand Development Unit (DDU) in autumn 2018. The DDU aims to help stimulate demand for smaller business finance by engaging directly with smaller businesses, and encompasses Digital and Direct Marketing, Brand, Events, Partner marketing, and the UK Network (UKN). It is headed by our first Chief Marketing Officer, appointed in early 2019/20.

We group our interventions under this objective under four stages of a process aimed at driving demand for finance amongst UK smaller businesses:

- Awareness – building awareness of the Bank as a provider of trusted information on finance options
- Consideration – becoming the information provider of choice for UK smaller businesses
- Usage – ensuring the content we provide is easy to find and understand
- Outcomes – seeing changes in how smaller businesses seek and use finance.

Awareness

In 2018, smaller businesses became increasingly aware of the British Business Bank, with prompted awareness amongst businesses that might seek finance growing from 13% at the end of 2017/18 to 28% at the end of 2018/19.

70%

Awareness of peer-to-peer crowdfunding amongst SMEs in 2018, up from 60% in 2017

There are a number of measures which contributed to this growing awareness, including marketing campaigns, a new UKN and a programme of events.

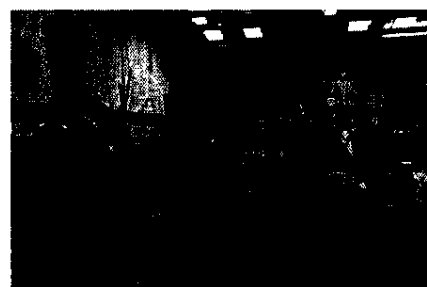
Campaigns

We ran three major social media campaigns in 2018/19 – #GoodtoGrow, #RejectRejection and #SmallBizWonders – to champion and celebrate smaller businesses, while driving traffic to our information products. These campaigns used mechanisms and channels such as Facebook live, Twitter chats and sponsorship of Small Business Advice Week.

#GoodtoGrow was particularly successful, driving a 479% uplift in social traffic referrals to the Finance Hub.

2018/19 also saw the first British Business Bank-branded paid campaign, with social media and paid search helping to support the launch of its new Finance Hub. The paid campaign drove more than 200,000 site visits and over 2,750 Finance Finder Tool completions, with advertising views of more than 80m. We also continued to support the Start Up Loans programme with paid campaigns, driving over 200,000 site visits through a mix of paid search, paid social display advertising.

“#GoodtoGrow was our most successful campaign, driving a 479% uplift in social traffic referrals to the Finance Hub.”



CASE STUDY

Hoverdale



Leicester
East Midlands

Programme:
Bank Referral Scheme

Hoverdale makes hard metals and wear-resistant products for the mining and manufacturing industries.

For more than 40 years, they have been the industry leaders in hard-wearing conveyor belt equipment

From their Leicestershire base they supply materials across the UK and internationally to some of the world's biggest companies.

Requiring growth capital to hire new salespeople, founder Michael Parker was turned down by his bank. Referred to Funding Options through the Bank Referral Scheme, he received £25,000 allowing production and operations to continue as usual.

Continued growth meant Hoverdale next turned directly to LendingCrowd, a peer to peer lending partner of Funding Options, for additional funding to cover their expansion.

UK Network

We launched our new UKN in autumn 2018 introducing a new regional operating model for the Bank – a geographically dispersed team, with mobile field-based workers. This gives us the benefit of having a presence across the entire UK to support our ‘demand’ and ‘eco-system’ measures within each English region and the devolved nations.

Events

By attending events across the country, we are able to speak directly to smaller businesses, their influencers and advisors, potential and current delivery partners, and local finance and business communities. This enables us to raise our profile with these audiences, as well as providing them with information on finance choices.

Media profile

We raise awareness of the Bank and its programmes through a pro-active media engagement programme for senior spokespeople. By targeting business, financial and specialist media we deliver our messages to a high number of key stakeholders and smaller businesses. Over the course of the year, the Bank was covered in nearly 5,000 articles across national, regional and specialist print, online and broadcast channels. The Autumn Budget 2018 and our VC & Female Founders report contributed significantly to high volumes of monthly coverage for the Bank in October 2018 (795 articles) and March 2019 (978 articles).

c100k

Number of people
reached through British
Business Bank attendance
at events

Consideration

In 2018/19 we focused on providing information through the Finance Hub, the Business Finance Guide and Start Up Loans.

The Finance Hub is aimed at businesses looking to grow rapidly, while the Business Finance Guide is used mostly by businesses at the start-up stage. We also offer Start Up Loan recipients dedicated mentoring for 12 months so they can get their new business off to the best start.

The Business Finance Guide was first published in 2014 after the Bank and the ICAEW identified a need to provide clear, unbiased information on finance options for smaller businesses. The Finance Hub, launched in summer 2018 and backed by research into the way today's aspiring business leaders access information in the digital age, provides engaging, jargon-free content, infographics and videos, as well as event listings to allow small businesses to grow their networks.

Usage

Customer service surveys for the Bank's main online direct channel – the Finance Hub – have generated very positive responses: 69% of respondents found the information they were looking for; 74% found the information useful; and 77% would recommend the site to others.

The Business Finance Guide is now running on-site surveys, with initial results showing the majority of users found the information provided useful and easy to find.

The UKN also engages with smaller businesses and their intermediaries, to find out how our products are understood and being used, and provide feedback data so we can refine and improve our offering.

Outcomes

We use our annual business finance survey to measure how SMEs seek out and use finance. As awareness is an essential first step in the process of applying for finance, the survey looks at the average awareness among smaller businesses of six products – leasing, venture capital, business angels, peer-to-peer lending, crowdfunding and mezzanine finance. Awareness of these increased from 50% in October 2017 to 56% in October 2018.

Our 2019 Small Business Finance Markets report also found growth in awareness of many alternatives to traditional finance. Awareness of peer-to-peer lending grew from 47% to 52%, of crowdfunding from 60% to 70%, and of venture capital by 62% to 69% year-on-year. These increases are particularly encouraging, coming in a year in which much of our focus has been toward raising awareness of non-traditional finance options.

Our followers on Twitter and LinkedIn grew by 43% and 123% respectively during 2018/19, comparing favourably with average growth of 11% for corporate accounts on each platform.



Followers on Twitter and LinkedIn grew by 43% and 123% respectively during 2018/19, comparing favourably with average growth of 11% for corporate accounts on each platform.



CASE STUDY

Appa Me



London
London

Programme: Bank Referral Scheme

Imran Umar set up Appa Me in 2010 to provide essential services for Deaf and disabled people, providing training and services to councils, large corporations and banks.

To expand, Imran looked to his bank for a loan. Because the business had never borrowed before, a low credit rating meant the loan was turned down. After being referred to the Alternative Business Funding portal, Imran secured a £25,000 loan from Fleximize.

The loan meant Appa Me could expand to a new office with three training spaces, a dedicated job search area, and room for remote video Sign Language interpretation.

The larger office means clients now come from as far as Canterbury to access services.

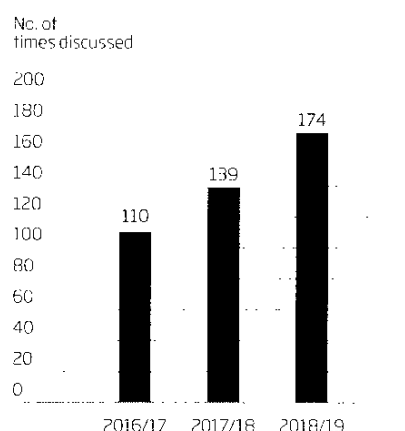


OBJECTIVE

Be the centre of expertise on smaller business finance in the UK, providing advice and support to the Government

Why it is important

Being the centre of expertise on smaller business finance gives us the knowledge and credibility to achieve our other objectives, and to help the Government deliver key policy priorities.

Number of times the Bank was discussed in Parliament**At a glance**

6,300+

Downloads of our key reports and infographics in 2018/19

174

number of times the Bank was discussed in Parliament in 2018/19

£1bn

Working with Homes England and MHCLG to provide a new ENABLE Build programme, providing up to £1bn of guarantees to support smaller housebuilder finance

We use insights gained from our extensive research and analysis programme to produce publications about UK smaller business finance markets, take part in policy debates, and to provide input into cross-governmental projects.

The Bank's closeness to smaller business finance markets makes it uniquely placed to advise Government on their workings. Many of our employees also have significant expertise and experience of working in industries and institutions that finance smaller businesses.

This allows us to work alongside key Government, industry, academia, thinktank and media stakeholders to shape and inform access to finance debates.

Our activities are grouped into four linked areas of focus:

- Research and publications
- Opinion engagement
- Policy engagement
- Project and product delivery

Research and publications

In 2018/19 we published five major reports, with positive national, regional and specialist press coverage, and social media driving significant online views.

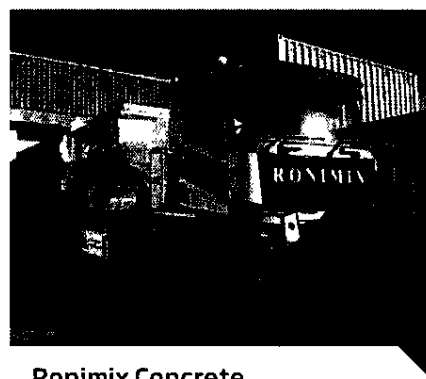
Our UK VC and Female Founders report, published in partnership with Diversity VC and the BVCA, gained a particularly high profile. It featured in well over 200 media articles delivering 100% share of voice for the Bank's spokespeople and 97% delivery of our key message. It was referred to on social media by Philip Hammond, Liz Truss, HM Treasury, BEIS, Beauhurst, and a range of well-known private sector fund managers.

Opinion engagement

Our people engaged personally with key policy makers in the Government, and opinion formers in thinktanks, industry and academia through a series of meetings and events. This enabled us to bring together important groups, exchange views, lead debate and raise awareness of the Bank's position.

Where appropriate, we collaborated with other thought leaders in smaller business finance and other related policy areas to achieve this.

The Bank's activities were discussed more than 170 times in Parliament, with key themes including Start Up Loans, European funding of UK smaller businesses, digital and technology, and the rural economy. The Bank was invited as a speaker for 32 events and hosted 17 events over the course of the year.



Ronimix Concrete Programme: ENABLE Funding

Ronimix Concrete Ltd is an Essex-based, batch on-site concrete, screed and concrete pump hire operator, running a modern fleet of six lorries and three in-line concrete pumps.

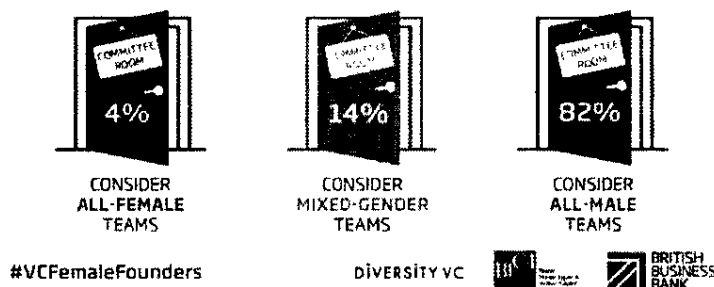
In 2018, Ronimix decided to purchase three new concrete mixer lorries, and received just over £200,000 of asset-based finance from Simply, supported by British Business Bank's ENABLE Funding programme.



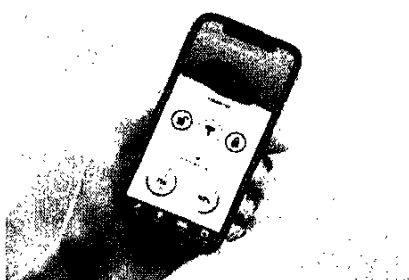
Philip Hammond @PhilipHammondUK · Feb 4

In #Budget2017 I commissioned research into barriers facing women in accessing venture capital. @BritishBBank found #FemaleFounders pitching for venture capital get less funding than male founders. We must address this issue head on to realise the true potential for our economy.

Of all investment committee decisions:



Our ground-breaking VC and Female Founders research was widely referred to by influential opinion-formers on social media.



CASE STUDY

Evezy



Birmingham
Midlands

Programme:

Enterprise Capital Fund

Birmingham based Evezy is an all-inclusive electric car subscription service, aiming to accelerate electric vehicle adoption by providing a flexible, transparent and hassle-free subscription.

After some initial investment, it needed further funding in order to expand to new locations, invest in technology and grow market share. Evezy secured £2.1 million in funding from Enterprise Capital Fund partner Accelerated Digital Ventures in December 2018.

Securing this funding meant Evezy could increase its fleet by over 200%, vehicle collection points from two to ten and its vehicle models from two to six. It also allowed the business to open a new office in Leamington Spa, and hire 18 new employees.

Policy engagement

We contributed to and supported a host of Government policy initiatives in 2018/19, including:

- Industrial Strategy – we fed into the sector deals, and contributed to the Industrial Strategy Grand Challenges
- EU exit strategy – we advised on conditional European Investment Fund replacement (including venture and debt) and contingency planning with HM Treasury and the Department for Business, Energy and Industrial Strategy
- Regional development – we informed Whitehall discussions on the existing use of European Regional Development Funds and continue to influence thinking on future arrangements
- Credit risk – we established, hosted and chaired a forum for credit risk management in the Government.

Project and product delivery

We also continued to develop new products across Government and explored new ways of financing for smaller businesses, including:

- ENABLE Build – we introduced a new programme providing up to £1bn of guaranteed support for lending to smaller housebuilders, working with Homes England and the Ministry for Housing, Communities and Local Government
- The National Security Strategic Investment Fund – we worked across several Government departments to launch an £85m fund to support long-term equity – ‘patient capital’ – investment in advanced technologies which contribute to the UK Government’s national security mission
- Defined Contribution Pension Investment in Patient Capital study – we chaired an ongoing feasibility study to explore options for facilitating pooled investment in patient capital by large defined contribution pension schemes.



British Business Bank Non-executive Director Piers Linnery providing advice to Liverpool-based Rejuiceinate as part of the Bank’s 2018 Good to Grow campaign.

**CASE STUDY****FW Properties**

Norwich
East of
England

Programme: ENABLE Guarantee

Based in Norwich, small housebuilder FW Properties specialises in developing distinctive contemporary properties across Norfolk and Suffolk.

Since Ian Fox and Julian Wells founded FW Properties in 2011, they have successfully completed six developments of 80 residential apartments and houses and have a further three projects underway.

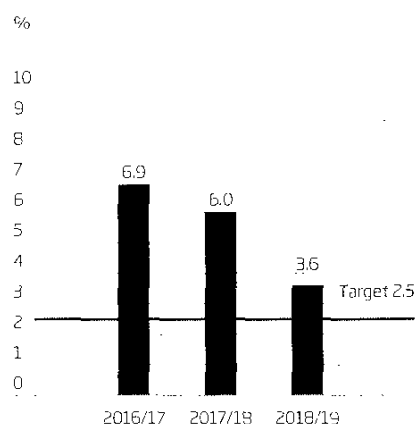
To fund development works for its projects, FW Properties received finance from Hampshire Trust Bank, supported by the Bank's ENABLE Guarantee programme. Hampshire's funding structures minimise the amount of equity that needs to be held by the developer and the finance provider, allowing a greater pipeline of housing.

OBJECTIVE

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.

Return on capital employed**At a glance**

£81.3m

profit before tax of £81.3m

£195m

cumulative excess return
of £195m

£42.4m

net operating income
of £42.4m

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 3.6% adjusted return on capital employed in 2018/19, which was higher than our target for the year. However, it is lower than the return achieved in the previous year. This has been caused by three key drivers: (a) lower returns in the year from legacy VC funds of £7.2m (2017/18 £22.8m), (b) write down in the value of assets distributed by a single Enterprise Capital Fund (£17.1m), and (c) increased operating costs as the Bank has continued to invest in order to deliver on the new objectives it was set last year. The Bank has also continued to invest in systems, controls and processes. While not material for the results, the Bank has seen an increase in credit losses in several of its debt programmes and continues to monitor this area closely.

Average capital employed has increased from £1,530m to £1,829m, an increase of £299m as the Bank continues to invest in UK smaller businesses.

3.6%

adjusted return on capital for the year

Adoption of IFRS 9

The group adopted the International Financial Reporting Standard IFRS 9 for the first time in 2018/19. The return for the 2017/18 financial year has been adjusted to account for the impact of the transition to the new basis of accounting for the Group's financial instruments. This transition adjustment has resulted in a £2.8m reduction in the reported return for 2017/18. As indicated in the 2017/18 Annual Report, the Bank has restated all of its historic return calculations to take into account the impact of IFRS 9. This means that historic changes in fair value that impacted Other Comprehensive Income (both the assets on the Bank's balance sheet and assets on the BEIS balance sheet that are managed by the Bank) have now been included in the historic Adjusted Return on Capital Employed as set out later in this section.



CASE STUDY

Grapeshot



Cambridge
East of England

Programme:

Enterprise Capital Fund

Started in Cambridge, Grapeshot is a brand safety platform that helps marketers, publishers and media organisations target customers more accurately in any language and in real time, globally.

It required funding to continue development of its products and services, and grow key teams within the business. It received initial investment from the Bank's Enterprise Capital Fund delivery partner IQ Capital in 2009, and several rounds of additional funding, with the last round in 2017.

In 2018, Grapeshot was acquired by Oracle for \$325m, providing a significant return multiple to investors.

Summary of financial performance and calculation of adjusted return

Year ended 31 March 2019 (£m)	Audited Accounts	Adjustments for SULCo and ECFs	Adjusted British Business Bank plc	Programmes managed on behalf of BEIS (unaudited)	Total
Investment income					
Investment Programmes	19.2	0.0	19.2	0.0	19.2
Lending Solutions	0.0	0.0	0.0	0.0	0.0
Venture Capital	0.2	10.9	11.0	7.2	18.2
Start Up Loans	24.1	(24.1)	0.0	0.0	0.0
Guarantee and Wholesale Solutions	0.0	0.0	0.0	18.9	18.9
	43.4	(13.2)	30.2	26.0	56.2
Management fee and other income	22.4	0.0	22.4	(13.5)	8.9
Grant income	17.5	(17.5)	0.0	0.0	0.0
SULCo intercompany loan interest	0.0	0.0	0.0	0.0	0.0
Total operating income	83.3	(30.7)	52.6	12.6	65.2
Net investment costs					
Investment Programmes	51.2	0.0	51.2	0.0	51.2
Lending Solutions	0.0	0.0	0.0	0.0	0.0
Venture Capital	(4.7)	6.2	1.4	0.0	1.4
Start Up Loans	(30.7)	31.4	0.7	0.0	0.7
Guarantee and Wholesale Solutions	0.0	0.0	0.0	(10.6)	(10.6)
	15.7	37.6	53.3	(10.6)	42.7
Net gain on write down of repayable capital grant	7.3	(7.3)	0.0	0.0	0.0
Other operating costs					
Staff Costs	(27.8)	3.9	(23.8)	0.0	(23.8)
Other Costs	(36.2)	13.5	(22.7)	0.0	(22.7)
Total operating expenditure	(64.0)	17.5	(46.5)	0.0	(46.5)
Net operating profit before ECF loan commitments provision	42.4	17.0	59.4	1.9	61.3
ECF derivative gain (cash)	0.0		3.8	0.0	3.8
ECF permanent diminution in value	0.0		0.6	0.0	0.6
Adjusted return	42.4		63.8	1.9	65.7
Average Capital Employed					1,828.7
Adjusted return on average capital employed					3.6%
Cost/income ratio					43.1%

Year ended 31 March 2019 (£m)	Audited Accounts	Adjustments for SULCo	British Business Bank plc	Programmes managed on behalf of BEIS (unaudited)	Total
Investment assets					
Investment Programmes	1,145.8	0.0	1,145.8	0.0	1,145.8
Other BBI Programmes	203.0	0.0	203.0	0.0	203.0
Guarantee and Wholesale Solutions	1.4	0.0	1.4	20.3	21.7
Venture Capital	232.5	0.0	232.5	88.0	320.5
Enable Funding	0.0	0.0	0.0	340.7	340.7
Start up loans	137.2	(104.6)	32.6	0.0	32.6
	1,719.9	(104.6)	1,615.3	449.0	2,064.3
Investment liabilities					
Guarantee and Wholesale Solutions	0.0	0.0	0.0	(46.2)	(46.2)
Venture Capital	(139.4)	0.0	(139.4)	0.0	(139.4)
	(139.4)	0.0	(139.4)	(46.2)	(185.6)
Net investment assets	1,580.5	(104.6)	1,475.9	402.9	1,878.8
Other assets liabilities					
Cash	152.1	(3.4)	148.7	0.0	148.7
Tangible and intangible assets	5.1	(1.5)	3.6	0.0	3.6
Loans and borrowings	(711.3)	107.0	(604.3)	0.0	(604.3)
Net other payables	521.3	3.4	524.7	0.0	524.7
	(32.8)	105.6	72.7	0.0	72.7
Total net assets	1,547.7	0.9	1,548.6	402.9	1,951.5

The Bank manages a number of investments on behalf of BEIS under a service agreement; these include three regional funds, the ENABLE Guarantee and ENABLE Funding programmes and EFG. We also administer the assets and liabilities included on BEIS's balance sheet relating to these programmes and their performance is included in our performance measures.

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. The methodology includes returns from legacy venture funds held on BEIS's balance sheet but managed by the Bank and distinguishes between

temporary, non-cash fair value adjustments and permanent diminutions in value for other programmes, notably ECFs. Permanent diminutions are included in the adjusted return whilst temporary, non-cash fair value adjustments are excluded. Positive fair value movements on our remaining fair value assets are also included.

For the financial year ending 31 March 2019, the Bank has re-stated the historic numbers to take account of the impact of the adoption of IFRS 9 the impact of which are shown in the table below:

IFRS 9 Restatement £m	2014/15	2015/16	2016/17	2017/18	2018/19
Return on capital as previously reported	8.5	37.1	52.8	71.4	
Other comprehensive income adjustments:					
– assets initially owned by BEIS (UKIIF)	3.5	15.1	15.1	12.8	
– assets owned by British Business Bank	13.9	20.9	20.7	9.9	
Opening ECL adjustment	–	–	–	(2.8)	
Revised Return	25.9	73.1	88.6	91.3	
Initial return	2.9%	3.8%	4.1%	4.7%	
Revised Return	8.8%	7.5%	6.9%	6.0%	3.6%
Target return (%)	2.5%	2.5%	2.5%	2.5%	2.5%
Excess return (%)	6.2%	5.0%	4.4%	3.4%	1.1%
Excess return (£m)	18.4	48.4	56.1	52.7	19.6

Since the Bank was created in November 2014, it has generated excess returns ahead of its five-year target amounting to £195m.

Overall results for the British Business Bank 2018/19

- We generated a net operating profit of £42.4m
- The value of investment assets increased by £333m
- We made new commitments of £957m to funded programmes and £550m to guarantee programmes
- Net assets increased by £355m to £1,951m.

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 of 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 managed by British Business Investments Limited that makes the greatest contribution to the Bank's overall return.

Our net operating profit was mainly driven by £70.4m of returns from the Investment Programme investments. The Venture Capital programmes, which include both market rate and sub-market rate investments, contributed £19.6m of income, £7.2m of which arose from legacy venture capital funds.

Whilst year-on-year operating costs increased by £15.1m to £46.5m (excluding SULCo), this has occurred in the context of an expansion in activities and income generation which shows that operational efficiencies have been delivered. The cost/income ratio at 43.1% (excluding SULCo) is higher than 2017/18's figure of 32.5% (restated) reflecting the increased activities of the Bank.

The profit before tax shown in the Consolidated Statement of Comprehensive Net Income is £81.3m, compared to £11.3m the previous year. This is primarily driven by no new ECF commitments being made during the year. Whilst the Bank did offer funding to two ECF managers during the year, these offers did not meet the level of certainty required by accounting standards for a financial liability to be recognised. The profit before tax of £81.3m is higher than the adjusted return of £65.8m. This is explained by the exclusion from the return calculation of ECF provision releases of £44.4m, Nuclear Liabilities Fund (NLF) interest of £5.6m and a number of other adjustments (including the contribution from investments held on the BEIS balance sheet but managed by the Bank). This is set out in the table showing the calculation of the adjusted return.

Funding

We require funding to make investments and run our operations. Depending on our requirements these can be met from our investment earnings, our Shareholder or an external funder.

To fund our capital investments, we generally issue shares to our shareholder and utilise available cash from our operations, including asset repayments. At 31 March 2019, the UK Government held shares totalling £1,496m in British Business Bank plc, comprising the entire share capital of the Company. This amount increased by £125m during the year. We also borrowed £600m from the NLF and part of this loan was used to fund our activities.

Our operating costs are funded through investment income plus a management fee charged to BEIS for managing assets on its behalf. Income received from this charging mechanism was £15.3m in 2018/19.

At 31 March 2019, British Business Bank plc held £152.1m 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 (£134.7m) 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:

- Assets designated at fair value through profit and loss £1,288.8m
 - BFP Mid cap £436.1m
 - Investment Programme £297.0m
 - UKIIF £123.8m
 - Venture/Growth £203.0m
 - ECF and Venture Capital £228.9m
- Amortised cost investments £431.2m
 - BFP Mid cap £55.4m
 - Investment Programme £233.5m
 - Start Up Loans £137.2m
 - Regional £4.9m

During the year to 31 March 2019 we invested £571.5m in assets included on our balance sheet. This included investments of £195.2m in the Investment Programme and £50.1m in the BFP Mid Cap programme, £119.9m in Venture/Growth and £92.1m in ECFs. The Bank has also experienced significant capital and interest returns in the year of £506.8m primarily in BFP Mid Cap which amounted to £144.8m and Investment Programme of £179.0m.

These returns reflect a large amount of capital being available in the market in the market place; a fall in M&A activity; fund managers seeking transactions outside the UK; and companies making early repayments to refinance at lower rates.

For many investments, we make commitments to a fund and the fund draws down cash as it is needed. This means that there is, generally, a delay between our investment commitment and capital being drawn. As of 31 March 2019, the British Business Bank plc had further undrawn commitments of £1,279.9m to be invested across its portfolio.



CASE STUDY Photonic Solutions



Edinburgh
Scotland

Programme:
Enterprise Capital Fund

Originally established in 1999, Edinburgh-based Photonic Solutions distributes, installs and provides technical support of high powered, complex laser systems to the UK scientific and industrial market.

Delivered by a team of highly qualified scientists, Photonic Solutions provides testing, modification, user training and servicing of equipment to its customers.

In order to fund a management buyout and purchase the company from the retiring founders of the business, the existing employees sought debt and equity funding, and were introduced by a Non-Executive Director of the business to British Business Bank partner, Panoramic.

Photonic are targeting 10% growth per year over the next 3 years with the ultimate aim of full ownership within that time frame.

Future developments

The British Business Bank's long-term priorities include addressing both countercyclical and structural finance market failures, as well as tackling geographical and demand-side issues.

There are a number of areas of shorter-term focus for the Bank that are set out below. The Bank is also focusing longer term on four areas of priorities. In the near term we are focusing on:

External review

The NAO is undertaking a review of the Bank, examining whether the Bank is optimally delivering access to finance support for SMEs and is well prepared for future challenges.

In parallel, the Bank is working with HMT and BEIS to assess its role, remit and governance.

We will work through the year ahead to support these activities and implement any recommendations.

£200m

Additional Government commitment to address potential loss of access to European public funding

Economic environment

The UK is an open economy and is therefore affected by trends in the wider global economy, as well as the ongoing uncertainty from EU Exit. In the last year, global growth has been affected by concerns over trade tensions and policy uncertainty which has impacted the broad-based expansion seen previously. As part of our role acting as a centre of expertise for Government, we are actively monitoring the impact this shift has had across our SME portfolios, and have seen early signs of a deterioration in credit conditions. If this resulted in more widespread constraints on access to finance, the Bank are well placed to play an important role in supporting smaller business finance markets.

Building for the future

We will continue to build our infrastructure, controls and processes. This is essential to ensure that the Bank can grow and remain within its operational risk appetite, as well as within its balanced mandate of making smaller business finance markets work better across the UK.

The Bank will also continue to address longer-term priorities in four broad areas:

Diversity of supply throughout the cycle

Appropriate finance should be available through the economic cycle, and particularly when the UK is in a recession and supply is scarce. In the coming year we will enhance our EFG delivery capability through investing in a new IT system, to support our delivery partners.

Structural supply of smaller business finance

It is important that all relevant forms of smaller business finance are available, including those that are scarce in the UK due to chronic market failure issues. We will continue to deliver initiatives put in place following the Government's Patient Capital Review and over the next year,

we aim to invest an additional £200m provided to us by Government to enable us to step in where smaller businesses have lost access to European public sources of funding.

Appropriate geographical supply of smaller business finance

The Bank has a range of programmes to help ensure the appropriate supply of finance for smaller businesses across the UK. We are doing further work on how to build on the Bank's regional capabilities, including building out the activities of the UK Network team and development of the Regional Angels Programme.

“We will continue to build our infrastructure, controls and processes.”



Chief Secretary to the Treasury, Liz Truss, spoke at the launch of the Bank's influential VC & Female Founders report in February 2019.

Building demand for finance

From a demand perspective, smaller businesses need firstly to understand that there are finance options available to them and, secondly, to be signposted as to how to navigate what can be a complex customer journey.

In 2019/20 we are putting in place a customer journey framework which will track businesses' journeys, allowing us to develop a comprehensive demand strategy. As part of this work, we will develop a tracking capability that is able to measure our impact and the return on our marketing investment.

Keith Morgan

11 July 2019



CASE STUDY Launch22



Programme: Start Up Loans

Launch22 supports young entrepreneurs to pursue their business ideas.

After securing a £10,000 Start Up Loan, Tom Previte and two friends set up a communal workspace in London, providing mentoring and networking events for people who had faced barriers to entrepreneurship. These included people with first-hand experience of the criminal justice system, the long-term unemployed, refugees and people with disabilities. They have since helped over 700 young people to start their own business.

Last year Launch22 launched its incubator programme, designed to equip entrepreneurs with the skills and networks they need to make their business a success.

Material 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 during 2018/19 with a focus on how it operated relative to the Bank's risk appetite. We continue to monitor and respond to a number of material risks.

Political environment

The EU Exit and its eventual outcome may have an impact on the economic environment and the behaviour of smaller businesses in the UK. We have already seen a decrease in confidence due to uncertainty, which may lead to reduced demand for finance by smaller businesses. We are monitoring this position. Due to withdrawal or reduced activity of market participants such as the European Investment Fund, we may be asked to make further market interventions.

Economic downturn

External macro-economic and political factors may affect both the flow of finance to, and demand from, smaller businesses. In these cases, the Bank could experience credit and investment losses as end borrowers have difficulty in meeting their commitments. We are in the process of agreeing a framework for the Bank's approach in a downturn with the Shareholder.

People and processes

Given the relative complexity and significant rate of growth of the British Business Bank, there is a risk of corporate stretch. The Board and Executive are focused on ensuring we have sufficient skilled resources in place to manage programmes and policy initiatives that the Bank is undertaking.

In order to deliver its ambitious growth plan, in 2018/19 the Bank decided to move out of its operational risk appetite. Implementing process and control enhancements enabled the Bank to return within operational risk appetite by the end of the year.

As part of this work, the Bank has mapped out its current operating model and has invested significant resources in improving its operational environment during 2018/19. The Bank also undertakes risk and control self-assessments to identify weaknesses in its controls and processes and plans remedial actions where needed.

Demand

While the EU Exit or other economic conditions may influence market demand for products, there is also a risk that products – new or legacy – are not adequately designed to meet market demands. The British Business Bank designs its products in a robust fashion through both research and market sounding, following our internal product development governance processes.

Delivery partners

The British Business Bank's business model is heavily reliant on its delivery partners for the efficient execution of its interventions and increasing the diversity of funding for smaller businesses. The consequential higher level of reputational risk inherent in this model is managed through the Bank's due diligence processes and regular audit programmes, alongside regular meetings with delivery partners and service level agreements.

Renewal of State aid

The British Business Bank takes account of State aid rules when we develop all new products and programmes. The Bank's State aid permissions expire in December 2019 and we are working with the State aid team at the Department for Business, Energy and Industrial Strategy (BEIS) to extend our permission.

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 defences.

To ensure that our IT infrastructure is resilient enough to withstand disruption without the loss of data or functionality – as well as making sure that we follow the requirements of the EU General Data Protection Regulations (GDPR) – the British Business Bank has enhanced its internal controls and cyber security protection software. We hold IT Cyber Essentials Plus accreditation and IASME certification.

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 for 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 both a change to our mandate and delays in decision making that would impact our ability to operate as efficiently or effectively as we would want.

During the period, the Bank has added two new objectives: 'Expertise' and 'Regional'. To meet the first of these objectives, the Bank is increasing its profile as a subject matter expert for Government on smaller business financing. To meet the second, we have developed a regional presence through our UK Network Team, and we continue to deploy region-specific funding through our Northern Powerhouse, Midlands Engine and Cornwall and Isles of Scilly Investment Funds.



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 defences.



Small Business Saturday 2018 – British Business Bank Chief Commercial Officer, Patrick Magee, and Small Business Minister, Kelly Tolhurst MP, meet Start Up Loans recipient Alyssa Williamson of Brighton-based Peach Blossom.

Our people

The British Business Bank has over 320 colleagues each of whom plays a role in the successful delivery of our objectives and strategy.

People are at the heart of what we do. Over the past year we have created 84 new roles and promoted 18 colleagues. To achieve success for our business, we manage our people's performance, developing and bringing through talent while ensuring we operate as efficiently as possible. We share common values that inform and guide our behaviour to achieve our goals in the right way.

Our people strategy, developed in 2018 to complement our business plan, sets out the key actions that improve the way we recruit, train and develop our people.

The strategy has three pillars: culture & engagement, leadership and recognition.

Together, these pillars support our desire to achieve outstanding performance with inspired and fulfilled people.

Culture and engagement

It is important for us to have the right corporate culture, as we believe our long-term success depends on achieving our strategic goals in the right way – which means looking after and championing the best interests of our people, smaller businesses, our delivery partners, and other stakeholders.

Our annual Colleague Engagement Survey is an important tool to build an actively engaged and committed workforce. It helps us measure and assess how our people feel about working at the Bank, and to put in place actions for continuous improvements based on their responses.

April 2018's survey had a response rate of 66%, with an overall engagement score of 76%. We communicated the detailed results to all Bank colleagues in May 2018.

At a Bank level, the main areas of focus were career development, recognition, reward and leadership, and we have made good progress with each of these.

For our 2019 survey, which ran from mid-March to early April, we had a 91% response rate and an increase in employee engagement score to 77%. We are putting action plans in place, managed and owned by our leadership team, and driving higher engagement to enhance our people's experience.

In a growing organisation such as ours, there is an increasing need for good colleague communications. As part of that, we held two all-colleague 'One Team' conferences in 2018/19 – events that give us the opportunity to tell the story of our business as we evolve, ensuring all our people understand where we're going and the role they play.



For our April 2019 engagement survey we had a 91% response rate and an increase in employee engagement score to 77%.

Start Up Loans recipients discussing their finance journeys at our most recent 'One Team' meeting.

Capability for performance

Driving a performance culture is a key objective for the Bank. In 2018/19 we made several enhancements to our performance management cycle to clarify responsibilities, drive fairness and consistency, and equip colleagues and managers to understand and maximise the value of the process. We have also placed more emphasis on managers taking more accountability for the performance and development of their people. At the end of the performance year, facilitated moderation sessions fostered a more consistent application of performance ratings, which realistically reflected the Bank's overall performance.

For the start of the 2019/20 performance year, we have made further enhancements to drive closer alignment of each colleague's objectives with the Bank's objectives, encourage a developmental mindset, and incorporate clear measures of success, for both 'What' our people do and 'How' they do it. The latter is set out in a newly created leadership framework as described in the Leadership section on page 46.

We have processes in place for understanding and responding to colleagues' needs through surveys and regular performance and development reviews. We continue, therefore, to work towards improving our communication to colleagues to ensure they are engaged with the decisions we make, and so we can respond to their feedback.

We also have a colleague forum consisting of people from all levels of our organisation which provides input into policies and working practices to ensure we support our Bank colleagues' employment needs.

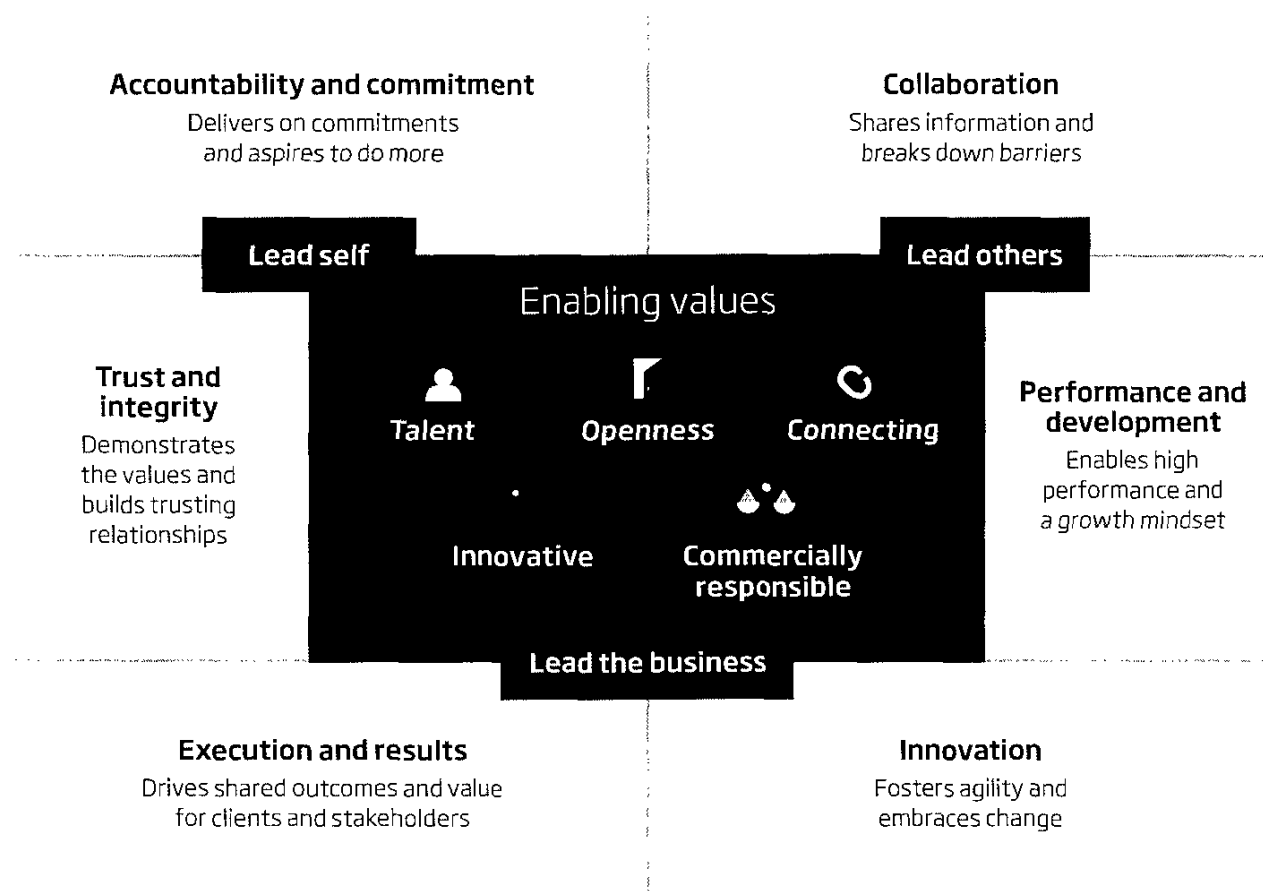
Business developments are communicated frequently to keep colleagues well informed about the progress of the Bank and to understand the Bank's objectives.

Wellbeing

Wellbeing support to colleagues has continued to be a focus in 2018/19 which has included appointing mental health first-aiders, introducing a cycle to work scheme, providing fruit for colleagues and offering flu jabs and holding events to promote general wellbeing.



Leadership framework



Leadership

Values and leadership framework

Our five shared values were reviewed in March 2018. These values – openness, commercially responsible, connecting, innovative and talent – shape and support our brand and our core essence of ‘enabling’.

In early 2019/20, we built on this foundation and created a leadership framework, which articulates the behaviours that will help drive the success of the Bank and reinforce our culture. The framework applies to all colleagues and encompasses behaviours grouped into leading self, leading others and leading the business.

To ensure that the leadership framework becomes embedded across the Bank and supports continuous improvement, it will be integrated within all our people processes during 2019/20, including talent and succession, recruitment and performance management.

Building talent and succession

Talent, as well as being one of our organisational values, is a key focus of our People Strategy. We are currently developing an overarching and integrated approach to identifying and building ‘bench strength’ across the Bank – those individuals with the potential to become the top talent in our organisation. Strategic outcomes will include a clear understanding of our top talent and leadership pipeline, prioritised development themes throughout the Bank, targeted actions to mitigate talent and

succession risks, and a greater emphasis on career growth and internal hiring. This year we filled 19.6% of vacancies internally.

Succession planning is a twice-yearly process that focuses on identifying successors for executive roles and defining targeted development to ensure readiness.

We are committed to grow our talent and capability and we know that the development of our people is fundamental to the success of our business strategy. To support this development we have invested in an online learning management system which we will be introducing in 2019/20. This will give our employees access to courses and a range of programmes and support materials to enable their development on an ongoing basis.

Recognition

We understand the importance of employee recognition in giving employees a sense of ownership and belonging and that they are truly valued for their contribution.

Our discretionary bonus payments are made on merit, and we believe this approach encourages fairness and drives our people to want to do a great job. We also have in place a number of other recognition schemes which recognise and reward colleagues.

We have reviewed our reward strategy to ensure that our reward structure supports the recruitment and retention of colleagues critical to the successful delivery of the business' objectives. Our aim is to align performance and reward so that colleagues know what is expected of them and feel recognised for their personal contribution and behaviours.

We recognise and reward the performance of our colleagues by offering a stake in the financial performance of the Bank through participating in the annual bonus

scheme, which is linked to both corporate and personal performance.

Employee involvement

Our Equal Opportunities, Diversity and Inclusion policies support managers and colleagues in creating a diverse and inclusive culture where everyone is welcome. Our policies demonstrate our commitment to providing equal opportunities to all colleagues, irrespective of age, disability, gender, marriage and civil partnership, pregnancy or maternity, race, religion or belief, sex, or sexual orientation.

Diversity and inclusion

We believe that our success as a business can only be achieved by being truly inclusive and we have a number of mechanisms to support this, which include our grievance and whistleblowing procedures, our engagement survey and a visible HR team in all locations, allowing employees to raise any concerns.

Our diversity and inclusion policy can be found on our website www.british-business-bank.co.uk.



Gender representation

The graphic below sets out the gender diversity of the Board, Executive Committee members, Senior Leadership Team and employees at 31 March 2019.

The British Business Bank has a good gender balance overall. We recognise, however, that we have more to do to increase the number of women in our senior management positions and we are taking steps to make sure that senior colleagues, when recruited, reflect the characteristics of the diverse workforce we seek to create.

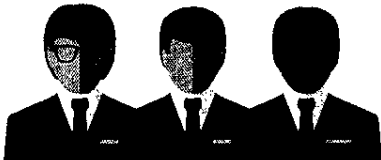

Over the past year we have continued to embed diversity and inclusion within the Bank. One of our targets is to aim for all recruitment processes at director and managing director level to include a gender diverse shortlist and interviewer panel. We also have gender neutral advertising.

We have reviewed our parental and maternity policies to encourage a more family friendly culture to enhance support for all working parents.

In 2018 all the objectives of the Executive Committee included gender diversity targets to ensure the pay of the senior executive team is linked to gender diversity.

*includes 3 Executive Committee members who are members of the Board

British Business Bank - gender balance

			
Board	7	Board	3
Employees		Employees	
Executive Committee*	5	Executive Committee	3
Senior Leadership Team	8	Senior Leadership Team	4
Other Employees	168	Other Employees	133
Total employees	181	Total employees	140

Our subsidiary, British Patient Capital also announced in February 2019 that it would be seeking to spread best practice by adopting the Institutional Limited Partner Association (ILPA) diversity template for venture capital firms applying for its programmes. This new initiative enables venture capital teams to measure and report the gender and ethnic diversity of their teams by seniority and role, and aims to encourage conversations about issues around diversity.

Gender pay gap

We included details of our 2018 gender pay gap in our 2018/19 Annual Report, and will be publishing a full 2019 gender pay gap report later in the year.

Women in finance charter

In March 2018 we signed up to the Treasury's Women in Finance Charter and our CEO is responsible and accountable for delivering this initiative. We have made considerable progress in appointing women to senior positions over the last three years, but there is more to do to increase diversity.

Our aim is to ensure that, by October 2021, 50% of our senior leadership team (bands 1 – 3) are female (within a 10% tolerance). As at 31 March 2019 the overall split was: Male 64%, Female 36%.

Ethnicity

We value people from all backgrounds and have an inclusive approach that celebrates diversity. We know that our inclusive culture helps us to attract, retain and develop our employees and encourages them to bring their whole selves to work.

The British Business Bank has a diverse workforce, with 14 different ethnicities declared and with a further group of 19% who did not declare their ethnicity. White British is the major ethnic group (48%) and Asian the second largest (8%).

Disability

The Bank works with colleagues, including those with disabilities, to adapt work practices where necessary in order to help them work effectively within the business. We are a Disability Confident Employer as part of the UK Government's Disability Confident scheme.

Human rights

We operate in accordance with the Universal Declaration of Human Rights and take account of other internationally accepted human rights standards. We also promote human rights through our employment policies and practices, and through the responsible use of our products and services.

Data protection

Across British Business Bank, the privacy and security of personal information is respected and protected. Our privacy statement governs how we collect, handle, store, share, use and dispose of information about people. We regard sound privacy practices as a key element of corporate governance and accountability.

Corporate social responsibility

Colleagues from across the Bank worked together on initiatives focused on all three areas of our CSR mandate in 2018/19 – charity work, environment and volunteering.

We continued our support for the three charities nominated in 2017/18 for another year:

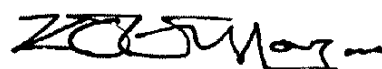
- Shelter – our national nominated charity.
- Bluebell Wood Children's Hospice in Sheffield.
- The Trussell Trust in London.

Colleagues from across the Bank took part in fundraising activities to raise money directly for our three nominated charities. These included our annual 'Great British Business Bank Bake Off', as well as sponsored runs and bike rides.

Colleagues can also take a day once a year to undertake voluntary work. They used these days in 2018/19 to support a wide range of causes, which included serving and packing food at local food banks and supporting a grant-making foundation with a variety of financial topics. Many colleagues also give their own time to volunteer with charities and other organisations.

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

Approved by the Board of Directors



Keith Morgan
Chief Executive Officer

11 July 2019

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 2019.

The Corporate Governance Statement is set out on pages 54–61 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
- information on our employment disability policies and on our action on colleague engagement are in the 'Our People' section
- details of the significant events since the balance sheet date are contained in note 28 to the financial statements
- information about the use of financial instruments by the company and its subsidiaries is given in note 26 to the financial statements
- the Bank has chosen to include information regarding future developments within the strategic report because we believe it is 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 54.

Director	Position	Initial appointment date	Initial appointment expiry	Reappointment effective date	Reappointment expiry
Lord Smith	Non-executive Director	05 July 2017	04 July 2020	N/A	N/A
Christina McComb	Non-executive Director	29 October 2013	18 November 2016	18 November 2016	18 November 2019
Jonathan Britton	Non-executive Director	28 April 2014	27 April 2017	28 April 2017	27 April 2020
Neeta Atkar	Non-executive Director	01 July 2016	30 June 2019	01 July 2019	30 June 2022
Caroline Green	Non-executive Director	24 June 2014	23 June 2017	20 July 2017	19 January 2019
Piers Linney	Non-executive Director	07 December 2017	06 December 2020	N/A	N/A
Amanda Rendle	Non-executive Director	07 December 2017	06 December 2020	N/A	N/A
Ceri Smith	Shareholder Representative Director	29 October 2013	13 November 2016	13 November 2016	13 November 2019
Keith Morgan	Chief Executive Officer	10 December 2013	N/A	N/A	N/A
Christopher Fox	Executive Director	13 January 2015	N/A	N/A	N/A
Patrick Magee	Executive Director	10 March 2015	N/A	N/A	N/A
Dharmash Mistry	Non-executive Director	01 May 2019	30 April 2022	N/A	N/A

Directors' biographies



Lord Smith of Kelvin
Chair

Lord Smith has led organisations in the private, public and voluntary sectors. He is a former President of the Institute of Chartered Accountants of Scotland. He is currently the Chair of IMI plc and Alliance Trust plc, and Chancellor of the University of Strathclyde.



Christina McComb
Senior Independent Director

Christina has 30 years' experience of investing in and supporting SMEs. She is currently chair of OneFamily and Standard Life Private Equity Trust plc, Senior Independent Director of Big Society Capital, a trustee of NESTA, and a Non-executive of Nexxon Ltd.



Neeta Atkar
Independent Non-executive Director and Chair of Risk Committee

Neeta has 30 years' experience in financial services, working across all aspects of risk. She is a Non-executive Director of Nomura Europe Holdings plc and of Yorkshire Building Society, chairing the Risk Committees at both. She has been a Magistrate for over 20 years.



Amanda Rendle
Independent Non-executive Director and Chair of Remuneration Committee

Amanda has over 30 years of marketing and communications experience. She was Global Head of Marketing for HSBC Commercial Banking and Global Banking and Markets. She is a Non-executive Director for Tesco Bank and the Government Communications Service Ministerial Board.



Ceri Smith
Shareholder Representative Director

Ceri is a Director at UK Government Investments and 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.



Keith Morgan
Chief Executive Officer

Keith has been CEO since 2013. He joined the Bank from UK Financial Investments, where he managed the Government's shareholdings in Bradford & Bingley and Northern Rock. Keith previously held senior roles at Santander and spent 17 years at LEK Consulting.

To see full Directors' biographies, please visit:
british-business-bank.co.uk/our-people/



Jonathan Britton

Independent Non-executive
 Director and Chair of Audit
 Committee

Jonathan has over 35 years' experience in banking. A qualified chartered accountant, he was a Non-executive Director of ICIC Bank UK Ltd from 2011 to 2017. He is a Non-executive Director of Nomura Europe Holdings plc, chairing its Audit Committee.



Caroline Green

Independent Non-executive
 Director until 19 January 2019

Caroline is the Chief Operating and Financial Officer at ReBOUND Returns, having previously held CFO positions in both private equity-backed and listed businesses. Caroline also spent eight years in private equity, initially at 3i plc.



Piers Linney

Independent Non-executive
 Director

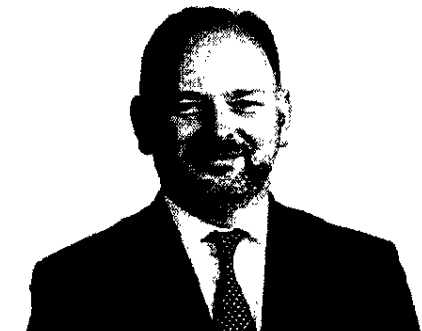
Piers has founded several businesses and won a range of entrepreneurship awards. He has appeared as an investor on Dragon's Den and sat on the Cabinet Office SME Panel and the Board of TechUK. He is a Trustee of Nesta.



Christopher Fox

Chief Financial Officer

Before joining the Bank in 2015, Christopher was Head of Banking at UK Financial Investments, where he oversaw the Government's shareholdings in Lloyds Banking Group, RBS and UK Asset Resolution. Previously, Christopher spent almost 20 years at UBS.



Patrick Magee

Chief Commercial Officer

Patrick joined the Bank in 2014, becoming CCO in October 2017. He led the team working on the Bank's set-up, and represented the Government's interests on its Board. Patrick was previously a managing director of corporate finance at JP Morgan Cazenove.



Dharmash Mistry*

Non-executive Director

Dharmash is an experienced venture capitalist, entrepreneur and NED. He is currently a Partner at Lakestar VC and co-founder and Chairman of blow LTD. He is a non-executive director of BBC Commercial Holdings Ltd and was previously a partner at Balderton Capital.

*Appointed on 1 May 2019



CASE STUDY B-Secur



Belfast
Northern
Ireland

Programme:
Enterprise Capital Fund

Northern Ireland-based B-Secur is pioneering next-generation biometrics, using the heart to secure health & wellness insights.

Its technology captures ECG signals using sensors within clothing, wearables, or physical touch points. These signals provide insights on the individual, confirming who they are to how they are feeling.

Uses include improving motoring safety, medical monitoring and improvements in worker verification, and wellbeing.

As an early stage company, B-Secur requires heavy R&D investment. In 2017 it received funding from ADV, an Enterprise Capital Fund backed by the Bank. B-Secur has since grown to over 35 people, competing on the global stage. In March, it raised a further £4m, with ADV leading the round.

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. Further details can be found in the significant accounting policies notes in the financial statements.

Sustainability principles

The British Business Bank is committed to promoting sustainability. We are concerned about the environment and we believe that promoting a broader sustainability agenda is integral to our professional activities and the management of the organisation. We follow and promote good sustainability practice, and we are reducing the environmental impacts of all our activities.

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 plc occupies four floors of office space and is able to provide emission reporting from 2015 to date in respect of its premises and company travel activities.

The 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 below are estimated emissions relating to energy consumed in properties where the landlord controls the supply and recharges the British Business Bank. The 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 on page 53. We do not report on any other Scope 3 emissions at this time. We have not included business mileage in private vehicles as this is not a significantly used mode of travel.

Assessment parameters

Baseline year for total reported CO ₂ Emissions	2016
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 ration	Emissions per full time employee (FTE)

GHG emissions

	2017/18 Scope CO ₂ (tonnes)	2018/19 Scope CO ₂ (tonnes)	Comparison 2017/18 to 2018/19 (%)
Scope 1 (Gas)	28	39	+ 39%
Scope 2 (Electricity)	191	241	+26%
Scope 3 (Travel)	95	83	- 13%
Total	314	363	+ 15.7%
Total per average number of employees	1.25	1.21	

Directors' disclosure to 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 Section 418 of the Companies Act 2006.

Approved by the Board of Directors



Keith Morgan
Chief Executive Officer

11 July 2019

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 the Department for Business, Energy and Industrial Strategy (BEIS).

The British Business Bank plc operates, so far as is practicable, a best practice corporate governance framework, and complies with the UK *Corporate Governance Code* other than Section E (Relations with Shareholders).

The UK Corporate Governance Code is freely available from the Financial Reporting Council. The 2016 UK Corporate Governance Code acts as a guide to a range of key issues to ensure effective Board practice.

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 2018 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 in consultation with BEIS is collectively responsible for the long-term success of the Bank. The Board, again in consultation with BEIS, is also responsible for the strategy of British Business Bank plc.

As set out in the Shareholder Relationship Framework Document, the Board must have no fewer than eight Directors including six Non-executive Directors. Independent Non-executive Directors are to make up the majority of the Board.

Our Board and committees have the appropriate balance of skills, experience and independence 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.

Although both Neeta Atkar and Jonathan Britton are Non-Executive Directors of Nomura Europe Holdings plc, and both Christina McComb and Piers Linney are trustees of Nesta, the Board considers them to be independent in character and judgement and therefore independent.

The Board reviewed the schedule of matters reserved for the Board in October 2018. The matters reserved for the Board include strategy and management, company structure and capital, financial reporting and controls, risk management and internal controls, approval of major projects and contracts, communications with our Shareholder, Board membership and other appointments, remuneration, delegation of authority, corporate governance, appointment of professional advisers, litigation and approval of overall levels of insurance.

Our Non-executive Directors scrutinise the performance of management in meeting agreed goals and objectives. The Remuneration Committee is responsible for setting appropriate levels of remuneration for Executive Directors and other Bank colleagues in consultation with our Shareholder. This is further explained in the Directors' Remuneration Report at page 68.



“The Board, in consultation with BEIS, is responsible for the strategy of British Business Bank plc.”

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 Executive Committee and the Senior Leadership Team.

As an organisation funded by taxpayers' money the Bank is required to comply with the principles set out in Managing Public Money (www.gov.uk/government/publications/managing-public-money).

The Chief Executive is the Accounting Officer. The responsibilities of an Accounting Officer include responsibility for the stewardship of the Bank's resources.

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
- meet with other Non-executive Directors to review the Chair's performance.

During the year the Board appraised Lord Smith's performance as Chair by questionnaire. The results were discussed among the Non-executive Directors, led by the Senior Independent Director.

Appointment and removal of directors

The Shareholder Relationship Framework Document states 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. The Chair and the Senior Independent Director are appointed in a process chaired by a commissioner from the Office of the Commissioner for Public Appointments, in line with the Shareholder Relationship Framework Document.

The composition of the Board is set out on page 49 of the Directors' report.

In January 2019, Caroline Green stepped down from the Board. Odgers Berndtson was appointed as an independent search consultant for the appointment of a new Board member for the British Business Bank, and in May 2019, Dharmash Mistry was appointed as Non-executive Director for a term of three years.

The full biographies of all Board members can be found at: www.british-business-bank.co.uk/our-people

Annual Director election

At the 2018 Annual General Meeting (AGM) Amanda Rendle and Piers Linney were elected and Christopher Fox, Patrick Magee and Ceri Smith were re-elected.

Information to the Board

All directors are given 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 information is readily available to all directors. Since 2015 the Board has received board papers and information electronically, to increase efficiency, confidentiality and sustainability.

Board committees

The Board has established four Board committees to ensure robust and effective decision-making within the group structure, namely Audit, Remuneration, Risk and Nomination committees. The British Business Bank Board has approved terms of reference for each committee.

Audit Committee

The Audit Committee is chaired by Jonathan Britton. Neeta Atkar and Caroline Green were also members of the Committee during the year. Caroline Green stepped down following the October 2018 meeting and Dharmash Mistry joined the Audit Committee following his appointment to the Board in May 2019.

All members of the Audit Committee are independent Non-executive Directors. The Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, General Counsel, Head of Internal Audit and a Shareholder representative 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. You can find a full attendance record on page 61.

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
- 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 2018/19, the Audit Committee considered and approved:

- the oversight of the Bank's financial reporting process and the process for preparation of the consolidated accounts
- 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
- methods used to account for significant or unusual transactions where different approaches are possible
- the assessment of, and process for preparing, the consolidated accounts
- the extent to which the Bank has complied with Shareholder financial reporting requirements
- IFRS 9 accounting implications.



The Board has established four Board committees to ensure robust and effective decision making.



In relation to internal and external audit, the Audit Committee considered and approved:

- the internal audit plan and review of progress against this plan
- the findings of internal audit reviews
- group and subsidiary audit exemptions
- the appointment of external auditors
- the review of external audit planning and progress
- the external audit management letter.

In relation to governance and other matters, the Audit Committee considered and approved:

- interest rate risk
- fraud prevention
- controls relating to the 'procure to pay' process and the management of budgetary pressures in respect of Departmental Expenditure Limits
- the governance statement submitted to BEIS.

The Corporate Governance Code requires that the Audit Committee should make a recommendation on the appointment of the auditor. However, our Shareholder Relationship Framework Document specifies that we are audited by the Comptroller and Auditor General, which we believe provides appropriate safeguards for our Shareholder. The National Audit Officer (NAO) 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.



Wildanet

Programme: Cornwall and Isles of Scilly Investment Fund

Wildanet uses wireless radio technology to provide superfast broadband in rural areas. The business received a £750,000 equity investment through The FSE Group, via the Cornwall and Isles of Scilly Investment Fund, as part of a wider £1.5m package. The funding will support Wildanet's expansion into Devon, targeting 12,000 new customers and creating 39 jobs over the next three years.

The significant issues considered by the Committee, with input from the external auditor, have included:

- methodologies and procedures for determining asset valuations and provisions
- significant accounting policies
- decisions and judgments
- the contents of the Annual Report and the Accounts of the company
- IFRS 9 accounting implications.

The external auditors brought five matters to the Audit Committee's attention in their 2017/18 management letter.

These were the:

- implementation of IFRS 9
- application of Effective Interest Rates for fund investments
- accuracy of payments to new starters
- availability of audit evidence from delivery partners
- planning for the delivery timetable for 2018/19 accounts and audit.

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

Signed for and on behalf of the Audit Committee

Jonathan Britton
Chair of the Audit Committee

Remuneration Committee

The members of the Remuneration Committee during the year were Christina McComb, Amanda Rendle and Ceri Smith. It was chaired by Christina McComb until January 2019, and since then by Amanda Rendle. You can find a full attendance record on page 61.

Role

The Committee's role is to set the remuneration policy for all Executive Directors, the Chair and other members of the Executive Committee, including pension rights and any compensation payments. It also sets the terms of the Long- and Short-Term Incentive Plans and any incentive schemes that the British Business Bank plc and its subsidiaries may run in line with the Shareholder Relationship Framework Document.

During the financial year 2018/19, the Remuneration Committee considered:

- the Remuneration Framework of the Bank
- annual confirmation to the Shareholder on remuneration commitments made in the Shareholder Relationship Framework Document
- a review of the objectives for Executive Directors and members of the Senior Leadership Team
- the annual pay review
- corporate performance ratings and annual bonus
- Short Term Incentive Plan and Long Term Incentive Plan awards
- a review of the redesign of the Long Term Incentive Plan
- the annual remuneration and reward strategy review

- a review of market benchmarks for remuneration
- publication of gender pay gap data
- the equal pay audit
- the Women in Finance Charter and gender diversity target
- private medical insurance
- payment of performance awards for senior executives departing the Start Up Loans Company following the transaction with the Bank
- exemptions from public sector pay guidelines
- the approach to remuneration at British Patient Capital
- ad-hoc salary proposals for Executive Committee members
- a review of the Committee's terms of reference.

Signed for and on behalf of the Remuneration Committee



Amanda Rendle

Chair of the Remuneration Committee

Risk Committee

The Risk Committee is chaired by Neeta Atkar. The other members of the Committee during the year were Jonathan Britton, Piers Linney, Christina McComb and Ceri Smith. You can find a full attendance record on page 61.

Role

The Committee's role is to advise the Board on the key risks to the Bank in the pursuit of its objectives, including whether the Bank is operating within its risk appetite and the appropriateness of the Bank's Risk Management Framework. It reviews the Risk Management Framework, taking account of the fact that the Bank is in the public sector and not regulated by the FCA/PRA.

Before any appointment is made by the Board, the Nomination Committee evaluates the balance of skills, knowledge, experience and diversity on the Board.

During 2018/19, the Risk Committee considered and approved:

- the risk appetite statement for the Bank and its subsidiaries
- the updated Risk Management Framework and the Information Risk Management Framework
- the Bank's approach to Operational Risk, Spreadsheet and Model Risk, Credit and Investment Risk, Information Risk, Reputational Risk and Market Risk
- the Bank's approach to Business Intelligence and Operational Risk
- the outputs of macroeconomic and other stress tests on our portfolio and business plan
- the annual Governance Statement and annual Money Laundering Officer's report
- the Bank's position in relation to State aid
- the Risk section within the Annual Report
- implementation of the Risk and Control Self-Assessment programme, General Data Protection Regulation (GDPR) and IFRS 9
- information security.

Signed for and on behalf of the Risk Committee



Neeta Atkar
Chair of the Risk Committee

Nomination Committee

The Nomination Committee is chaired by Lord Smith. Christina McComb and Ceri Smith were members of the Committee throughout the year. You can find a full attendance record on page 61.

The UK Corporate Governance Code requires that a majority of the Nomination Committee be independent Non-Executive Directors, in order to safeguard the interests of shareholders when making appointments. Our Nomination Committee does not comply with this as the Chair is considered independent only on appointment and Ceri Smith is appointed by the Shareholder and therefore not independent. However, we believe the Shareholder's interests are safeguarded as both the Chair and the Shareholder Representative Director are appointed by the Shareholder.

Role

The role of the Nomination Committee is to review the leadership needs of the organisation, consider succession planning, and identify and nominate Board members.

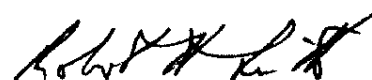
The Committee discussed and considered:

- succession planning for Executive and Non-executive Directors and for members of the Senior Leadership Team
- the appointment of Non-executive Directors to the Boards of the Bank and British Patient Capital
- a review of membership of the Board's 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 consent to each directorship was obtained from the Shareholder.

The Board is committed to ensuring the diversity of its membership. The Nomination Committee's duties include regularly reviewing the structure, size and composition (including diversity) of the Board and making recommendations to the Board about any changes. Before any appointment is made by the Board, the Nomination Committee evaluates the balance of skills, knowledge, experience and diversity on the Board.

Signed for and on behalf of the Nomination Committee



Lord Smith of Kelvin
Chair of the Nomination Committee

Other committees

A Board Sub-Committee was established to discuss the approval of the Annual Report and Accounts for the Start Up Loans Company.

The committee previously formed to establish the British Patient Capital subsidiary was wound down during the year.

The Bank has a number of executive committees including an Executive Committee, Investment Committees and the Product Development Committee.

The Board, the Board committees, and the executive committees have been structured to provide robust governance. The Board committees and executive committees each have terms of reference which set out their 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.

Board and committee attendance

The table on page 61 sets out the attendance of directors since 1 April 2018 at each Board and committee meetings.

Board performance

The Bank is committed to ensuring that the Board and its committees operate effectively and that they continually improve. A self-evaluation of the Board and its committees, including the Audit and Risk committees, was conducted in May 2019. A report – which includes findings and suggested improvements – has been accepted by the Board and an action plan has been established for implementing key recommendations during 2019/20.

The review concluded that the Board and its committees operate effectively.

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 the disclosure, review and authorisation of directors' conflicts of interest, which requires written disclosure of any actual or potential conflicts of interest for all directors and other colleagues. 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 and a Trustee of the Design Council. The Bank has not made any political donations or incurred any political expenditure during the financial year.



Attendance at meetings

The table below sets out the attendance of directors at Board and committee meetings in 2018/19:

	Board		Audit	Risk	Remuneration	Nomination
	Regular	Short notice				
Total number of meetings	8	2	5	4	8	5
Lord Smith, Chair	8/8	2/2				5/5
Non-executive Directors						
Neeta Atkar	8/8	0/2	4/5	4/4		
Jonathan Britton	7/8	0/2	5/5	4/4		
Caroline Green (stepped down 18 January 2019)	5/6	1/2	3/4			
Piers Linney	8/8	2/2		4/4		
Christina McComb	8/8	2/2		4/4	8/8	5/5
Amanda Rendle	8/8	0/2			8/8	
Ceri Smith	8/8	0/2		3/4	7/8	5/5
Executive Directors						
Keith Morgan	8/8	1/2				
Christopher Fox	8/8	2/2				
Patrick Magee	8/8	2/2				

In addition to scheduled meetings, two additional meetings of the Board were held at short notice to deal with time-critical matters. Some directors were unable to attend these meetings due to conflicts with existing commitments.

Risk management and internal control

The British Business Bank plc is committed to ensuring the best standards of corporate governance. The Board of Directors and Board committees support it in this mission.

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 does not hold regulatory capital and is not regulated by the Financial Conduct Authority (FCA) or the Prudential Regulation Authority (PRA). However, one of its subsidiaries representing less than 1% of the portfolio, Capital for Enterprise Fund Management, is regulated by the FCA for controlling but not holding client money. We are subject to other applicable laws and regulations and we aim to meet good practice standards. We have policies and procedures in place designed to ensure compliance with applicable laws and regulations, including anti money laundering, data protection and freedom of information, and we follow best practice where appropriate and applicable.

To ensure robust and effective decision making within the Bank, there are approved terms of reference for each executive level investment committee 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
- 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.

Note 26 of the financial statements sets out a discussion of how the Bank handles its risks in relation to financial instruments.

The Risk Management Framework is subject to regular review to assess its effectiveness within the British Business Bank. It has been updated over the past year to reflect the evolving operating model. This year's review concluded that the design of the Risk Management Framework remains 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 in March 2019 and a summary was presented to the Board. In the absence of any material changes to the business, economic or regulatory outlook, the next review of the Risk Management Framework will

take place in the fourth quarter of 2019/20 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 March 2019 in conjunction with setting its 2019/20 business plan.

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 31 sub-categories of level 2 risks, which includes one new level 2 risk category added during the year – model risk.

The Risk Appetite Statement:

Risk	Definition	Example Categories	Example mitigants
Strategic and business risk Risk appetite: Low – Medium	The (residual) risks of direct or indirect financial losses arising from a sub-optimal business strategy or business model and the risk of failure to meet internal and/or public policy objectives.	<ul style="list-style-type: none"> – Risk that the Bank has an inadequate governance structure. – Risk that the Bank's current and planned products may not be fit for purpose. – Risk that the Bank does not meet its deployment or commitment targets. – Risk that the Bank is not effective in meeting its objectives. 	<ul style="list-style-type: none"> – Both a clearly defined set of objectives and a robust governance model are in place. – New products are subject to market assessment and new product approval process. – Regular review of our key risks to objectives by the senior team and Board members. – Impact on SMEs and ongoing communication with stakeholders. – Assessing the risks and mitigants to meeting our objectives during the business planning process.
Credit and investment risk Risk appetite: Medium – High	The risk of direct or indirect financial losses on and off-balance sheet positions as a result of the failure of an end borrower or counterparty to meet its obligations in accordance with agreed terms.	<ul style="list-style-type: none"> – Risk of end borrower default, for example due to poor trading, or defects in the delivery process. – Whilst the majority of individual exposures to end borrowers are small, exposures to mid-cap companies are typically larger. – Delivery partner default or closure. – Venture Capital is subject to vintage risk, with the year the investment was made being a significant risk factor. – Concentration within one industry or location creates a portfolio that is subject to greater risk than a more evenly balanced one. 	<ul style="list-style-type: none"> – Delivery partner selection process includes robust due diligence, assessment of underwriting and sanctioning processes, and thereafter is subject to portfolio monitoring and regular review. – The credit quality of exposures is monitored closely. – The Bank aims to continue to invest throughout the economic cycle, therefore minimising the vintage risk. – The portfolio is monitored closely for concentration risk.
Market risk Risk appetite: Medium	The risk of direct or indirect financial losses that arise from fluctuations in values of, or income from, assets or in movements in interest or exchange rates or credit spreads.	<ul style="list-style-type: none"> – The Bank makes material losses due to foreign exchange movements through its investments. – The Bank's investments are subject to interest rate fluctuations. 	<ul style="list-style-type: none"> – The Bank has small foreign exchange exposure and does not hedge this exposure. This is in line with Government policy. – The Bank conducts scenario testing of exposures sensitive to interest rate market valuation or foreign exchange movements. – The Bank requires some delivery partners to manage market risk directly within the terms of the investment.

Risk	Definition	Example Categories	Example mitigants
Operational risk Risk appetite: Low – Medium	The risk of direct or indirect financial losses resulting from inadequate or failed internal processes, people and systems or from external events.	<ul style="list-style-type: none"> – Errors in execution, delivery, and processing. – Failure of internal controls or processes. – External or internal frauds. – Damage to physical assets, utilities disruption or systems failure. – Risk that Bank does not have, recruit or retain the right people, with the right culture and skills, to meet its objectives. – The risk that the business takes on too much change or inadequately manages current change programmes. 	<ul style="list-style-type: none"> – Risk and control assessments with functional teams are held to assess risks and associated internal controls. – Operational Incidents management process in place. – Close liaison with BEIS counter fraud network and regular interaction with key business partners. – Operating model review and regular employee engagement including Colleague Forum. – Change function and Change Board to manage the growth of the organisation.
Information risk Risk appetite: Low	This encompasses any compromise, malicious acts or otherwise, to the information the Bank handles during its creation, storage, processing, transfer or disposal (the information lifecycle).	<ul style="list-style-type: none"> – Risk of inaccurate or incomplete data processed within operations. – Breach of legal requirements relating to safe-keeping and disclosure of information. – Risk of business sensitive information being leaked or accidentally made available in the public domain. – Threats of cyber-attacks that steal sensitive data relating to the Bank or its delivery partners as well as disrupt the Bank's functionality. 	<ul style="list-style-type: none"> – Implementation of business information systems and data governance across the Bank, including GDPR. – Cyber Essentials accreditation. – 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. – Mandatory colleague training programme covering information security, cybercrime, data protection, and freedom of information. – Information technology systems disaster recovery testing.

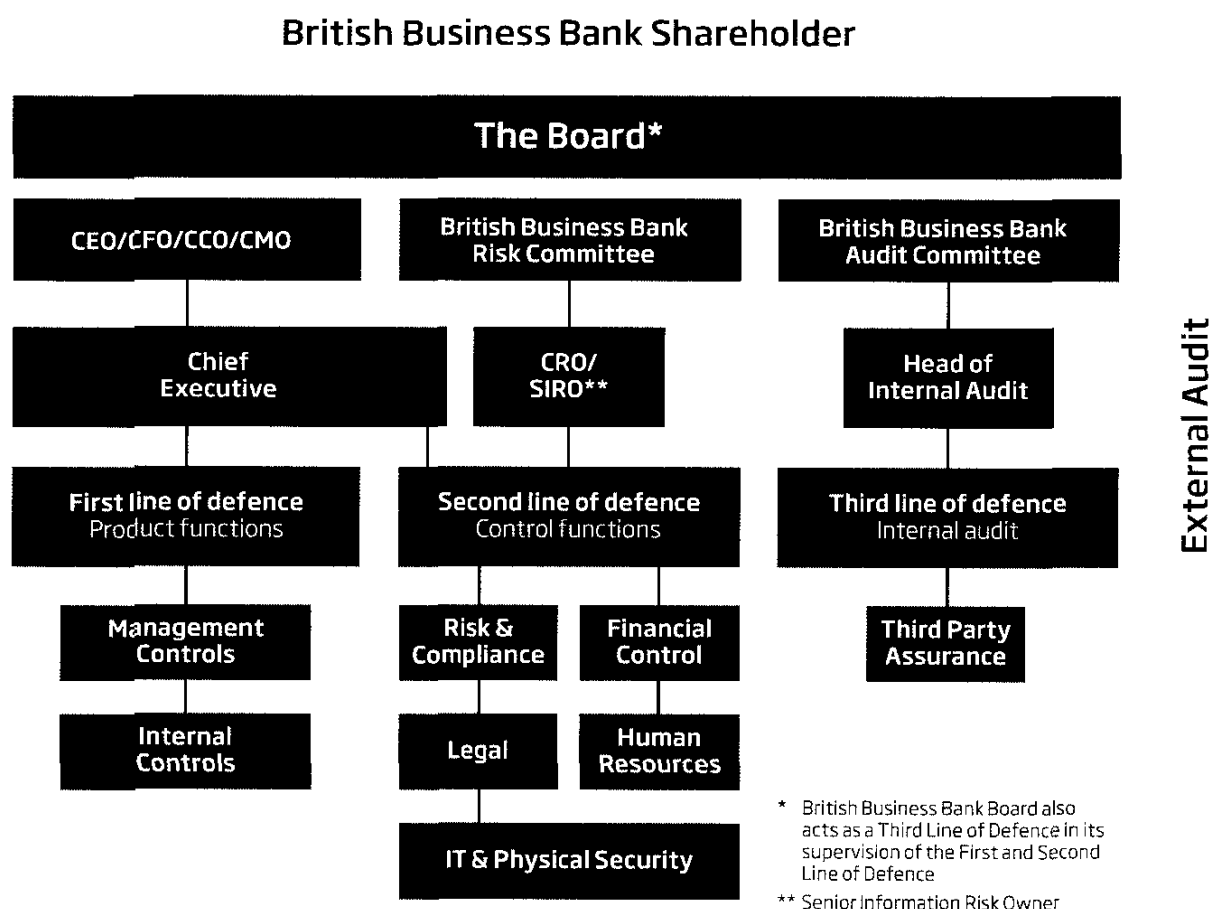
Risk	Definition	Example Categories	Example mitigants
Legal and compliance risk Risk appetite: Low	Risk of breaching all applicable UK and EU law, regulation, or standards relating to delivery partners and products which exposes the Bank to fines and penalties as well as other associated financial losses.	<ul style="list-style-type: none"> – Failure to adhere to current employment law. – Breaches of legal requirements in relation to public law or breach of Government guidelines appropriate to a non-departmental public body. – Risk that the Bank is not compliant with European Commission State aid rules. – The risk that the Bank operates in breach of applicable UK and EU laws and regulations, or the law of any other jurisdiction that is binding in the UK – Risk that delivery partners breach legal or regulatory requirements. 	<ul style="list-style-type: none"> – We keep up to date with relevant employment law through internal and external legal advice and reflect this in internal HR policies and procedures. – New products and programmes are assessed against the UK and EU regulatory environments. – The Bank has a suite of policies to direct governance e.g. Tax Policy, Procurement How to Buy Guide. – Regular dialogue with the Shareholder State aid teams. – Legal Team review of transaction structuring. – Bank employees are subject to a Code of Conduct, annual Compliance Declaration and mandatory e-Learning. – The Bank undertakes extensive due diligence on new delivery partners and monitors existing delivery partners and their performance against contractual requirements or Service Level Agreements.
Reputational risk Risk appetite: Low – Medium	The risk that the firm will act in a way which falls short of internal and external stakeholder expectations and cause reputational damage.	<ul style="list-style-type: none"> – The corporate actions of the Bank fall short of the expectations of our Shareholder and/or colleagues. – The Bank operates an outsourcing model which is subject to delivery partner conduct and performance. 	<ul style="list-style-type: none"> – A reputational risk policy is in place. – The Bank undertakes extensive due diligence on new delivery partners and monitors existing delivery partners and their performance against contractual requirements or service level agreement (SLA). – The Bank has a robust complaints policy in place.

The Bank did 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 further scenarios including those based upon Bank of England guidelines and scenario analysis based on financial impacts arising from Market Risk (Foreign Exchange and Interest Rate risks).

The outcomes were considered by both the Board and Board Risk Committee and the outputs were shared with the Shareholders.

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

Three lines of defence model



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 policies and methodologies, monitoring performance and compliance, identifying and reporting risks and providing independent and objective challenge to the first lines 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 illustrated by the above diagram, are that:

- 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, and the CRO
- the CEO is 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.

Our policies form an integral part of managing risk within the British Business Bank. We have an enterprise-wide set of policies, frameworks and procedures covering the major parts of our business in place.

They outline how we work, taking regulatory or legal requirements into account, as well as industry best practice. Our policies are approved by the appropriate committees and communicated to colleagues across the Bank. Colleagues are also subject to the British Business Bank Code of Conduct and annual compliance declarations.

The British Business Bank conducts its business legitimately and with integrity. We have developed and implemented internal systems and controls to detect, prevent and respond to fraud, bribery or corruption which applies to all colleagues within the British Business Bank and in all our relationships with third parties and customers. An anti-fraud, bribery and corruption policy is in place which was reviewed and updated during 2018 to specifically include reference to bribery and corruption and to ensure it remains current to relevant legislative requirements. The policy is communicated to all staff through intranet updates and computer-based training which is mandatory for all colleagues.

Approved by the Board of Directors



Keith Morgan
Chief Executive Officer

11 July 2019

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 2019. 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 2018/19, 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 colleagues 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 2019
- overseeing a comprehensive review of the Bank's remuneration strategy
- formulating a set of reward principles to guide remuneration policy decisions
- agreeing the design of a new annual bonus plan for colleagues at Director level and below for 2019/20
- reviewing enhancements to the Bank's performance management processes with a view to strengthening the link between performance and reward
- measuring corporate and individual performance targets for 2018/19 and the third cycle LTIP
- reviewing the Bank's gender pay gap report
- reviewing the approach to setting personal goals for the Executive Directors and other members of the senior team.

In accordance with the rules of the Bank's Long-Term Incentive Plan (LTIP), awards were assessed for the corporate performance element of the scheme over the three-year cycle 2016/17 to 2018/19. 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 2018. In the context of the Bank's policy remit, the Committee recognises that remuneration policy will need to be reviewed on a regular basis 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 2019/20, the Committee will be reviewing the business targets for the next period and setting stretching business and personal targets for the executive. We will monitor the impact of the changes to remuneration policies that have been introduced to ensure they drive the correct outcomes for the business, and reflect the changing environment in which the Bank operates.

Finally I would like to thank my predecessor, Christina McComb for her robust and supportive stewardship of the Committee over the last five years.



Amanda Rendle

Remuneration policy report

Table 1: Remuneration policy

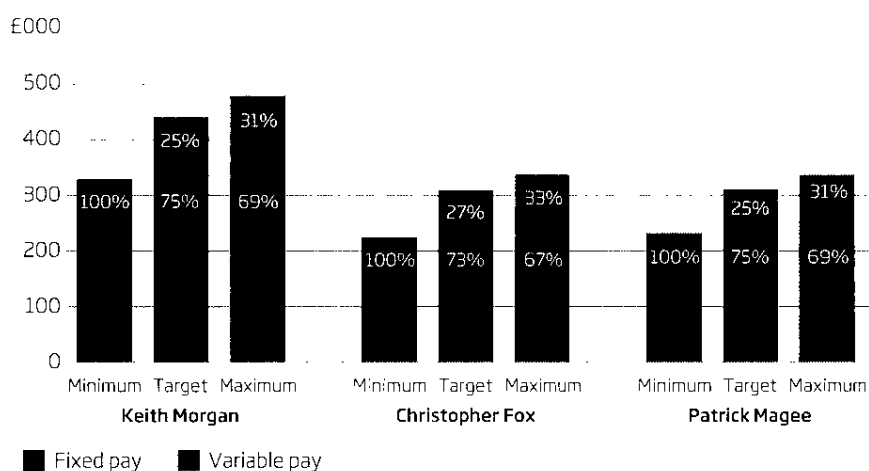
Element	Operation, opportunity and performance framework
Base salary Objective To attract and retain high-calibre senior leaders	<p>Base salaries are reviewed annually considering the nature of the role and responsibilities. Roles are benchmarked against relevant comparator organisations in the public and private sectors. The Remuneration Committee also considers 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"> – where there has been an increase in the scope or responsibility of an Executive Director's role – where a salary has fallen significantly below market positioning given the size and scale of the Bank.
Long Term Incentive Plan (LTIP) Objective To reward performance over the longer term	<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, at the discretion of the Committee, considering the requirements of the business and any relevant external factors. The weighting for the current LTIP cycles 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 the Annual Report on Remuneration and have no specific weightings. Personal targets are designed to consider 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 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 or the senior team.</p>

Table 1 continued: Remuneration policy

Element	Operation, opportunity and performance framework
Long term incentive plan (LTIP) (continued)	
Objective 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 that may be agreed by the Committee 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>
Pension and other benefits	
Objective 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 colleague 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%. Current benefits are provided via the 'mylifestyle' benefits portal offering child care vouchers, cycle to work, etc. The Bank also provides life insurance and allows colleagues to buy or sell up to five days' holiday. These are subject to review on an annual basis to ensure they remain appropriate in light of the Bank's public ownership and attractiveness in relation to the market.</p>
Loss of office payments	
Objective 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 Guidance.</p>
New Executive Director remuneration	
Objective 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.</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 personal and corporate performance conditions and 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 £80,000.

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
<p>Basic fee – Chair</p> <p>Remuneration is in the form of an annual cash fee, in line with practice in the UK</p>	<p>The Chair fee will be reviewed from time to time by the Remuneration Committee.</p>
<p>Basic fee – Non-executive Directors</p> <p>Remuneration is in the form of an annual cash fee, in line with practice in the UK</p>	<p>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.</p>
<p>Bank wide remuneration and incentive plans</p> <p>The Bank aims to apply its remuneration policy in a consistent way for all colleagues.</p> <p>Colleagues receive their basic salary, pension contributions, life assurance, and the option to buy/sell up to five days' holiday. In addition, some employees receive private medical insurance and illness income protection, although these benefits are no longer open for new hires. The Bank has two mutually exclusive incentive plans: the LTIP and The British Business Bank Performance Bonus Plan ('Annual Bonus'). Both plans are designed to reward performance and achievement of the Bank's objectives.</p>	<p>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 colleagues.</p> <p>Annual bonus</p> <p>The Annual Bonus provides an opportunity for eligible colleagues to be rewarded for their personal contribution during the bonus year, as well as to participate in the Bank's corporate success. All permanent colleagues who are not eligible for the LTIP and have worked for at least three months of the bonus year will be considered for a bonus under the Plan.</p> <p>Bonus payments are made up of a Personal and a Corporate element, and are calculated as follows:</p> <ul style="list-style-type: none"> – the personal element reflects personal contribution during the year and is determined by the performance rating agreed as part of the year-end performance review – the corporate element is based on an assessment by the Board of the Bank's achievement against its strategic objectives during the bonus year. This element represents a recognition of the commitment and effort that colleagues collectively have put into delivering the Bank's objectives – individual award levels are calculated by reference to salary and vary according to seniority

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

The third cycle LTIP matured on 31 March 2019, covering the period 2016/17 to 2018/19, and awards are payable in August 2019. Awards under the scheme are based on both corporate performance (making up 50% of the total potential award) and personal performance (making up 40% of the total potential award).

Considering the performance against KPIs (as shown in table 4 overleaf) 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 Amanda Rendle, Christina McComb and Ceri Smith (representing the Shareholder). Amanda Rendle took over from Christina McComb as Chair of the Committee on 1 January 2019. 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 and the executive has also added value to the Bank's Remuneration policy and practice. Only members of the committee and the chair of the board have the right to attend committee meetings.

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

External advisers

The Remuneration Committee used advisers during the year for the provision of remuneration advice. During the year Mercer provided advice to the Committee on remuneration structures in British Patient Capital for a fee of £22,500. Aon McLagan provided benchmarking data for fees of £46,300. Neither of these advisors have any connection with the Bank.



Table 4: KPI targets and actual outcomes (Third cycle LTIP corporate performance)

Objective	KPI	Actual	Targets		
			Lower Threshold	Stretch	Challenge
Increase supply	Up to £10bn stock of finance facilitated through our programmes over 5 years	£13.9bn	£7.6bn	£9.5bn	£11.4bn
	– of which SME	£6.6bn	£5.4bn	£6.8bn	£7.5bn
More diverse finance market	Over 50% of our finance facilitated through providers other than the four largest banks over 5 years	92%	81%	86%	91%
Better provision of information	Balanced scorecard measure, showing an average of green across each year in the plan (score in brackets)	Green (5)	Amber/ Green (2)	Green (4)	Green (6)
Manage taxpayers' resources efficiently	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	3.6%	2.3%	2.9%	3.2%

1. The 'Better provision of information' objective is assessed annually against measures on a balanced scorecard, and a RAG status of Red, Amber or Green is assigned to each measure and the overall outcome. The scores in brackets after the 'Lower Threshold', 'Stretch' and 'Challenge' targets represent the scores out of a maximum possible score of 8. The outcome shown in the 'Actual' column is the average RAG status and score for the three years of the third cycle LTIP.

2. In reaching its decision on the overall Corporate Performance outcome for the third cycle LTIP, the Remuneration Committee also considered aspects of the Bank's performance during the cycle that are not reflected in the outcomes against the KPI targets.

The 2016/17 and 2017/18 years' performance are used to determine the personal element of the third cycle LTIP. The personal performance of the Executive Directors, as confirmed by the Remuneration Committee, is set out below for each of these years.

Keith Morgan

For 2016/17 the Committee assessed Keith's personal performance as on-target and awarded 75% of the maximum for 2016/17. For 2017/18 the Committee assessed personal performance as ahead of target and awarded 90%.

Christopher Fox

In 2016/17 the Committee concluded that Christopher's personal performance was on-target and awarded 75%. For 2017/18 the Committee assessed personal performance as ahead of target and awarded 80%.

Patrick Magee

For both 2016/17 and 2017/18 the Committee assessed Patrick's personal performance as on-target and awarded 75%.

Table 5: LTIP awards made to Executive Directors

	Keith Morgan			Christopher Fox			Patrick Magee		
Max amount: £000	149.5			105.0			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	75%	22.4	21.0	75%	15.8	21.0	75%	15.8
Personal performance Y2	29.9	90%	26.9	21.0	80%	16.8	21.0	75%	15.8
Corporate performance	89.7	75%	67.3	63.0	75%	47.3	63.0	75%	47.3
Total Award	149.5		116.6	105.0		79.9	105.0		78.9

Table 6: Executive Director remuneration (audited)

Year ended 31 March 2019						
	Salary £000	Taxable Benefits £000	Annual Incentive £000	Long term incentive £000	Pension Payments (including cash supplements) £000	Total £000
Keith Morgan	299.0	0.0	0.0	116.6	29.9	445.5
Christopher Fox	224.4	0.7	0.0	79.8	0.0	304.9
Patrick Magee	210.0	0.7	0.0	78.8	21.0	310.4
Total	733.4	1.4	0.0	275.2	50.9	1,060.8

Year ended 31 March 2018						
	Salary £000	Taxable Benefits £000	Annual Incentive £000	Long term incentive £000	Pension Payments (including cash supplements) £000	Total £000
Keith Morgan	299.0	0.0	0.0	118.1	29.9	447.0
Christopher Fox	224.4	0.4	0.0	85.1	0.0	309.9
Patrick Magee	210.0	0.4	0.0	82.0	21.0	313.4
Total	733.4	0.8	0.0	285.2	50.9	1,070.3

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 2018/19. The long-term incentive payments relate to the three-year period ending 31 March 2019 and are payable in August 2019.

Table 9 sets out the corporate three-year performance targets for the Executive Directors, which have no specific weightings, for the fifth 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 2019							
	Salary £000	Taxable Benefits £000	Annual Incentive £000	Corporate element of third cycle LTIP £000	Personal element of fourth cycle LTIP £000	Pension Payments (including cash supplements) £000	Total £000
Shanika Amarasekara	210.6	0.7	0.0	45.5	31.9	31.6	320.3
Mark Gray	189.3	0.6	0.0	44.0	22.1	27.8	283.8
Andrew Grant	89.5	0.3	0.0	0.0	0.0	13.4	103.2
Catherine Lewis La Torre	237.0	0.7	0.0	40.6	37.4	23.7	339.4
Total	726.4	2.3	0.0	130.1	91.4	96.5	1,046.7

Year ended 31 March 2018							
	Salary £000	Taxable Benefits £000	Annual Incentive £000	Corporate element of second cycle LTIP £000	Personal element of third cycle LTIP £000	Pension Payments (including cash supplements) £000	Total £000
Shanika Amarasekara	205.9	0.4	0.0	48.0	32.3	30.9	317.5
Mark Gray	205.9	0.4	0.0	48.0	23.2	30.9	308.4
Andrew Grant	122.5	0.3	0.0	0.0	0.0	18.4	141.2
Catherine Lewis La Torre	214.0	0.4	0.0	0.0	28.0	21.4	263.8
Total	748.3	1.5	0.0	96.0	83.5	101.6	1,030.9

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 2018/19 and, for those eligible for an LTIP award, has made provisional awards in the range of 75%-85% for the senior team. (2017/18: 40% - 90%) subject to continued employment, these awards are payable in August 2020.
3. Andrew Grant ceased to be an employee of the Bank with effect from 31 August 2018 at which point all unvested LTIP awards lapsed.
4. Mark Gray ceased to be an employee of the Bank with effect from 24 February 2019, and was granted 'good leaver' status in respect of his unvested LTIP awards, subject to a pro-rata reduction in award value.

This section of the annual report on remuneration sets out the LTIP grants made during the year and which will vest in March 2021 subject to meeting the performance conditions.

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 2018/19 worth up to a maximum of 50% of salary. Any pay-out is subject to a number of conditions, including performance conditions.

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

Year ended 31 March 2019							End of corporate performance period
	Type of interest	Total face value of award (% of salary)	Total face value of personal award	Total face value of corporate award	Total face value of award	Percentage of corporate award for reaching threshold targets	
Keith Morgan	Cash LTIP	50%	59.8	89.7	149.5	50%	31 March 2021
Christopher Fox	Cash LTIP	50%	44.9	67.3	112.2	50%	31 March 2021
Patrick Magee	Cash LTIP	50%	42.0	63.0	105.0	50%	31 March 2021
Shanika Amarasekara	Cash LTIP	50%	42.1	63.2	105.3	50%	31 March 2021
Mark Gray	Cash LTIP	50%	41.2	61.8	103.0	50%	31 March 2021
Catherine Lewis	Cash LTIP	50%	43.8	65.7	109.5	50%	31 March 2021
La Torre							

Notes

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

Table 9: Group targets for the fifth cycle (March 2021)

Objective	Key Performance Indicator	Lower threshold	Stretch	Challenge
Increase supply	Value (£bn) of stock of finance supported through the Bank's programmes by end March 2021.	£6.5bn	£8.7bn	£9.6bn
More diverse finance market	% of finance supported through smaller providers (non-'Big 5' banks) by end March 2021.	87%	92%	96%
Better provision of information	Balanced scorecard measure, showing an average of Green across each year in the plan. Each year to be measured against the following five elements: a) Effectiveness of building awareness of the Bank b) Measures relating to the use of the Business Finance Guide c) Measures Relating to the use of the Finance Hub d) Measures relating to the regional manager network e) Impact on SME population's awareness and behaviour	Amber/ Green (2)	Green (3)	Green (4)
Manage taxpayers' resources efficiently	Adjusted return on capital employed (excluding temporary fair value discounts) by end March 2021.	2.0%	2.4%	3.0%
Centre of Expertise	To be measured through a combination of quantitative and qualitative measures: a) A survey of the Bank's reputation as a Centre of Excellence on small business with relevant stakeholders. b) A report describing the Bank's relevant deliverables in this area.	Performance against these KPIs will be assessed by the Remuneration Committee at the end of each financial year and aggregated over the three years to give an overall score		
Regional	Performance over 2018/19 will be measured against a qualitative report provided by the Executive. For 2019/20, this will be supplemented by regional commitment flow data and delivery of a set number of initiatives. In 2020/21, this may be further supplemented by survey results.			

1. The 'Better provision of information' objective is assessed annually against measures on a balanced scorecard, and a RAG status of Red, Amber or Green is assigned to each measure and the overall outcome. The scores in brackets after the 'Lower Threshold', 'Stretch' and 'Challenge' targets represent the scores out of a maximum possible score of 5.

Table 10: Non-executive Director remuneration (audited)

	Total Fees 2018/19 £000	Total Fees 2017/18 £000
Lord Smith (Chair)	120	89
Christina McComb (senior independent director)	44	65
Jonathan Britton	30	30
Teresa Graham	0	8
Caroline Green	20	23
Colin Glass	0	6
Neeta Atkar	30	30
Piers Linney	25	8
Amanda Rendle	26	8
Ceri Smith	nil	nil

Notes

1. Lord Smith was appointed Chairman of the Board on 5 July 2017.
2. Christina McComb was appointed as interim chair from 1 October 2016 until 4 July 2017 and her fee increased to £120k per annum, pro-rated as appropriate.
3. Teresa Graham acted as interim Chair of 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. In June 2017 the three-year terms of Colin Glass, Teresa Graham and Caroline Green ended.
5. Caroline Green was re-appointed to the Board on 20 July 2017.
6. Piers Linney and Amanda Rendle were appointed to the Board on 7 December 2017.
7. Ceri Smith is the shareholder representative and therefore does not receive a fee.
8. Amanda Rendle replaced Christine McComb as Chair of the Remuneration Committee with effect from 1 January 2019.

The base fee for Non-executive Directors is £25,000 and the base fee for the Senior Independent Director is £40,000. 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 2017/18 to illustrate the relative importance of spend on pay.

	Total revenue (£000)	Total remuneration (£000)	%
2018/19	106,424	27,765	26%
2017/18	96,931	23,550	24%

1. As a result of the transition to IFRS 9 in the year ending 31 March 2019 and to ensure a comparable basis, the 2017/18 revenue number has been amended to Net Operating Income (previously Gross Operating Income).

Changes in CEO/colleague pay and median comparison

The median salary of colleagues for 2018/19 was £50,000 (2017/18: £58,000). This compares to the CEO's annual base salary of £299,000. No colleague earns more than the highest paid Director.

The CEO did not receive a salary increase during the 2017/18 or 2018/19 performance year. A 2.3% general pay increase was awarded to colleagues below Executive Director in the 2018/19 performance year (awarded 1 April 2018). Colleagues of SULCo, who are subject to Civil Service Pay Guidance, received a general pay increase of 1.5%, backdated to 1 April 2018. The 2019/20 pay increase pot for all colleagues (excluding SULCo) below Executive Director level has been agreed as 3.8%.

Pension entitlements

All colleagues are entitled to participate in a defined contribution pension scheme. The Bank does not offer a defined benefit pension 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 49.



Implementation of the remuneration policy for 2019/20

The Bank's long-term priorities are explained above in the 'Future Developments' section of the Strategic Report. Our remuneration policy must drive the actions and behaviours by colleagues that are necessary for the successful delivery of these strategic goals. At the same time, it needs to be flexible enough to respond to future developments in the Bank's programme of activity.

For 2019/20, the Remuneration Committee has agreed several changes to remuneration policy for colleagues below Board level, including the introduction of a new annual bonus plan, enhancements to performance management processes, and the withdrawal of bonus deferral for colleagues who are not part of the senior team. In addition, all senior colleagues are set objectives for

effective risk management, rigorous cost management, driving operational efficiency and people leadership. We will continue to monitor our approach to remuneration against our strategic priorities, to ensure it remains fit-for-purpose. Where we identify opportunities to improve, the British Business Bank will seek approval from the Shareholder for any changes to the policy.

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

Amanda Rendle
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.

In accordance with UK company law, the directors have elected to prepare both the Group financial statements and the parent company financial statements under International Financial Reporting Standards (IFRS) 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 group and of the profit or loss of the company and group for that period. In preparing these financial statements, the Companies Act 2006 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 IFRS 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 IFRS 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

11 July 2019



Christopher Fox
Chief Financial Officer

11 July 2019

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

Opinion on financial statements

I have audited the financial statements of British Business Bank plc Group for the year ended 31 March 2019 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 related notes, including the significant accounting policies.

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.

In my opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 March 2019 and of the group's profit 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.

Conclusions relating to principal risks, going concern and viability statement

I have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require me to report to you whether I have anything material to add or draw attention to:

- the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; or

- the directors' explanation in the annual report as to how they have assessed the prospects of the group, 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the British Business Bank plc Group in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

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. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

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 included information relating to the work I have performed around management override of controls, other than to the extent where this was part of my work on the application of IFRS 9 and fair value measurement of financial assets as set out below; fraud in revenue recognition, with specific regard to investment income; or the transfer of financial information following the implementation of a new finance system, 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 56–57.

In this year's report the following changes to the key audit matters identified have been made compared to my prior year report:

- I have not identified a key audit matter around the Start-Up Loans Company (SulCo) joining the British Business Bank plc Group, as SulCo joined the British Business Bank plc Group in the previous year.
- The significant risk surrounding the implementation of a new finance system related to the accurate transfer of financial information to the new system and I do not consider this to be a key audit matter.
- IFRS 9, adopted by the British Business Bank plc Group from 1 April 2018, introduces significant new requirements surrounding the classification of financial instruments; and requires complex considerations and a high level of management judgement on the measurement of the expected credit loss allowances for financial instruments held at amortised cost. This has been included as a key audit matter below.

Application of IFRS 9

Description of key audit matter

British Business Bank plc Group was required to adopt IFRS 9 from 1 April 2018. Key changes introduced by the standard include a new approach for classification and measurement of financial assets and a new approach to measuring impairment for those assets not measured at fair value through profit or loss. Impairment, or Expected Credit Loss (ECL), under IFRS 9 reflects a probability weighted amount determined by evaluating a range of possible outcomes and includes consideration of forecasts of future economic conditions.

The measurement of ECLs is a highly subjective area due to the level of judgement involvement in determining assumptions used in the accounting estimate and as such is a key area of focus and significant risk of material misstatement for the audit.

Following adoption of IFRS 9 on 1 April 2018, British Business Bank plc Group investments that meet the Business Model and contractual cash flow criteria of the standard are measured at amortised cost. Therefore, a loss allowance based on 12 month expected credit losses is recognised with movements recognised in profit or loss.

British Business Bank plc Group's ECL models have been developed and built by an independent specialist analytics and risk management firm. British Business Bank plc Group use the model to calculate the impairment provisions each quarter using underlying loan and investment data and assumptions.

British Business Bank plc Group determine there to be a significant increase in credit risk since initial recognition when accounts are more than 30 days past due. As a result, a lifetime ECL is recognised against such assets in accordance with IFRS 9.

The impairment allowance on adoption of IFRS 9 on 1 April 2018 was £68m compared to £42m under IAS 39. The increase was as a result of applying the IFRS 9 requirements to recognise expected credit losses rather than incurred losses under IAS 39.

The impairment allowance at 31 March 2019 is £81m. The increase is primarily due to the increase in the overall balance for investments held at amortised cost, which is reflective of the ongoing growth of the business.

How the scope of my audit responded to the risk

I have understood and evaluated the design and implementation of key controls mitigating this risk, including the governance framework in place to oversee the development, approval and continuous monitoring of the assumptions, models and processes surrounding the implementation of IFRS 9.

I reviewed British Business Bank plc Group's detailed IFRS 9 accounting policies to confirm that these are consistent with the requirements of the accounting standards.

I also performed the following procedures:

- I obtained assurance over the completeness and accuracy of the input data used in the ECL models by testing a sample of loan balances and verifying investment data against underlying contractual documentation and other information.
- I reviewed the reasonableness of key assumptions, including agreement of economic assumptions to relevant publicly available information and to the scenarios provided by British Business Bank plc Group's independent risk specialists. I assessed the specialists as management's experts under ISA 500 using economics specialist members of my team.
- I assessed the design of the ECL models and assessed management's rationale for the assumptions and methods used to confirm that these would produce estimates which are appropriate to the underlying financial instruments and compliant with the requirements of IFRS 9.
- I reviewed the sensitivity analysis undertaken by management to identify the most sensitive assumptions used in the model to focus our testing, and to evaluate how management had addressed estimation uncertainty in making the accounting estimate. I evaluated the reasonableness of those assumptions and performed additional sensitivity analysis.
- I obtained assurance over the ECL models through assessment of the independent specialists that developed and operate the model as management's experts under ISA 500 using modelling specialist members of my team.

As IFRS 9 was adopted on 1 April 2018, I performed audit procedures to obtain assurance on the transition adjustments from IAS 39. This included assessing the classification and measurement of financial assets, considering key definitions and interpretations adopted by British Business Bank plc Group and testing the adjustments and disclosures made on transition.

Key observations

Based on the evidence I obtained I found that the classification of assets was in line with the requirements of IFRS 9. I found that the methodology, input data and assumptions used to calculate the ECLs were supported by appropriate evidence and in line with the requirements of IFRS 9.

Fair value measurement of financial assets

Description of key audit matter

The most significant balance in the financial statements of the British Business Bank plc Group is investments. The majority of these investments are measured at fair value based on valuation techniques including inputs not based on observable market data. The investments are held in the significant components British Business Finance Limited (BBFL), British Business Investments Limited (BBI), British Patient Capital Limited (BPC) and the Start-up Loans Company (SulCo).

The valuation of Enterprise Capital Fund (ECF) investments held in BBFL are determined by management using models, based on inputs and assumptions, and are therefore subject to a degree of management judgement and estimate.

The investments held in BBI and BPC are in funds valued by fund managers who are independent of management so the level of management judgement or estimate is limited. The greatest level of estimation uncertainty for these funds is within the equity investment funds in the Venture/Growth and UKIF programmes which are valued at £327m, which is approximately 19% of the investments held by the group.

The investments held in SulCo are loans to entrepreneurs provided on non-commercial terms and losses of 30% to 40% are expected across the scheme. As required by IFRS 9, SulCo recognises its loans at fair value on inception and subsequently measures these at amortised cost. The level of write down required to account for these non-commercial terms is highly material and is subject to a significant estimate based on management's judgement, which is derived from a number of non-observable inputs. In the current year, SulCo has improved their estimate by including more granular, loan level data in the underlying model that calculates the fair value at inception for these loans. This has resulted in an overall increase of £28.2m in the fair value adjustment on initial recognition as at 31 March 2018 for these loans, as compared to the previous model.

How the scope of my audit responded to the risk

In auditing the financial asset valuations I have performed the following procedures:

- I have tested the operating effectiveness of the controls applied by British Business Bank plc Group over the valuation processes for financial assets. This included attendance at key internal meetings where I observed management's review and challenge of valuations provided by fund managers. Where valuations are produced through models, I have tested the design and implementation of controls over the fair value model used.
- 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. This has included comparison of the most recent audited accounts of the fund against the fund manager valuation report for the same period and consideration of additional evidence where the accounting period of the fund and British Business Bank plc Group are not coterminous. 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 management uses models to estimate the value of its loans and 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. For the ECF valuation model I sought confirmation that management had reassessed the assumptions made in the prior year which underpin the valuation model to confirm that they remain appropriate at year end and challenged management on how it has addressed estimation uncertainty. For the SulCo model I used auditors' experts to support my assessment of the key assumptions used, and obtained assurance over the completeness and accuracy of the input data used in the model by testing a sample of loan balances.
- I have assessed the accuracy and completeness of the review for potential impairments that management has performed in relation to its loans and investments.
- I have undertaken a review of a sample of loans and 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.

Key observations

Based on the evidence I obtained I found that the valuations provided by fund managers were reliable IFRS 13 compliant values.

Where the fair values are outputs from models I found that these outputs were in line with the requirements of IFRS 13.

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 £24.1m, which is approximately 1% of total assets. British Business Bank plc Group 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 determined that this was more appropriate than using revenue or net profit as a benchmark as these are not the main drivers of the decision making within the business. I have reduced my materiality threshold from 2% of assets in the prior year to reflect the emerging practice in the sector.

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 £300,000, 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 have increased net assets by £2.8m.

Responsibilities of the Directors for the financial statements

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

- the preparation of the group financial statements and for being satisfied that they give a true and fair view;
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- assessing the group's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the British Business Bank plc Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Audit scope

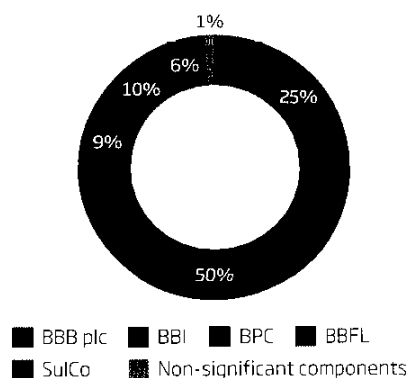
The scope of my audit of the British Business Bank plc Group was determined by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

The group comprises British Business Bank plc, BBB Patient Capital Holdings Limited, British Business Financial Services Limited, British Business Finance Limited and the subsidiaries of these companies: British Business Investments Limited, British Patient Capital Limited, The Start-Up Loans Company, British Business Aspire Holdco Limited, Capital for Enterprise Limited, Capital for Enterprise Fund Managers Limited and Capital for Enterprise (GP) Limited. The group financial statements are a consolidation of these companies.

I identified the following as significant components of the group: British Business Bank plc, British Business Investments Limited, British Patient Capital Limited, British Business Finance Limited and Start-Up Loans Company (a subsidiary of British Business Finance Limited). British Business Investments Limited and British Patient Capital Limited require statutory audits and the work in this respect is carried out separately. The work on the other significant components is performed by the group audit engagement team.

This work, together with additional procedures performed on balances arising as a result of the group's consolidation process, gave me the evidence I needed for my opinion on the group financial statements as a whole. The significant components of the group account for over 99% of the group's assets. Together with the procedures performed at group level this gave me the evidence I needed for my opinion on the group financial statements as a whole.

Gross assets of individual components of the British Business Bank plc group (as at 31 March 2019)



Other Information

Directors are responsible for the other information. The other information comprises information included in the annual report, but does not include the parts of the Directors' Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

I am specifically required to address the following items and to report uncorrected material misstatements in the other information, where I conclude that those items meet the following conditions:

- Fair, balanced and understandable: the statement given by the directors that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the necessary information to enable users to assess the entity's performance, business model and strategy, is materially inconsistent with my knowledge obtained in the audit; or
- Audit Committee reporting: the section describing the work of the Audit Committee does not appropriately address matters communicated by me to the Audit Committee.

I also have nothing to report in this regard.

Opinion on other matters prescribed by 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 Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group 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.

The corporate governance statement

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

- the information given in the corporate governance statement, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by Financial Conduct Authority (the FCA Rules), in respect of internal control and risk management systems in relation to financial reporting processes, and about share capital structures, is consistent with the accounts and has been prepared in accordance with applicable legal requirements.

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

Adequacy of accounting records information and explanations received

I report to you if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns;
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the group.

I have nothing to report arising from this duty.

Other matter

I have reported separately, on pages 149 to 151, on the Parent Company Financial Statements of British Business Bank plc Group for the year ended 31 March 2019 and on the information in the Directors' Remuneration Report that is described as having been audited.

Hilary Lower

Senior Statutory Auditor

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

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

11 July 2019

Consolidated financial statements

Consolidated statement of comprehensive net income

for the year to 31 March 2019

	Note	2019 £000	2018 £000
INCOME			
Interest income	5.1	43,437	109,584
Grant income	5.2	17,461	17,201
Management fee income	5.3	20,575	18,208
Other income	5.4	1,837	1,286
Gross operating income		83,310	146,279
Expected credit loss on amortised cost assets	14.1	(12,846)	-
Net gains/(losses) on investment assets	6	28,669	(66,272)
Net gain on write down of repayable capital grant	7	7,291	16,924
Net operating income		106,424	96,931
EXPENDITURE			
Staff costs	8.1	(27,765)	(23,550)
Other operating expenditure	8.2	(34,775)	(23,858)
Depreciation and amortisation	8.3	(1,443)	(1,214)
Operating expenditure		(63,983)	(48,622)
Net operating profit before ECF loan commitment financial liability and interest payable		42,441	48,309
ECF loan commitment financial liability			
Provided in the year on new commitments	18, 19	-	(71,321)
Released in the year	18, 19	44,364	34,323
Interest payable		(5,552)	-
Profit before tax		81,253	11,311
Tax	9.1	(9,933)	(17,546)
Profit/(loss) for the year after tax		71,320	(6,235)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss:</i>			
Net gain on investments recognised in reserves	14.1, 14.2	-	6,718
Other comprehensive income reclassified to net losses on investment assets		-	1,120
<i>Items that will not be reclassified to profit or loss:</i>			
Deferred tax relating to ECF investments	9.1	-	5,034
Total comprehensive income for the year		71,320	6,637

All operations are continuing.

The notes on pages 96 to 148 form an integral part of the financial statements. Where applicable balances for the year to 31 March 2019 are under IFRS 9, and those for the year to 31 March 2018 are under IAS 39. Further details on the impact of this change are provided in the transition table in note 3.

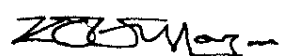
The results by operating segment are shown in note 10 to the financial statements.

Consolidated statement of financial position

as at 31 March 2019

	Note	2019 £000	2018 £000
ASSETS			
Cash and cash equivalents	11	152,117	63,641
Amounts owed by shareholder	12	525,000	-
Trade and other receivables	13	9,746	5,782
Amortised cost investments	14.1	431,126	-
Investments held at fair value through profit or loss under IFRS 9	14.2	1,248,184	-
Assets held for sale	14.2	40,610	-
Loans and receivables	14.1	-	346,068
Held to maturity investments	14.1	-	31,090
Available-for-sale financial assets	14.1, 14.2	-	985,793
Assets designated at fair value through profit or loss under IAS 39	14.2	-	208,229
Derivative financial instruments	14.2	-	31,653
Property, plant and equipment	15	3,708	1,670
Intangible assets		1,358	1,882
Deferred tax asset	9.3	8,894	3,953
Total assets		2,420,743	1,679,761
LIABILITIES			
Trade and other payables	17	(18,149)	(14,225)
Corporation tax payable	9.2	(3,936)	(11,353)
Provisions	18	(300)	(183,861)
ECF loan commitment financial liability	19	(139,377)	-
Loans and other borrowings	20	(711,285)	(116,160)
Total liabilities		(873,047)	(325,599)
Net assets		1,547,696	1,354,162
EQUITY			
Issued share capital	23	1,496,408	1,371,408
Financial instruments reserve		-	41,633
Retained earnings		51,288	(58,879)
Total equity		1,547,696	1,354,162

The financial statements of the Group (parent company number 08616013) were approved by the Board of Directors and authorised for issue on 11 July 2019. They were signed on its behalf by:



Keith Morgan
Chief Executive Officer

The notes on pages 96 to 148 form an integral part of the financial statements.

Consolidated statement of changes in equity

as at 31 March 2019

	Note	Issued capital £000	Financial instrument reserve £000	Retained earnings £000	Total £000
Balance as at 1 April 2018		1,371,408	41,633	(58,879)	1,354,162
Adjustment due to IFRS 9 transition	3	-	(41,633)	38,847	(2,786)
Balance under IFRS 9 as at 1 April 2018		1,371,408	-	(20,032)	1,351,376
Net income after tax		-	-	71,320	71,320
Other comprehensive income, net of tax		-	-	-	-
Total comprehensive income		-	-	71,320	71,320
Issue of ordinary shares	23	125,000	-	-	125,000
Balance at 31 March 2019		1,496,408	-	51,288	1,547,696
Balance as at 1 April 2017		1,071,408	28,761	(52,713)	1,047,456
From business combination with The Start Up Loans Company		-	-	69	69
Net income after tax		-	-	(6,235)	(6,235)
Other comprehensive income, net of tax		-	12,872	-	12,872
Total comprehensive income		-	12,872	(6,235)	6,637
Issue of ordinary shares	23	300,000	-	-	300,000
Balance at 31 March 2018		1,371,408	41,633	(58,879)	1,354,162

Consolidated cash flow statement

as at 31 March 2019

	Note	2019 £000	2018 £000
Profit before tax		81,253	11,311
Cash flows from operating activities			
<i>Adjustments for non-cash items:</i>			
Net gain on write down of repayable capital grant	7	(7,291)	(16,924)
Depreciation and amortisation	8.3	1,443	1,214
Interest payable		5,552	-
ECF loan commitment financial liability/provision	18, 19	(44,364)	36,998
Other comprehensive income reclassified to income statement		-	1,120
Other provision expense	18	180	-
<i>Changes in operating assets and liabilities:</i>			
Net increase in loans and receivables	14.1	-	(100,321)
Net increase in available-for-sale assets	14.1, 14.2	-	(56,853)
Net increase in assets designated at fair value through profit or loss under IAS 39	14.2	-	(178,707)
Net increase in derivative financial instruments	14.2	-	(7,334)
Net increase in amortised cost investments	14.1	(2,573)	-
Net increase in assets at fair value through profit or loss under IFRS 9	14.2	(123,755)	-
Increase in trade and other receivables	13	(3,964)	(229)
Increase in trade and other payables	17	4,431	2,083
Payment of corporation tax	9.2	(22,291)	(12,108)
Payment of interest payable		(1,288)	-
Net cash used in operating activities		(112,667)	(319,750)
Cash flows from investing activities			
Purchases of property, plant and equipment	15	(2,814)	(1,393)
Proceeds from disposal of property, plant and equipment	15	-	2
Purchase of intangible assets		(143)	(926)
Net cash used in investing activities		(2,957)	(2,317)
Cash flows from financing activities			
Issue of new shares	23	125,000	300,000
Capital grants received	20	4,100	25,000
Amounts owed by shareholder	12	(525,000)	-
Proceeds from loans from Nuclear Liabilities Fund	20	600,000	-
Net cash from financing activities		204,100	325,000
Net increase in cash and cash equivalents		88,476	2,933
Cash and cash equivalents at beginning of the year		63,641	58,432
Cash on business combination		-	2,276
Cash and cash equivalents at end of the year		152,117	63,641

Interest received was £68.2m (2018: £76.8m).

The notes on pages 96 to 148 form an integral part of the financial statements.

Notes to the consolidated financial statements

For the year ended 31 March 2019

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 Steel City House, West Street, Sheffield, S1 2GQ. 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 48.

2. Significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), interpretations issued by the IFRS Interpretations Committee 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 certain financial assets and liabilities that are measured at amortised cost and financial instruments that are measured at fair value or revalued amounts at the end of each reporting period. 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 zone 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 2019. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns 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.

Determining whether a Company has control of an entity is generally straightforward based on ownership of the majority of the voting capital. However, in certain instances, this determination will involve judgement, particularly in the case of structured entities where voting rights are often not the determining factor in decisions over relevant activities. This judgment may involve assessing the purpose and design of the entity.

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 Statement of Comprehensive Net Income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

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.

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.

IAS 28 Investments in Associates applies to all investments in which the Group has significant influence but not control. A holding of 20% or more of the voting power of an investment would normally indicate significant influence and require these investments to be accounted for as associates using the equity method of accounting. Where the Group holds greater than 20% of the ordinary share capital of an entity but there is no significant influence, these entities are not accounted for as associates. Instead these entities are classified and accounted for as a financial asset in accordance with IFRS 9 Financial Instruments. Details of the Group's significant holdings are shown in notes 24 and 25.

The Start Up Loans Company became part of the Group on 1 April 2017 when British Business Finance Limited, a subsidiary of the Company, became the sole member. The Directors have concluded that British Business Finance Limited has control of The Start Up Loans Company as it is the sole member; it has the ability to appoint Board members and it provides funding to the company which exposes it to variable returns. The Directors have assessed that under *IFRS 10 Consolidated Financial Statements*, The Start Up Loans Company is required to be consolidated in the Group financial statements. The Directors have also assessed that under *IFRS 3 Business Combinations* the consolidation of The Start Up Loans Company represents a business combination of entities under common control as the Secretary of State for Business, Energy and Industrial Strategy (BEIS) exercised control over the company prior to the business combination.

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. The Group has received a letter of support from the Secretary of State for BEIS stating it will provide sufficient funding to enable the Group to meet its liabilities as and when they fall due for a period of not less than twelve months from the date of approval of these financial statements. Thus, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Adoption of new and revised Standards

The Group has adopted IFRS 9 as issued by the International Accounting Standards Board in July 2014. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions, the Group has elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition have been recognised in the opening retained earnings and other reserves in the current period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have only been applied to the current period. The comparative period notes disclosures repeat those made in the prior year.

The adoption of IFRS 9 has resulted in changes to the accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as *IFRS 7 Financial Instruments: Disclosures*. Where there is a difference in the Group's principal accounting policies between the current and the previous years as a consequence of the adoption IFRS 9, the accounting policies relevant to both years have been disclosed in this note.

IFRS 15 Revenue from contracts with customers deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with recipients.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain benefits from the good or service. The standard is effective for annual periods beginning on or after 1 January 2018 and has been adopted by the Group at the start of the current period. The Standard is only relevant to the Group with respect to 'Management fee income' and 'Other income'. Given the nature of this type of income there has been no impact on the Group at the point of transition, nor on Management fee income or Other income recognised during the period.

There were no other 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 3 (amendments) Business Combinations;*
- *IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;*
- *IFRS 16 Leases;*
- *IFRS 17 Insurance Contracts;*
- *Annual Improvements to IFRSs 2015-2017 Cycle;*
- *IAS 1 (amendments) Presentation of Financial Statements;*
- *IAS 8 (amendments) Accounting Policies, Changes in Accounting*

Estimates and Errors;

- *IAS 19 (amendments) Employee Benefits;*
- *IAS 28 (amendments) Investments in Associates and Joint Ventures;*
- *IFRIC 23 Uncertainty over Income Tax Treatments.*

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.

IFRS 16 Leases is effective for financial periods beginning on or after 1 January 2019 and the Group will adopt the standard for the first time in the year ending 31 March 2020. *IFRS 16* requires lessees to recognise operating leases on their Consolidated Statement of Financial Position which would reflect the lessee's right to use an asset for a period of time. As at 31 March 2019 the Group has 3 operating leases which are disclosed in note 22.2. *IFRS 16* requires the Group to recognise the present value of lease payments by disclosing within Property, Plant and Equipment under a new category of right-to-use-assets. The Group would also be required to recognise a separate financial liability representing its obligation to make future lease payments. Based on the calculations the Directors have performed they do not believe this would lead to a material adjustment on transition.

Income recognition

Following the adoption of *IFRS 15 Revenue from contracts with customers*, income is recognised when a recipient obtains control of a good or service and thus has the ability to direct the use and obtain benefits

from the goods or service.

Management fee income and Other income is recognised when a recipient obtains control of the service.

Income 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. Income is reduced for estimated rebates and other similar allowances.

Interest income

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

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

Tax

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 Consolidated Statement of Comprehensive Net Income 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 in future years will be available against which deductible temporary differences can be utilised.

Current and deferred tax are recognised in the Consolidated Statement of Comprehensive Net Income, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the relevant 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 or receivables on the Consolidated Statement of Financial Position.

Property, plant and equipment

Furniture, equipment and leasehold improvements 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 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

Fixtures and fittings

5 years

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 the Consolidated Statement of Comprehensive Net Income.

Intangible assets

Intangible assets including internally developed software with a finite useful life and 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 the estimated useful life on the following bases:

Internally developed software and 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 to arise from continued use. 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 the Consolidated Statement of Comprehensive Net Income when the asset is derecognised.

Financial assets and liabilities

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

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

Classification of financial instruments - 2019 Accounting Policy

Financial assets are classified under IFRS 9 as amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL) depending on the Group's business model and the contractual cash flow characteristics of the instruments.

The majority of the Group's financial assets comprise debt and equity instruments, classified as such under IAS 32. Debt instruments are subsequently measured at amortised cost where the business model related to that instrument is to collect the contractual cash flows and those cash flows represent solely payments of principal and interest ('SPPI'). If the cash flows fail the SPPI test, the instrument is subsequently measured at FVTPL.

Financial assets that are held for collection of contractual cash flows and for selling where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains or losses on the instrument's amortised cost which are recognised in the Consolidated Statement of Comprehensive Net Income. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

The Group subsequently measures all equity instruments at FVTPL, except where the Group's management has elected, at initial recognition to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity instruments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains or losses are recognised in Other Comprehensive Income and are not subsequently reclassified to Comprehensive Net Income, including on disposal.

The Group may irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

Fair value at initial recognition - Start Up Loans

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

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

In accordance with IFRS 9 (2018: IAS 39) the fair value adjustment at initial recognition, which is the difference between the transaction value of the loans and their fair value would usually be deferred and either amortised or recognised when a gain or loss was crystallised. However, the Directors have determined that it is appropriate in this circumstance to apply a true and fair override, and consequently any fair value adjustment arising on the Start Up Loans loan book will be recognised immediately through the Consolidated Statement of Comprehensive Net Income because this reflects the commercial position more appropriately.

Classification of financial instruments – 2018 Accounting Policy

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.

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. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in the Consolidated Statement of Comprehensive Net Income. The net gain or loss recognised incorporates any dividend or interest earned on the financial asset. There are no held for trading financial assets.

Held-to-maturity investments 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 interest rate basis.

Available-for-sale (AFS) financial assets are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL, or have been designated at inception as AFS. AFS financial assets are recorded at fair value, with gains and losses arising from changes in fair value 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 the Consolidated Statement of Comprehensive Net Income. Where the investment is disposed of the cumulative gains or losses, or if the investment is determined to be impaired the cumulative losses, previously recognised in the financial instrument reserve are reclassified to the Consolidated Statement of Comprehensive Net Income. Dividends on AFS equity instruments are recognised in the Consolidated Statement of Comprehensive Net Income when the Group's right to receive the dividends is established.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, originated or acquired, that are not quoted in an active market, and 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 amortised through the Consolidated Statement of Comprehensive Net Income. 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 – 2019 Accounting Policy

The Group assesses on a forward-looking basis, the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with exposures arising from loan commitments and financial guarantee contracts.

At initial recognition, financial assets are categorised as 'stage 1' and an impairment provision is required for ECLs resulting from default events projected within the next 12 months ('12-month ECL').

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

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

The measurement of ECL reflects an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

Changes in the carrying amount of assets arising as a result of impairment are recognised in the Consolidated Statement of Comprehensive Net Income. If a loan has no realistic prospect of recovery, any loss incurred by the Group on extinguishing the debt is written off against the provision for loan impairment. Any subsequent recoveries of amounts previously written off are recognised through the Consolidated Statement of Comprehensive Net Income.

Impairment of financial assets – 2018 Accounting Policy

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 but before the balance sheet date, the estimated future cash flows from the financial asset have been reduced.

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 assets 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. The Group makes an allowance for collective impairment on a performing portfolio for those assets which have become impaired at the balance sheet date but have yet to be reported as impaired.

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 for all financial assets with the exception of a portfolio of receivables subject to collective impairment, where the carrying amount is reduced through the use of an allowance account. When a receivable within the portfolio 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 the Consolidated Statement of Comprehensive Net Income.

When an AFS financial asset is considered to be impaired, cumulative losses previously recognised in other comprehensive income are reclassified to the Consolidated Statement of Comprehensive Net Income.

Assets held for sale

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset is available for immediate sale in its present condition and the asset is actively marketed for sale. Management must be committed to the sale which should be expected to qualify as recognition as a completed sale within one year from the date of classification. Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Financial liabilities

In both the current and prior period, financial liabilities are classified and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated as FVTPL are presented partially in Other Comprehensive Income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in Comprehensive Net Income;
- Financial liabilities arising from the transfer of financial assets not qualifying for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

Loan commitments at below market rate

The Group accepts a lower than market rate of return from ECF investments in order to encourage private sector investors to invest alongside. Although the Group expects to make a positive return from these investments, this return is less than that required by the private sector. The Group has at initial recognition elected to irrevocably designate the liability related to these loan commitments as measured at fair value through profit or loss because the group of financial assets and financial liabilities is managed, and its performance is evaluated on a fair value basis, in accordance with a documented investment strategy, and information about these assets and liabilities is provided internally on that basis to the Group's key management personnel. In 2017/18 the provision relating to loan commitments was measured at amortised cost under IAS 37. On adoption of IFRS 9 the fair value on initial recognition has been calculated to be equivalent to the IAS 37 carrying amount at 31 March 2018.

Loans and other borrowings

The Group has loan facilities from the Secretary of State for BEIS and the Nuclear Liabilities Fund which are classified and measured as amortised cost financial liabilities.

In addition, it has received a capital grant in respect of the Start Up Loans scheme. The agreement does not have a maturity date and carries an interest rate of zero. The capital grant is repayable on demand, in whole or in part, if at the absolute discretion of BEIS certain conditions arise that affect the scheme adversely. The Group classifies and initially measures the capital grant as an amortised cost financial liability. Subsequently the Group measures the liability as amortised cost but adjusts the carrying value by any amounts it believes will not be recoverable.

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.

Provisions

Provisions are recognised when the Group has a present obligation 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.

Contingent liabilities

The Group has contingent liabilities arising through financial guarantees issued to counterparties. 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.

The Group may at times enter into financial guarantee contracts which are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the impairment loss allowance; and
- The amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15.

For financial guarantee contracts, the loss allowance is measured as a financial liability (2018: provision).

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. 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.

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 Consolidated Statement of Comprehensive Net Income on a straight-line basis over the term of the relevant lease except where another systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

3. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

Reconciliation of IAS 39 to IFRS 9

The following table provides the reclassification and remeasurement impact arising from the transition to IFRS 9 on the Consolidated Statement of Financial Position at 1 April 2018, the date IFRS 9 was adopted by the Group.

Reclassification

These adjustments reflect the movement of balances between categories on the Consolidated Statement of Financial Position with no impact to shareholders' equity. There is no change to the carrying value of the balances as a result of the reclassification.

Remeasurement

These adjustments, which include expected credit loss, result in a change to the carrying value of the investments on the Consolidated Statement of Financial Position with an impact to shareholders' equity net of tax.

3. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

	Measurement basis (IAS 39)	Carrying amount 31 March 2018 (IAS 39) £000	Remeasurement £000
Assets			
Cash and cash equivalents	Amortised cost	63,641	-
Trade and other receivables	Amortised cost	5,248	-
Prepayments		534	-
Loans and receivables	Amortised cost	346,068	-
Held to maturity investments	Amortised cost	31,090	-
Available-for-sale financial assets	FVOCI	985,793	-
Derivative financial instruments	FVTPL (IAS 39)	31,653	-
Assets designated at FVTPL (IAS 39)	FVTPL (IAS 39)	208,229	-
-	N/A	-	(9,241)
-	N/A	-	-
Property, plant and equipment	N/A	1,670	-
Intangible assets	N/A	1,882	-
Deferred tax asset	N/A	3,953	-
Total assets		1,679,761	(9,241)
Liabilities			
Trade and other payables	Amortised cost	(12,973)	-
VAT and social security	N/A	(1,252)	-
Corporation tax	N/A	(11,353)	-
Provisions	Amortised cost	(183,741)	-
Dilapidation provision	N/A	(120)	-
-	N/A	-	-
Loans and other borrowings	Amortised cost & FVTPL	(116,160)	6,455
Total liabilities		(325,599)	6,455
Net assets		1,354,162	(2,786)
Equity			
Issued share capital		1,371,408	-
Financial instrument reserve		41,633	-
Retained earnings		(58,879)	(2,786)
Total equity		1,354,162	(2,786)

Reclassification £000	Carrying amount 1 April 2018 (IFRS 9) £000	Measurement basis (IFRS 9)	
Assets			
-	63,641	Amortised cost	Cash and cash equivalents
-	5,248	Amortised cost	Trade and other receivables
-	534	N/A	Prepayments
(346,068)	-	N/A	-
(31,090)	-	N/A	-
(985,793)	-	N/A	-
(31,653)	-	N/A	-
(208,229)	-	N/A	-
437,794	428,553	Amortised cost	Amortised cost investments
1,165,039	1,165,039	FVTPL (IFRS 9)	Assets at FVTPL (IFRS 9)
-	1,670	N/A	Property, plant and equipment
-	1,882	N/A	Intangible assets
-	3,953	N/A	Deferred tax asset
-	1,670,520		Total assets
Liabilities			
-	(12,973)	Amortised cost	Trade and other payables
-	(1,252)	N/A	VAT and social security
-	(11,353)	N/A	Corporation tax
183,741	-	N/A	N/A
-	(120)	N/A	Dilapidation provision
(183,741)	(183,741)	FVTPL	Financial liability measured at FVTPL
-	(109,705)	Amortised cost & FVTPL	Loans and other borrowings
-	(319,144)		Total liabilities
-	1,351,376		Net assets
Equity			
-	1,371,408		Issued share capital
(41,633)	-		-
41,633	(20,032)		Retained earnings
-	1,351,376		Total equity

Cash and cash equivalents, Trade and other receivables, Loans and receivables, and Held to maturity investments that were classified as 'loans and receivables' and 'held to maturity' are now measured at 'amortised cost'. There are no changes in terms of measurement for these assets upon transition.

Assets that were classified as 'available for sale' under IAS 39 which meet the SPPI test for cash flows characteristics are classified as 'amortised cost' under IFRS 9.

Assets that were classified as 'available for sale' under IAS 39 which are holdings in standard investment funds with either a limited life or redeemable units, are measured at FVTPL as they are debt instruments that do not meet the SPPI test. Derivatives were classified as FVTPL under IAS 39 and remain measured at FVTPL under IFRS 9. However, embedded derivatives are no longer assessed separately from the host financial asset leading to a category transfer of £31.7m from derivatives to assets designated at FVTPL.

Loans and other borrowings include £14.9m which is an unsecured loan from BEIS to SULCo which is measured at amortised cost under IFRS 9. Also included within Loans and other borrowings is a capital grant of £97.8m from BEIS to SULCo. The repayable amount of the loan is subject to the performance of the SULCo loan book and is therefore classified as FVTPL under IFRS 9.

An amount of £41.6m has been reclassified from financial instrument reserve to retained earnings as a consequence of the Group's financial assets classified as 'available for sale' under IAS 39 being reclassified as FVTPL under IFRS 9.

4. Critical accounting judgements and key sources of estimation uncertainty

In applying 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. 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:

- The inputs to valuation models and techniques used to determine estimated future cash flows to calculate the fair values of assets held at FVTPL and amortised cost;
- The inputs to the modelling techniques used to calculate the fair value of financial liabilities/ guarantees relating to loan commitment financial liability;
- The assessment of ECL impairment allowances against assets held at FVOCI, amortised cost financial assets and financial guarantees.

The future returns from FVTPL debt fund investments are not limited to contractual cash flows of interest and principal. 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 and warrant/equity performance, and prevailing market conditions.

The use of valuation models and techniques used to determine estimated future cash flows.

The key global assumptions for the Enterprise Capital Funds are the risk-adjusted discount rate and the volatility percentage used. The Group has calculated these assumptions for all Enterprise Capital Funds investments on a consistent basis. As an indication of sensitivity, a 200 basis points increase in the risk-adjusted discount rate across the Enterprise Capital Funds portfolio would decrease the fair value of the debt investment in the Consolidated Statement of Financial Position by around £13m. Likewise, a 200 basis points decrease in the risk-adjusted discount rate across the Enterprise Capital Funds portfolio would increase the fair value of the portfolio by around £14m.

There is inherent uncertainty in both the expected cash flows and the discount rate used to calculate the fair value at initial recognition for Start Up Loans to entrepreneurs.

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

The discount rate for each loan is determined by reference to the 5-year median yield for Caa/C rated corporate debt applicable at the year of origination.

Impairment of financial assets

The calculation of impairment provisions is inherently uncertain and requires the Group to make a number of judgements, assumptions and estimates. The most critical sources of estimation uncertainty are:

Economic scenarios and associated probability weightings

IFRS 9 requires the calculation of ECLs to account for multiple forward-looking macro-economic scenarios. The ECL model adopted by the Group uses a Cyclical Index (CI), which can be considered as a measure of where the economy sits in the credit cycle at any time.

The model uses publicly available data on default rates as a basis for the CI and generates a base case scenario (determined by a regression model utilising base case forecasts of Consumer Price Index growth rates, interest rates and unemployment rates published by the Bank of England), then two better and two worse scenarios generated by considering a distribution of possible scenarios around the base case scenario.

The calculation of probability of default (PD)

The PD of each underlying loan or credit facility provided by the Group is a key assumption for the IFRS 9 ECL calculation and this is reliant on rating assessments undertaken by external and internal PD models.

The calculation of loss given default (LGD)

LGD assesses the loss potential in case of a default and is reliant on the collateral residual value acting as security reported against each loan or the reported seniority ranking of the Group's facility compared to other investors. LGD is estimated using internal models which consider observed loss data or using external benchmarks where appropriate.

The calculation of exposure at default (EAD)

Exposure at default (EAD) is estimated for each month for the contractual lifetime of each financial instrument. This is either the contractual maturity profile of the investment or an internal estimate of the exposure value based on expected repayment profiles based on historical information. A credit conversion factor is applied to undrawn irrevocable commitments based on external benchmarks or internally observed data for similar portfolios or types of assets.

5. Income

5.1 Interest income

	Note	2019 £000	2018 £000
Contractual Interest from amortised cost investments	14.1	29,919	-
Amortisation of fair value adjustment on initial recognition of investments	14.1	13,518	-
Effective interest rate income from amortised cost investments		43,437	-
Interest from loans and receivables	14.1.1	-	19,690
Amortisation of fair value adjustment on initial recognition of loans and receivables	14.1.1	-	23,069
Effective interest rate income from loans and receivables		-	42,759
Interest from available-for-sale assets	14.1.3		
	14.2.1	-	50,614
Amortisation of fair value adjustment on initial recognition of available-for-sale assets	14.2.1	-	13,661
Effective interest rate income from available for sale assets		-	64,275
Interest from held to maturity investments	14.1.2	-	2,550
Total interest income		43,437	109,584

The amortisation of the fair value adjustment on initial recognition represents the difference between the contractual interest rate and the effective interest rate applicable for the financial asset.

5.2 Grant income

	2019 £000	2018 £000
Grant received from shareholder	17,461	17,201
Total grant income	17,461	17,201

Grant income relates to the Resource Grant received from BEIS under the terms of the 'Grant Offer Letter' between BEIS and The Start Up Loans Company. The grant income funds the operating expenses of The Start Up Loans Company and any amount in excess is recorded as deferred scheme income in the Consolidated Statement of Financial Position.

5.3 Management fee income

	2019 £000	2018 £000
Management fee income earned from:		
Angel Co-Fund	30	413
Department for Business, Energy and Industrial Strategy	15,302	13,467
Northern Powerhouse Investments Limited	2,691	2,135
Midlands Engine Investments Limited	1,774	1,601
Cornwall and Isles of Scilly Investments Limited	310	372
Innovate UK	309	204
Nuclear Decommissioning Authority	80	-
East Midlands Early Growth Fund Limited	49	-
Other	30	16
Total management fee income	20,575	18,208

5.4 Other income

	2019 £000	2018 £000
Arrangement and other fees	1,837	1,286
Total other income	1,837	1,286

6. Net gains/(losses) on investment assets

	Note	2019 £000	2018 £000
Impairment allowance on loans and receivables	14.1.1	-	(16,185)
Fair value adjustment on initial recognition of loans and receivables	14.1.1	-	(36,165)
Fair value adjustment on initial recognition of amortised cost assets	14.1	(18,419)	-
Write-offs of amortised cost assets	14.1	(2,364)	-
Impairment of available for sale assets	14.2.1	-	(11,496)
Impairment of available for sale assets reclassified from other comprehensive income that relates to a previous period		-	(1,120)
Fair value adjustment on initial recognition of available for sale assets	14.2.1	-	(32,300)
Foreign exchange gains on available-for-sale financial assets	14.2.1	-	755
Fair value gains on assets held at fair value through profit or loss under IAS 39	14.2.2	-	17,234
Fair value gains on derivatives	14.2.3	-	13,005
Fair value adjustment on initial recognition of assets held at fair value through profit or loss under IFRS 9	14.2	(45,870)	-
Fair value gains on assets held at fair value through profit or loss under IFRS 9	14.2	95,322	-
Total net gains/(losses) on investment assets		28,669	(66,272)

7. Net gain on write down of repayable capital grant

	2019 £000	2018 £000
Write down of repayable capital grant received	7,291	16,924
Total net gain on write down of repayable capital grant	7,291	16,924

The Group receives a Capital Grant from BEIS under the terms of the 'Grant Offer Letter' between BEIS and The Start Up Loans Company for the purpose of extending loans to entrepreneurs at below market rate. (See note 20). On expiry of the grant period (31 March 2025), The Start Up Loans Company will repay to BEIS the amount of cash held in its bank accounts representing capital and interest repayments from entrepreneurs. The repayable capital grant will be reduced by any unrecovered amounts from the beneficiaries of the loans. The gain on write down of repayable capital grant represents the reduction in the capital grant liability for the write-offs and impairment losses incurred on the loans to entrepreneurs in the period as well as the reduction/increase in the capital grant liability for the fair value adjustment on initial recognition and the subsequent amortisation of this adjustment.

8. Operating Expenditure

8.1. Staff numbers and staff costs

The average monthly number of employees including executive directors was:

	2019	2018
Permanent staff	253	210
Seconded staff	3	4
Temporary and agency staff	32	36
Non-executive directors	9	8
Total staff numbers	297	258

Aggregate remuneration comprised:

	2019 £000	2018 £000
Wages and salaries:		
Permanent staff including executive directors	16,722	13,569
Seconded staff	541	667
Temporary and agency staff	2,392	2,674
Non-executive directors' fees	357	387
Short and long-term incentive plans and bonus scheme	3,179	2,553
Social security costs	2,367	1,973
Pension costs	2,207	1,727
Total staff costs	27,765	23,550

8.2. Other operating expenditure

	2019 £000	2018 £000
Professional fees:		
Investment scheme design and transactions	2,636	3,296
Operational fees	6,808	2,847
Accommodation and office services	4,971	1,994
Information technology	6,216	2,247
Marketing	3,267	2,204
SULCo delivery partner fees	7,677	8,880
Auditor's remuneration	432	207
Staff related costs, including training and travel	2,494	1,428
Other purchase of goods and services	274	755
Total other operating expenditure	34,775	23,858

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

8.3. Depreciation and amortisation

	Note	2019 £000	2018 £000
Property, plant and equipment	15	776	394
Intangible assets		667	820
Total depreciation and amortisation		1,443	1,214

9. Taxation**9.1. Tax on profit on continuing activities**

	2019 £000	2018 £000
Current tax		
Current year	18,584	19,622
Adjustment in respect of prior years	(3,710)	(2,058)
Total current tax	14,874	17,564
Deferred tax		
Current year	(4,941)	(5,052)
Total deferred tax	(4,941)	(5,052)
Total tax on continuing activities	9,933	12,512
Recognised through Comprehensive Net Income	9,933	17,546
Recognised through Other Comprehensive Income	-	(5,034)
Total tax on continuing activities	9,933	12,512

Factors affecting the tax expense for the period

The tax expense for the period is different from the standard rate of corporation tax in the UK as explained in the table below. The corporation tax rate used is based on the enacted corporation tax rate for the year commencing 6 April 2018. The Finance Act 2015 which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 to 31 March 2020 and 18% effective from 1 April 2020, was substantively enacted on 18 November 2015.

Deferred tax primarily relates to the Group's investments in ECFs. It is calculated at 17% (2018: 17%) 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 ECFs 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:

	2019 £000	2018 £000
Profit before tax	81,253	11,311
Tax on profit at standard UK tax rate 19% (2018: 19%)	15,438	2,149
<i>Effects of:</i>		
Net gain on investments recognised in reserves	-	1,276
Permanent disallowances relating to:		
ECF loan commitments financial liability/provision	(8,429)	7,030
Amortisation of ECF fair value adjustment on initial recognition	-	(2,596)
Other permanent disallowances	37	(130)
Timing differences relating to:		
ECF fair value gains on derivatives	-	(2,471)
ECF accrued return	-	(1,888)
ECF fair value adjustment on initial recognition	11,426	6,137
ECF impairment	-	1,689
ECF realised gains	7,284	8,323
ECF fair value movements	(7,541)	-
Long-Term Incentive Plan accrued expenditure	214	82
Other timing differences	155	21
Total tax charge	18,584	19,622

9.1. Tax on profit on continuing activities (continued)

	Unrealised losses		Deferred tax	
	2019 £000	2018 £000	2019 £000	2018 £000
Unrealised losses on ECF investments	(28,090)	(29,616)	(4,775)	(5,034)
Other unrealised losses	(976)	(106)	(166)	(18)
Unrealised losses subject to deferred tax	(29,066)	(29,722)	(4,941)	(5,052)

9.2. Corporation tax payable

	2019 £000	2018 £000
Corporation tax payable at 1 April	11,353	5,897
Tax expense for the year	14,874	17,564
Tax paid	(22,291)	(12,108)
Corporation tax payable at 31 March	3,936	11,353

9.3. Deferred tax asset

	2019 £000	2018 £000
Deferred tax (asset)/liability at 1 April	(3,953)	1,099
Movement in the year	(4,941)	(5,052)
Deferred tax (asset) at 31 March	(8,894)	(3,953)

10. 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 Patient Capital Limited (BPC), British Business Investments Ltd (BBI), The Start Up Loans Company (SULCo) and the overall Group results. BPC was established in 2018/19 and therefore is not included in the previous year's comparative figures.
- Programmes administered on behalf of BEIS: In addition to its own operations, the British Business Bank, through its subsidiary British Business Financial Services Ltd (BBFSL), administers assets on behalf of BEIS. 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.

10. Operating segments (continued)

Consolidated Statement of Comprehensive Income for the year ending 31 March 2019

	BBFL £000	BBi £000	BPC £000	SULCo £000	Company plc and BBFSL £000	Intra-group eliminations £000	Total Group £000
Income							
Investment Programmes	-	19,187	-	-	-	-	19,187
Venture Capital Solutions	840	-	-	-	-	(688)	152
Start Up Loans	-	-	-	24,098	-	-	24,098
Management fee & other income	52	1,837	-	-	60,769	(40,246)	22,412
Grant income	-	-	-	17,461	-	-	17,461
	892	21,024	-	41,559	60,769	(40,934)	83,310
Net gains/(losses) on investment assets							
Investment Programmes	-	60,859	-	-	-	-	60,859
Venture Capital Solutions	(23,782)	-	9,447	-	-	-	(14,335)
Start Up Loans	-	-	-	(30,701)	-	-	(30,701)
	(23,782)	60,859	9,447	(30,701)	-	-	15,823
Net gain on write down of repayable capital grant	-	-	-	7,291	-	-	7,291
Operational expenditure							
Staff costs	(1,031)	(1,626)	(827)	(3,924)	(20,357)	-	(27,765)
Professional services	(174)	(682)	(418)	(454)	(7,716)	-	(9,444)
General operations	(11,433)	(8,694)	(6,665)	(13,083)	(27,145)	40,246	(26,774)
	(12,638)	(11,002)	(7,910)	(17,461)	(55,218)	40,246	(63,983)
Net operating profit before ECF loan commitment financial liability and interest payable	(35,528)	70,881	1,537	688	5,551	(688)	42,441
<i>ECF loan commitments financial liability</i>	44,364	-	-	-	-	-	44,364
<i>Interest payable</i>	-	-	-	(688)	(5,552)	688	(5,552)
Profit/(loss) before tax	8,836	70,881	1,537	-	(1)	-	81,253

All transactions between Group companies take place on an arm's lengths basis. There are no differences between the entities' reportable profit or loss and the results in the note above.

10. Operating segments (continued)

Consolidated Statement of Comprehensive Income for the period ending 31 March 2018

	BBFL £000	BBi £000	SULCo £000	Company plc and BBFSL £000	Intra-group eliminations £000	Total Group £000
Income						
Investment Programmes	-	53,311	-	-	-	53,311
Venture Capital Solutions	23,596	-	-	-	-	23,596
Start Up Loans	-	-	32,677	-	-	32,677
Management fee & other income	258	1,284	-	38,024	(20,072)	19,494
Grant income	-	-	17,201	-	-	17,201
	23,854	54,595	49,878	38,024	(20,072)	146,279
Net gains/(losses) on investment assets						
Investment Programmes	-	12,009	-	-	-	12,009
Venture Capital Solutions	(28,922)	-	-	-	-	(28,922)
Start Up Loans	-	-	(49,359)	-	-	(49,359)
	(28,922)	12,009	(49,359)	-	-	(66,272)
Net gain on write down of repayable capital grant	-	-	16,924	-	-	16,924
Operational expenditure						
Staff costs	(1,050)	(1,371)	(4,231)	(16,898)	-	(23,550)
Professional services	-	(717)	(438)	(5,112)	-	(6,267)
General operations	(3,844)	(6,245)	(12,533)	(16,014)	19,831	(18,805)
	(4,894)	(8,333)	(17,202)	(38,024)	19,831	(48,622)
Net operating profit before ECF loan commitments provision and interest payable	(9,962)	58,271	241	-	(241)	48,309
ECF loan commitments provision	(36,998)	-	-	-	-	(36,998)
Interest payable	-	-	(241)	-	241	-
Profit/(loss) before tax	(46,960)	58,271	-	-	-	11,311

10. Operating segments (continued)

For 2018, the application of IAS 39 meant that the ECF portfolio was classified as AFS and so interest income was recognised on an effective interest rate basis using the effective interest rate determined at initial recognition. The difference between the contractual interest rate and the effective interest rate represents the amortisation of the fair value adjustment on initial recognition. For the measurement of the Group's adjusted return, realised gains on derivatives and permanent diminutions in value are included and all other accounting impacts as shown in the table below were excluded. For 2019, the application of IFRS 9 means that the ECF portfolio is classified as FVTPL. For the measurement of the Group's adjusted return, the fair value movement is included and all other accounting impacts as shown in the table below are excluded.

The table summarises the amounts relating to the ECFs that have been recognised in arriving at the Group profit/(loss) before tax in the Consolidated Statement of Comprehensive Net Income.

	Note	2019 £000	2018 £000
Interest income		–	9,934
Fair value gains on derivatives		–	13,005
Fair value adjustment on initial recognition		(45,870)	(32,300)
Impairment		–	(8,887)
Amortisation of fair value adjustment on initial recognition		–	13,661
Fair valuation movements		39,692	–
Provision released in year	18, 19	44,364	34,323
		38,186	29,736
Provision against future commitments	18, 19	–	(71,321)
Net gain/(loss) on Enterprise Capital Funds		38,186	(41,585)

Start Up Loans

The Group accepts a lower than market rate of return from Start Up Loan loans to entrepreneurs as discussed in Note 2 to the financial statements. Accounting standards require the Group to recognise a fair value adjustment on initial recognition when it makes a Start Up Loan.

	2019 £000	2018 £000
Gross lending advanced in the year	81,153	104,989
Fair value adjustment on initial recognition	(18,419)	(36,165)
Fair value on initial recognition	62,734	68,824

10. Operating segments (continued)

Consolidated Statement of Financial Position as at 31 March 2019

	BBFL £000	BBi £000	BPC £000	SULCo £000	Company plc and BBFSL £000	Total Group £000
Investment assets						
Amortised cost						
BFP Small Cap	-	2	-	-	-	2
BFP Mid Cap	-	55,432	-	-	-	55,432
Investment Programme	-	233,542	-	-	-	233,542
Start Up Loans	-	-	-	137,241	-	137,241
Northern Powerhouse Investments	4,909	-	-	-	-	4,909
Assets held at FVTPL						
BFP Midcap	-	436,058	-	-	-	436,058
Investment Programme	-	296,961	-	-	-	296,961
Enterprise Capital Funds	226,611	-	-	-	-	226,611
Venture/Growth	-	-	203,049	-	-	203,049
UKIIF	-	123,765	-	-	-	123,765
Other venture capital investments	2,350	-	-	-	-	2,350
Total investment assets	233,870	1,145,760	203,049	137,241	-	1,719,920
ECF loan commitments financial liability	(139,377)	-	-	-	-	(139,377)
Net investment assets	94,493	1,145,760	203,049	137,241	-	1,580,543
Other assets/(liabilities)						
Cash	192	59,551	2,856	3,409	86,109	152,117
Property, plant and equipment and Intangible assets	-	-	-	1,468	3,598	5,066
Corporation tax	(1,841)	(1,508)	(325)	-	(262)	(3,936)
Provisions	-	-	-	-	(300)	(300)
Deferred tax	8,566	14	-	-	314	8,894
Loans and other borrowings	-	-	-	(107,021)	(604,264)	(711,285)
Amounts owed from group undertakings	30,554	129,073	(8,213)	(32,800)	(118,614)	-
Amounts owed by shareholder	-	-	-	-	525,000	525,000
Net other payables	(270)	(746)	(433)	(2,228)	(4,726)	(8,403)
Total Net Assets	131,694	1,332,144	196,934	69	(113,145)	1,547,696

At 31 March 2019 the Company held investments in subsidiaries of £1,589.0m which are eliminated in full on consolidation.

10. Operating segments (continued)

Consolidated Statement of Financial Position as at 31 March 2018

	BBFL £000	BBI £000	SULCo £000	Company plc and BBFSL £000	Total Group £000
Investment assets					
Loans and receivables					
BFP Small Cap	-	635	-	-	635
Investment Programme	-	209,767	-	-	209,767
Start Up Loans	-	-	135,666	-	135,666
Held to maturity investments					
Investment Programme	-	31,090	-	-	31,090
Available-for-sale financial assets					
BFP Midcap	-	555,558	-	-	555,558
BFP Small Cap	-	14,114	-	-	14,114
Investment Programme	-	242,038	-	-	242,038
Enterprise Capital Funds	172,388	-	-	-	172,388
Other venture capital investments	1,695	-	-	-	1,695
Assets designated at FVTPL					
VC Catalyst	-	76,243	-	-	76,243
UKIIF	-	131,986	-	-	131,986
Derivative financial instruments	31,653	-	-	-	31,653
Total investment assets	205,736	1,261,431	135,666	-	1,602,833
ECF loan commitments provision	(183,741)	-	-	-	(183,741)
Net investment assets	21,995	1,261,431	135,666	-	1,419,092
Other assets/(liabilities)					
Cash	6,870	13,580	1,870	41,321	63,641
Property, plant and equipment and Intangible assets	-	-	1,984	1,568	3,552
Corporation tax	(5,623)	(5,730)	-	-	(11,353)
Provisions	-	-	-	(120)	(120)
Deferred tax	3,791	14	-	148	3,953
Loans and other borrowings	-	-	(116,160)	-	(116,160)
Amounts owed from group undertakings	19,126	(11,098)	(19,970)	11,942	-
Net other payables	(188)	(457)	(3,321)	(4,477)	(8,443)
Total Net Assets	45,971	1,257,740	69	50,382	1,354,162

At 31 March 2018 the Company held investments in subsidiaries of £1,244.3m which are eliminated in full on consolidation.

11. Cash and cash equivalents

	2019 £000	2018 £000
Government Banking Service	134,746	53,038
Commercial banks	17,371	10,603
Total cash and cash equivalents	152,117	63,641

The Group generally maintains a cash balance of at least £50m to fund investments. As at 31 March 2019, the cash balance was £152.1m with drawdowns in April and May 2019 of £105.8m. As the majority of the cash is held in the Government Banking Service there is minimal cost to the Exchequer.

12. Amounts owed by shareholder

	2019 £000	2018 £000
Amounts owed by Shareholder	525,000	-

On 31 August 2018 the Group lent £350 million to BEIS, its shareholder, under the terms of a Loan Agreement. The amount lent is repayable on demand and has a zero-interest rate. In the year ending 31 March 2019, £75 million was repaid under this Loan Agreement.

On 15 January 2019 the Group lent a further £250 million to BEIS under the terms of a separate Loan Agreement. The amount lent is repayable on demand and has a zero-interest rate. In the year ending 31 March 2019, £nil was repaid under this Loan Agreement.

These loans have been classified as FVTPL under IFRS 9 because the contractual terms do not give rise to cash flows on specified dates and do not include any payment of interest.

13. Trade and other receivables

	2019 £000	2018 £000
Amounts receivable within one year		
Trade receivables	340	299
Accrued income	7,859	4,146
Prepayments	706	534
Other receivables	841	803
Total trade and other receivables	9,746	5,782

Trade receivables disclosed above are measured at amortised cost. The Directors consider that the carrying amount of trade receivables approximates to their fair value as they are short term in nature.

14. Investments

Business Finance Partnership

British Business Investments Limited (BBI) 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 who lend to medium-sized businesses with turnover of up to £500m. All of the BFP Mid Cap investments were previously classified as Available-for-sale financial assets under IAS 39. Upon adoption of IFRS 9 by the Group, the holding in one investment asset was classified as an amortised cost asset. The value of this asset at 1 April 2018 was £60.2m. See note 14.1.4 for details. The remainder of the BFP Mid Cap portfolio was classified as FVTPL upon adoption of IFRS 9. See note 14.2.1 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. Almost all of the BFP Small Cap's investments were previously classified as Available-for-sale financial assets with the remainder classified as Loan and receivables under IAS 39. Upon adoption of IFRS 9 by the Group, those assets previously classified as Available-for-sale financial assets have been reclassified as FVTPL. See note 14.2.1 for details. Those assets previously classified as Loans and receivables have been reclassified as amortised cost financial assets. See note 14.1.1 for details.

Investment Programme

BBI 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. BBI's investments in limited partnerships through the Investment Programme were classified as Available-for-sale financial assets under IAS 39. Upon adoption of IFRS 9 by the Group, these assets have been reclassified as FVTPL. See note 14.2.1 for details.

This programme has provided invoice discount finance, participated in peer to peer lending, has provided asset finance and provided other credit facilities. This lending was classified as Loans and receivables under IAS 39 and has been reclassified as amortised cost financial assets. See note 14.1.1 for details.

Through the Investment Programme, BBI participated in a public issue of Tier 2 fixed rate reset callable subordinated loan notes by Shawbrook Bank plc with an initial semi-annual coupon of 8½%. The issue was listed on the London Stock Exchange on 28 October 2015. This investment was classified as held to maturity under IAS 39 and has been reclassified as an amortised cost financial asset. See note 14.1.2 for details.

Venture/Growth

Following the launch of BPC, the VC Catalyst programme was closed to new investment and a new Venture/Growth programme was set up. Through this programme, BPC invests in commercially viable venture and venture growth capital funds, including evergreen structures, to support UK companies with high growth potential to access the long-term financing they need to scale up. BPC will also invest in co-investment opportunities arising through its portfolio. The Venture/Growth investments are funded by BPC following their transfer from BBI on 1 July 2018.

These investments were accounted for and measured at FVTPL under IAS 39. Upon adoption of IFRS 9 by the Group these investments remain classified as FVTPL. See note 14.2.2 for details.

UK Innovation Investment Fund

The UK Innovation Investment Fund (UKIIF) is funded by BBI following the acquisition of HM Government's investment in the Fund on 14 July 2017. UKIIF supports the creation of viable investment funds targeting UK high growth technology-based businesses. It has invested through two underlying fund of funds, the UK Future Technology Fund, which has now ceased making new investments, and the Hermes Environmental Impact Fund.

The UKIIF investments were accounted for and measured at FVTPL under IAS 39. Upon adoption of IFRS 9 by the Group these investments remain classified as FVTPL. See note 14.2.2 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 any 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 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 makes in ECFs meet the accounting definition of a loan and by election were classified as Available-for-sale financial assets under IAS 39. Any upside returns which the funds may generate were separately accounted for as derivatives and measured at FVTPL. Upon adoption of IFRS 9 by the Group, these assets have been reclassified together as FVTPL.

Accounting standards require that these financial assets are held at fair value, which is the amount that a private sector investor would pay for the investments. This means that for every ECF investment a fair value adjustment on initial recognition is recorded 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. ECF investments are measured at fair value on an ongoing basis. See note 14.2.1 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 recognises a provision which it accounts for as a FVTPL financial liability. The provision is released when a commitment is drawn to recognise a reduction in the liability. See note 19 for details.

Other Venture Capital Investments

BBFL also has three other smaller schemes: Help to Grow funds, Aspire and the Capital for Enterprise Fund. These are detailed in note 14.2.1.

Start Up Loans

The Start Up Loans Company lends to entrepreneurs via a number of delivery partners. These loans are made to entrepreneurs at an interest rate of 6%. Losses on these loans are expected to be between 30% – 40% of the total loans advanced, reflecting the non-commercial nature of the scheme. This lending was classified as loans and receivables under IAS 39 and has been classified as amortised cost financial assets under IFRS 9.

Accounting standards require that these loans are measured at fair value on initial recognition and subsequently measured at amortised cost. The fair value adjustment on initial recognition represents the difference between the face value of loans written and the present value of future expected cash flows discounted using an appropriate discount rate.

Accrued interest income and amortisation of the fair value adjustment on initial recognition are calculated for each individual loan. For presentation purposes these are presented separately as the accrued interest income is the contractual interest that will be collected whilst the fair value adjustment on initial recognition will be amortised over the life of the loans.

14.1. Amortised cost investments

As at 31 March 2019

	Opening balance under IFRS 9 £000	Transfers £000	Additions £000	Fair value adjustment on initial recognition £000	Repayments £000	Accrued interest £000	Amortisation of fair value adjustment on initial recognition £000	Write-offs £000	Expected credit loss allowance £000	Closing balance £000
BFP Small Cap	635	-	-	-	(745)	18	-	-	94	2
BFP Mid Cap	60,200	-	22,491	-	(30,135)	2,957	-	-	(81)	55,432
Investment Programme	238,508	-	114,478	-	(132,764)	16,200	-	-	(2,880)	233,542
Start Up Loans	129,210	-	81,153	(18,419)	(66,560)	10,591	13,518	(2,364)	(9,888)	137,241
Northern Powerhouse Investments	-	-	5,000	-	(153)	153	-	-	(91)	4,909
Total	428,553	-	223,122	(18,419)	(230,357)	29,919	13,518	(2,364)	(12,846)	431,126

14.1.1. Loans and receivables

As at 31 March 2018, previously classified under IAS 39

	Opening balance £000	On business combination £000	Transfers £000	Additions £000	Fair value adjustment on initial recognition £000	Repayments £000	Accrued interest £000	Amortisation of fair value adjustment on initial recognition £000	Impairment £000	Closing balance £000
BFP Small Cap	2,332	-	-	-	-	(1,857)	104	-	56	635
Investment Programme	136,073	-	149	133,578	-	(66,921)	9,898	-	(3,010)	209,767
Start Up Loans	-	107,342	-	104,989	(36,165)	(60,026)	9,688	23,069	(13,231)	135,666
Total	138,405	107,342	149	238,567	(36,165)	(128,804)	19,690	23,069	(16,185)	346,068

14.1.2. Held to maturity investments

As at 31 March 2018, previously classified under IAS 39

	Opening balance £000	Fair value adjustment on initial recognition £000	Repayments £000	Accrued Interest £000	Closing balance £000
Investment Programme	31,090	-	(2,550)	2,550	31,090
Total	31,090	-	(2,550)	2,550	31,090

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.

14.1.3. Available-for-sale financial assets

As at 31 March 2018, previously classified under IAS 39

	Opening balance £000	Additions £000	Repayments £000	Accrued Interest £000	Impairment £000	Closing balance £000
BFP Mid Cap	35,256	29,942	(6,656)	1,932	162	60,636
Total	35,256	29,942	(6,656)	1,932	162	60,636

14.1.4. Reconciliation of opening 2019 amortised cost assets balances under IFRS 9 with closing 2018 IAS 39 balances

Note	Classification 31 March 2018 (IAS 39)	Closing balance 31 March 2018 (IAS 39)	Remeasurement on adoption of IFRS 9	Opening balance 1 April 2018 (IFRS 9)
BFP Small Cap	Loans and receivables	635	-	635
BFP Mid Cap	Available-for-sale	60,636	(436)	60,200
Investment Programme	Loans and receivables	209,767		
	Held to maturity	31,090		
		240,857	(2,349)	238,508
Start Up Loans	Loans and receivables	135,666	(6,456)	129,210
3			(9,241)	428,553

The Remeasurement on adoption of IFRS 9 value of £6.5m incorporates the following:

- an increase of impairment of £22.9m on transition to IFRS 9;
- a decrease in valuation of £11.8m attributable to the discovery of a post balance sheet error in respect of the year ended 31 March 2018. In accordance with IAS 8, Management have not restated the prior period comparative. The error however has no impact on Group net assets as it is offset by a corresponding release of the capital grant;
- an increase in valuation of £28.2m resulting from an enhanced underlying fair value modelling methodology. Management consider this to be a change in accounting estimate as defined in IAS 8 and have therefore applied it prospectively as at 1 April 2018. It is not however possible for Management to estimate the effect of this estimate in future periods.

14.2. Investments held at fair value through profit or loss under IFRS 9

As at 31 March 2019

	Opening balance under IFRS 9 £000	Transfers £000	Additions £000	Fair value adjustment on initial recognition £000	Repayments £000	Fair value movements £000	Impairment £000	Closing balance £000
BFP Mid Cap	494,922	-	28,415	-	(114,705)	27,426	-	436,058
BFP Small Cap	14,114	(12,891)	129	-	(1,857)	505	-	-
Investment Programme	242,038	12,816	80,700	-	(46,239)	7,646	-	296,961
UKIIF	131,986	-	8,569	-	(35,320)	18,530	-	123,765
Venture/ Growth	76,243	75	119,980	-	(12,284)	19,035	-	203,049
Enterprise Capital Funds	204,041	-	92,060	(45,870)	(63,312)	39,692	-	226,611
Help to Grow Funds	-	-	1,368	-	-	-	-	1,368
Aspire	903	-	-	-	-	(375)	-	528
Capital for Enterprise Fund	792	-	-	-	(360)	(37)	-	395
Direct investments	-	-	17,159	-	-	(17,100)	-	59
Total	1,165,039	-	348,380	(45,870)	(274,077)	95,322	-	1,288,794

Repayments are received when a fund has exited or partially exited an underlying investment and the Group receives its share of the proceeds due to the contractual obligations of the fund.

On 26 March 2019 the Group agreed to sell to the Nuclear Liabilities Fund 20% of its holding in the Venture/Growth assets with an effective date of sale of 1 April 2019. As required under IFRS 5 the Directors have assessed that this proportion of these assets were held for sale at the balance sheet date and have disclosed them separately on the face of the Consolidated Statement of Financial Position. Assets held for sale at 31 March 2019 are £40.6m (2018: £nil) and relate only to Venture/Growth assets. These assets are all held within BPC and are measured at fair value less costs to sell. Further information is disclosed in note 28.

14.2.1. Available-for-sale financial assets

At 31 March 2018, previously classified under IAS 39

	Opening balance £000	Transfers £000	Additions £000	Fair value adjustment on initial recognition £000	Repayments £000	Accrued interest £000	Fair value movements £000	Amortisation of fair value adjustment on initial recognition £000	Foreign exchange gains £000	Impairment £000	Closing balance £000
Limited Partnership Investments											
BFP Mid Cap	551,816	-	20,804	-	(108,320)	25,057	5,565	-	-	-	494,922
BFP Small Cap	37,816	(19,874)	-	-	(5,919)	725	692	-	353	321	14,114
Investment Programme	121,577	19,725	118,959	-	(29,883)	12,966	481	-	402	(2,189)	242,038
	711,209	(149)	139,763	-	(144,122)	38,748	6,738	-	755	(1,868)	751,074
Venture Capital Investments											
Enterprise Capital Funds	171,227	-	64,307	(32,300)	(45,554)	9,934	-	13,661	-	(8,887)	172,388
Bridges	1,055	-	-	-	(1,055)	-	-	-	-	-	-
Aspire	1,660	-	-	-	(16)	-	-	-	-	(741)	903
Capital for Enterprise Fund	1,815	-	-	-	(841)	-	(182)	-	-	-	792
	175,757	-	64,307	(32,300)	(47,466)	9,934	(182)	13,661	-	(9,628)	174,083
Total	886,966	(149)	204,070	(32,300)	(191,588)	48,682	6,556	13,661	755	(11,496)	925,157

14.2.2. Assets designated at fair value through profit or loss under IAS 39

At 31 March 2018, previously classified under IAS 39

	Opening balance £000	Additions £000	Repayments £000	Fair value movements £000	Closing balance £000
VC Catalyst	29,522	43,323	(1,009)	4,407	76,243
UKIIF	-	141,629	(22,470)	12,827	131,986
Total	29,522	184,952	(23,479)	17,234	208,229

14.2.3. Derivative financial instruments

At 31 March 2018, previously classified under IAS 39

	Opening balance £000	Repayments £000	Fair value movements £000	Closing balance £000
Enterprise Capital Funds	24,319	(5,671)	13,005	31,653
Total	24,319	(5,671)	13,005	31,653

Derivatives represent any upside returns which the Enterprise Capital Funds may generate and were accounted for separately under IAS 39 from the underlying investment asset shown in note 14.2.1.

15. Property, plant and equipment

As at 31 March 2019

	Leasehold improvement £000	IT equipment £000	Fixtures & Fittings £000	Total £000
Cost or valuation				
At 1 April 2018	1,149	1,538	78	2,765
Additions	1,771	1,043	-	2,814
Disposals	(46)	-	-	(46)
At 31 March 2019	2,874	2,581	78	5,533
Accumulated depreciation and impairment				
At 1 April 2018	(268)	(782)	(45)	(1,095)
Charge for the year	(333)	(424)	(19)	(776)
Disposals	46	-	-	46
At 31 March 2019	(555)	(1,205)	(64)	(1,825)
Carrying amount				
At 31 March 2019	2,319	1,375	14	3,708
At 31 March 2018	881	756	33	1,670

15. Property, plant and equipment (continued)

As at 31 March 2018

	Leasehold improvement £000	IT equipment £000	Fixtures & Fittings £000	Total £000
Cost or valuation				
At 1 April 2017	192	903	-	1,095
On business combination	48	151	80	279
Additions	909	484	-	1,393
Disposals	-	-	(2)	(2)
At 31 March 2018	1,149	1,538	78	2,765
Accumulated depreciation and impairment				
At 1 April 2017	(116)	(454)	-	(570)
On business combination	(21)	(77)	(33)	(131)
Charge for the year	(131)	(251)	(12)	(394)
At 31 March 2018	(268)	(782)	(45)	(1,095)
Carrying amount				
At 31 March 2018	881	756	33	1,670
At 31 March 2017	76	449	-	525

16. Intangible assets

Intangible assets comprise purchased software.

17. Trade and other payables

	2019	2018
	£000	£000
Amounts falling due within one year		
Trade payables	1,508	554
VAT and social security	604	1,252
Accrued expenditure	12,387	7,420
Other payables	1,739	1,871
<i>Deferred scheme income</i>	743	2,321
	16,981	13,418
Amounts falling due after more than one year		
Other payables	1,168	807
	1,168	807
Total trade and other payables	18,149	14,225

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

18. Provisions

Year ended 31 March 2019

	Loan commitments £000	Dilapidation provision £000	Total £000
Balance at 31 March 2018 (under IAS 37 and 39)	183,741	120	183,861
Reclassification on transition to IFRS 9	(183,741)	-	(183,741)
Balance at 1 April 2018 (under IAS 37)	-	120	120
Provided in year	-	300	300
Released in year	-	(120)	(120)
Balance at 31 March 2019	-	300	300
<i>Of which:</i>			
Current	-	-	-
Non-current	-	300	300

Year ended 31 March 2018

	Loan commitments £000	Dilapidation provision £000	Total £000
Balance at 1 April 2017	146,743	120	146,863
Provided in year on new ECFs	71,321	-	71,321
Released in year	(34,323)	-	(34,323)
Balance at 31 March 2018	183,741	120	183,861
<i>Of which:</i>			
Current	40,058	120	40,178
Non-current	143,683	-	143,683

The 31 March 2018 balance includes a dilapidation provision under IAS 37 and a loan commitments provision under IAS 39. On transition to IFRS 9 the loan commitments provision has been reclassified as a financial liability at FVTPL (Note 19).

19. ECF loan commitment financial liability

	2019 £000	2018 £000
Balance at 1 April following reclassification on transition to IFRS 9	183,741	-
Provided in year on new ECFs	-	-
Released in year	(44,364)	-
Balance at 31 March	139,377	-
<i>Of which:</i>		
Current	35,877	-
Non-current	103,500	-

Non-current amounts relate to undrawn loan commitments where, based on historic and forecast information, it is not anticipated the commitments 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.

When a commitment is drawn, the loan commitment is released and a separate fair value adjustment on the resulting investment is recognised in net losses on investments in the Consolidated Statement of Comprehensive Net Income, to reflect the difference between the fair value and the amount drawn.

20. Loans and other borrowings

	2019 £000	2018 £000
Unsecured loans	619,158	14,894
Capital grants	92,127	101,266
Total loans and other borrowings	711,285	116,160

The amounts falling due after one year of the unsecured loans at 31 March 2019 were £619.2m (2018: £7m).

No amounts are due after one year at 31 March 2019 in respect of the capital grants (2018: £nil). The capital grants have been classified as a current liability as they are repayable on demand, in whole or in part, under certain conditions.

The unsecured loans include a term facility of £12m provided by BEIS to The Start Up Loans Company on 24 February 2014 which is repayable on 17 December 2020. The balance of this loan facility at 31 March 2019 was £7.9m (2018: £7.9m). A further term facility of £10m was provided on 17 December 2015 and is repayable on 17 December 2020. The balance of this term facility at 31 March 2019 was £7m (2018: £7m).

On 23 August 2018 the Group received a loan of £350m from the Nuclear Liabilities Fund which is repayable in full on 23 August 2020. This loan accrues interest at a rate of 2% per annum.

On 28 December 2018 the Group received a second loan of £250m from the Nuclear Liabilities Fund for the purpose of making investments on behalf of the Nuclear Liabilities Fund after 1 April 2019. The term of this loan is 4 years with the value reduced as the Group makes investment payments on the Nuclear Liabilities Fund's behalf. Any amount unutilised at 28 December 2022 will be repaid on this date. This loan accrues interest at a rate of 2% per annum for the first 2 years decreasing to 1.5% for the remaining life of the loan.

During the year repayments of £nil (2018: £nil) were made against these unsecured loans.

During the year the Group received capital grants of £4.1m (2018: £25m) and wrote down the value of capital grants by £7.3m (2018: £16.9m). The fair value of the capital grants was written down by a further £6.5m following the adoption of IFRS 9 on 1 April 2018.

21. 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 2006 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
British Business Aspire Holdco Limited	09263859
The Start Up Loans Company	08117656

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 Group's Help to Grow financial guarantee programme, the Group has entered in to financial guarantee agreements of £30m (2018: £60m). The Group has guaranteed 75% of eligible lending to SMEs under these agreements and a counter guarantee is in place that guarantees 50% of the Group's 75% of eligible lending. As at 31 March 2019 the amount lent under these financial guarantee agreements was £3.2m (2018: £1.8m). During the year ending 31 March 2019 one of the guarantee agreements totalling £30 million has expired with no amounts lent under it. Since the balance sheet date, the remaining agreement totalling £30m has expired with no further amounts being able to be lent under it.

22. Capital and other commitments

22.1. Capital commitments

The Group had the following undrawn commitments at the balance sheet date in relation to its existing investment portfolio:

	2019 £000	2018 £000
British Business Investments Limited		
BFP Mid Cap Investment Programme	143,968	211,778
UKIIF	285,080	242,108
	24,721	34,346
British Patient Capital Limited		
Venture/Growth	413,506	198,648
Venture Capital Solutions		
Enterprise Capital Funds	265,108	368,149
Other		
Northern Powerhouse Investments Ltd	45,000	50,000
Midlands Engine Investments Ltd	32,500	32,500
	1,209,883	1,137,529

22.2. Operating lease commitments

The Bank's occupation of the 5th and 6th floors at its registered office at Steel City House, West Street, Sheffield S1 2GQ is governed by a 10-year lease agreement covering the period from 9 October 2017 to 8 October 2027 for an annual rental cost of £224,000 with an option to break the agreement after five years.

The Bank entered into a lease from 1 June 2018 to 8 October 2027 to rent the 4th floor of Steel City House, West Street, Sheffield, S1 2GQ for an annual rental cost of £199,000 and including a rent-free period of 14 months.

The Bank's occupation of office space at 33 Kingsway, London, WC2B 6UF was governed by a Memorandum of Terms of Occupation which ended on 3 December 2018.

The Bank entered into a 10-year lease from 11 May 2018 to rent the 2nd floor of Salisbury Square House, 8 Salisbury Square, London, EC4 for an annual rental cost of £1,232,725 and including a rent-free period of 30 months.

For the year ended 31 March 2019, lease payments of £3.2m were recognised as an expense in the Consolidated Statement of Comprehensive Net Income and the Bank incurred £0.9m in expenses in relation to occupying the offices (including service charges, rates and utilities).

The future minimum operating lease payments are as follows:

	<1 year £000	1-5 years £000	>5 years £000	Total £000
At 31 March 2019	1,656	6,623	6,553	14,832
At 31 March 2018	574	1,047	1,177	2,798

23. Share capital

	2019	2018
Issued and fully paid ordinary shares of £1 each:	1,496,407,924	1,371,407,935
	£000	£000
Brought forward	1,371,408	1,071,408
Shares issued for cash	125,000	300,000
Carried forward	1,496,408	1,371,408

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

24. 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 parent 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, Steel City House, West Street, Sheffield S1 2GQ with the exception of The Start Up Loans Company whose registered office is 71-75 Shelton Street, Covent Garden, London WC2H 9JQ.

Subsidiary	Country of Incorporation	Nature of Business	Shares held by the Group
British Business Investments Limited*	UK	Makes commercial investments into providers of finance to smaller businesses plus venture capital fund investments	100%
BBB Patient Capital Holdings Limited	UK	Holding company	100%
British Patient Capital Limited*	UK	Makes commercial investments into venture and growth capital	100%
British Business Finance Limited	UK	Manages and invests into schemes 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%
The Start Up Loans Company*	UK	Provides loans to entrepreneurs	N/A

*Indicates investments are not directly held in these companies.

The Start Up Loans Company is a company limited by guarantee of which British Business Finance Limited is the sole member.

Details of the subsidiaries' results either individually or as part of a consolidated group, including their net assets as at the balance sheet date and their profit or loss for the year ended 31 March 2019, are provided in the segmental reporting note 10.

24. Subsidiaries and other significant undertakings (continued)

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 ¹ Registered address: 70 Sir John Rogerson's Quay, Dublin, Ireland	Ireland	Not classified	67.7%
VRG Ventures Limited Registered address: Cardiff House, Tilling Road, London, NW2 1LJ, UK	UK	Ordinary shares	28.4%
Muzinich UK Private Debt Fund Registered address: 49 Avenue J.F.K, L-1855, Luxembourg	Luxembourg	Not classified	20.7%

1. Pricoa's latest financial year end was 30 June 2019. The fund does not produce separate accounts and therefore figures for the fund are not available.

25. Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well-defined objective with restrictions around their ongoing activities.

An interest in a structured entity is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for the Group. Such interests include debt and equity investments and investment management agreements.

Depending on the Group's power over the activities of the entity and its exposure to, and ability to influence, its own returns, it may consolidate the entity. In other cases, it may sponsor or have exposure to such an entity but not consolidate it. As at 31 March 2019 and 31 March 2018 the Group does not consolidate any interests in structured entities as the Group is not considered to have control or significant influence over these entities due to the way these entities are structured.

The nature and extent of the Group's interest in structured entities and its maximum exposure is summarised below:

	2019 £000	2018 £000
Interest in Limited Partnerships		
Available-for-sale financial assets	–	925,157
Assets at fair value through profit or loss under IAS 39	–	208,229
Assets at fair value through profit or loss under IFRS 9	1,288,735	–
Total assets	1,288,735	1,133,386

26. Financial instruments

26.1 Categories of financial instruments

The following table analyses the Group's financial assets and liabilities in accordance with the categories of financial instruments in IFRS 9. Prior year comparatives have been provided as classified under IAS 39.

At 31 March 2019	Note	Assets held at FVTPL £000	Assets held at amortised cost £000	Liabilities held at amortised cost £000	Liabilities held at FVTPL £000	Non-financial assets and liabilities £000	Total £000
Assets							
Property, plant and equipment	15	-	-	-	-	3,708	3,708
Intangible assets	16	-	-	-	-	1,358	1,358
Amortised cost investment assets	14.1	-	431,126	-	-	-	431,126
Investment assets held at FVTPL	14.2	1,288,794	-	-	-	-	1,288,794
Trade and other receivables	13	525,000	9,040	-	-	-	534,040
Prepayments	13	-	-	-	-	706	706
Cash and cash equivalents	11	-	152,117	-	-	-	152,117
Deferred tax	9	-	-	-	-	8,894	8,894
Total assets		1,813,794	592,283	-	-	14,666	2,420,743
Liabilities							
Trade and other payables	17	-	-	(17,545)	-	(604)	(18,149)
Corporation tax	9	-	-	-	-	(3,936)	(3,936)
Loans and other borrowings	20	-	-	(619,158)	(92,127)	-	(711,285)
ECF loan commitments	19	-	-	-	(139,377)	-	(139,377)
Provisions	18	-	-	-	-	(300)	(300)
Total liabilities		-	-	(636,703)	(231,504)	(4,840)	(873,047)
Net assets		1,813,794	592,283	(636,703)	(231,504)	9,826	1,547,696

26.1 Categories of financial instruments (continued)

At 31 March 2018	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
Assets								
Property, plant and equipment	15	-	-	-	-	-	1,670	1,670
Intangible assets	16	-	-	-	-	-	1,882	1,882
Loans and receivables	14.1.1	-	346,068	-	-	-	-	346,068
Held to maturity investments	14.1.2	-	-	31,090	-	-	-	31,090
Available-for-sale financial assets	14.2.1	-	-	-	985,793	-	-	985,793
Designated at FVTPL	14.2.2	208,229	-	-	-	-	-	208,229
Derivatives	14.2.3	31,653	-	-	-	-	-	31,653
Trade and other receivables	13	-	5,248	-	-	-	-	5,248
Prepayments	13	-	-	-	-	-	534	534
Cash and cash equivalents	11	-	63,641	-	-	-	-	63,641
Deferred tax	9	-	-	-	-	-	3,953	3,953
Total assets		239,882	414,957	31,090	985,793	-	8,039	1,679,761
Liabilities								
Trade and other payables	17	-	-	-	-	(12,973)	(1,252)	(14,225)
Corporation tax	9	-	-	-	-	-	(11,353)	(11,353)
Loans and other borrowings	20	-	-	-	-	(116,160)	-	(116,160)
Provisions	18	-	-	-	-	(183,741)	(120)	(183,861)
Total liabilities		-	-	-	-	(312,874)	(12,725)	(325,599)
Net assets		239,882	414,957	31,090	985,793	(312,874)	(4,686)	1,354,162

26.2. Fair value measurements

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

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 investment portfolio consists of assets carried at amortised cost and fair value.

The Group's financial assets are all classified as Level 3 assets, except for one amortised cost investments and one FVTPL investment which are classified as Level 1 assets.

During the year ending 31 March 2019 the fair value of investment assets held at fair value through profit or loss increased by £95.3 million taken to the Consolidated Statement of Comprehensive Net Income. Fair value impairments on initial recognition of amortised cost investments of £18.4m were taken to the Consolidated Statement of Comprehensive Net Income.

During the year ending 31 March 2018, the fair value of Available-for-sale financial assets increased by £6.7 million taken to Other Comprehensive Income. The fair value of derivative financial instruments increased by £13.0 million taken to the Consolidated Statement of Comprehensive Net Income. The fair value of assets held as at fair value through profit or loss increased by £17.2m taken to the Consolidated Statement of Comprehensive Net Income.

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

Investments held at fair value through profit of loss (FVTPL)

For all FVTPL assets, except for the Enterprise Capital Funds and the one Level 1 asset at FVTPL, 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 that they provide an appropriate measure of fair value at the reporting date.

The Group has also provided two loans to its shareholder which at 31 March 2019 had a total value of £525.0m (2018 £nil). These loans have been classified as FVTPL. The loans are repayable on demand and have a zero-interest rate. The Directors consider that the credit risk for these loans is minimal given the credit rating of the borrower and that the value of the principal outstanding represents the fair value.

Enterprise Capital Funds

For the purposes of valuation, the Enterprise Capital Fund investments are bifurcated into a debt and a derivative element, which are disclosed together. 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 model, which for each valuation assessment is updated for actual asset performance and key assumption and input changes.

26.2. Fair value measurements (continued)

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

Input	Assumptions in determining the input
Net amount drawn and fund valuation as at 31 March 2019	Reported by fund managers. Assessed separately for each fund based on remaining investment period and estimated timetable for fund exits.
Time to fund exit – ranging from 0-10 years	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.
Volatility – ranging from 26% to 30%	Set to equal the contractual return which funds must pay before any upside on the option is realised.
Dividend yield – ranging from 3.0% to 4.5%	Derived from UK Government bonds.
Risk free rate	

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

Set out below is a comparison by class of carrying amounts and fair values of the Group's financial assets and financial liabilities measured at amortised cost.

	Carrying value 2019 £000	Fair value 2019 £000	Carrying value 2018 £000	Fair value 2018 £000
Financial assets at amortised cost				
Loans and receivables				
BFP Small Cap	-	-	635	635
Investment Programme	-	-	209,767	209,767
Start Up Loans	-	-	135,666	116,515
Held to Maturity Investments	-	-	31,090	33,279
Amortised cost				
BFP Small Cap	2	2	-	-
BFP Mid Cap	55,432	49,849	-	-
Investment Programme	233,542	237,099	-	-
Start Up Loans	137,241	144,731	-	-
Northern Powerhouse Investments	4,909	5,000	-	-
	431,126	436,681	377,158	360,196
Financial liabilities at amortised cost				
Unsecured loans	619,158	619,158	14,894	14,894
Capital grants	92,127	92,127	101,266	101,266
	711,285	711,285	116,160	116,160

Financial assets at amortised cost are classed as Level 3 assets except for one investment that is publicly listed. Unsecured loans and capital grants are classed as Level 3 liabilities.

Start Up Loans

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

For the estimation of fair value at the reporting date, the Group has utilised a future expected cash flow model which is based on the recent past performance for similar loans.

The future expected cash flows derived from the model are discounted using an appropriate discount rate which has been calculated by taking the 5-year median corporate debt rates for Caa/C rated loans. This information has been sourced from Moody's market analysis. Start Up Loans are classed as Level 3 assets based on the valuation techniques used to determine the fair value at the reporting date. The fair value of Start Up Loans is sensitive to changes in the discount rate and to changes in expected cash flows arising from the actual and future expected performance of the loans. The fair value of Start Up Loans is sensitive to changes in the discount rate and to changes in expected cash flows arising from the actual and future expected performance of the loans. A 2 percentage point increase in the discount rate as a result of movements in corporate debt rates for Caa/C rated loans or LIBOR could lead to approximately £4.5m decrease in fair value.

BFP Small Cap, BFP Mid Cap and Investment Programme

Loans at amortised cost provided through the BFP Small Cap, the BFP Mid Cap and the Investment Programme comprise both fixed rate and floating rate investments with an average duration of not more than five years.

The Directors have assessed that the changes in interest rates and in credit spreads and the associated impact on the fair value of these assets since they were originated is not material to the Group's results. The Directors consider the carrying value of the investments measured at amortised cost to be a reasonable representation of the fair value of these assets at 31 March 2019 and 31 March 2018. BFP Small Cap, BFP Mid Cap and Investment Programme amortised cost assets are classed as Level 3 assets in the fair value hierarchy.

Unsecured loans and capital grants

The carrying value and fair value of unsecured loans reflects the amount at which the Group expects to settle its liabilities with BEIS and the Nuclear Liabilities Fund respectively. The carrying value and fair value of the BEIS capital grant are equivalent because the grant has no maturity and is repayable on demand, in whole or in part, under certain conditions.

Liabilities held at FVTPL

The fair value of the capital grants repayable to BEIS are equivalent to their nominal value because the grants have no maturity date and may become repayable on demand, in whole or in part, under certain circumstances.

The ECF loan commitments are part of a group of financial assets and financial liabilities that are managed, and their performance evaluated on a fair value basis, and information about the group is provided internally on that basis to the entity's key management personnel. As permitted under IFRS 9, an election has been made to measure the financial liability arising from the loan commitments at FVTPL. The fair value of each commitment is calculated by discounting future cashflows using a discount rate which is adjusted to take account of the credit risk.

26.3. 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 Group has exposure to the following risks from its use of financial instruments:

- Credit and Investment risk
- Market risk
- Liquidity risk

Credit risk and investment risk

Credit and investment risk is the risk of loss to the Group from the failure of clients, customers or counterparties to fully honour their obligations to the Group, including the whole and timely payment of principal, interest, collateral and other receivables and the risk of loss due to a fall in the value of equity investments or adverse credit spread movements. Credit risk includes settlement risk, when a counterparty fails to settle their side of a transaction, and concentration risk. Credit risk may arise in any of the Group's assets where there is the potential for default including assets held at amortised cost and FVTPL investments with a contractual repayment.

Assessments of credit and investment risk are 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. With respect to Start Up Loans, all loans to entrepreneurs are on an unsecured basis and the credit risk is the risk that an entrepreneur will default on their contractual obligations to make repayments resulting in financial loss to the Group. To manage this, the Executive Committee approves the lending policy for Start Up Loans and all changes to it. All loan applications are assessed with reference to the lending policy in force at the time. Subsequently loans are regularly reviewed for any factors that may indicate that the likelihood of repayment has changed. During the year there have been no noteworthy changes in the credit risk management procedures.

As part of the Risk Appetite process the Group undertakes stress scenario modelling on its portfolio. Severe but plausible stressed scenarios featuring significant asset value corrections on the 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 Group operating in underserved finance markets and demonstrates that the Group would suffer significant losses if such a scenario was to materialise.

The Group also undertook a stress test based upon the Bank of England (BOE) Annual Cyclical Scenario Stress Testing guidelines. This was undertaken by analysing which UK macroeconomic variables suggested by the BOE would have an impact on the Bank's credit and investment risk exposures and then evaluating how changes in these variables over a 5-year time horizon would impact on credit and market value losses on the Group's portfolio.

The findings of this exercise showed that if the UK economy were to go through a macroeconomic downside scenario as prescribed by the BOE's *Annual Cyclical Scenario* within the next financial year, the Bank could incur additional credit and investment losses of £215m (equivalent to c.8% of the Bank's average capital deployed between 2019-2023) over the next five years.

These stress testing outcomes were considered by the Board and also communicated to our stakeholders.

Maximum credit risk exposure

	Maximum exposure 2019 £000	Collateral 2019 £000	Net exposure 2019 £000	Maximum exposure 2018 £000	Collateral 2018 £000	Net exposure 2018 £000
Cash and cash equivalents	152,117	-	152,117	63,641	-	63,641
Amounts owed by shareholder	525,000	-	525,000	-	-	-
Trade and other receivables	9,746	-	9,746	5,782	-	5,782
Amortised cost investments	431,126	93,770	337,356	-	-	-
Investments held at FVTPL	1,288,794	-	1,288,794	-	-	-
Loans and receivables	-	-	-	346,068	121,370	224,698
Held to maturity investments	-	-	-	31,090	-	31,090
Available for sale financial assets	-	-	-	985,793	-	985,793
Assets designated at FVTPL	-	-	-	208,229	-	208,229
Derivative financial instruments	-	-	-	31,653	-	31,653
Total	2,406,783	93,770	2,313,013	1,672,256	121,370	1,550,886

The Group through its applicable delivery partners has the ability to call on collateral in the event of a default of the counterparty by way of calling on the asset for which the finance has been provided. The collateral disclosed in the table relates in full to loans provided in relation to asset backed finance.

The maximum exposure is the carrying value of the financial assets in the Consolidated Statement of Financial Position. The carrying value of the investments in each class of financial asset is detailed in section 26.2 of this note and in note 14.

Credit risk rating and loss allowance

The Group has the following assets subject to expected credit loss impairments:

- Trade receivables;
- Assets held at amortised cost;
- Cash and cash equivalents.

Trade and other receivables

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

Assets held at amortised cost

The Group's investments are assessed by the Group's Valuation Committee. The Group produces credit risk ratings for its investments based upon the estimated Probability of Default and Loss Given Default of that investment.

26.3. Financial risk management (continued)

The following table presents an analysis of the credit quality of assets held at amortised cost, which were previously classified as Loans and receivables, Available-for-sale, or Held to maturity. It indicates whether assets were subject to a 12-month ECL or lifetime ECL allowance, and whether they were credit-impaired.

As at 31 March 2019	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Low risk	5,000	-	-	5,000
Medium risk	223,559	-	-	223,559
High risk	201,738	15,313	-	217,051
Defaulted financial assets	-	-	66,168	66,168
Total gross carrying amounts	430,297	15,313	66,168	511,778
Loss allowance	(10,901)	(8,671)	(61,080)	(80,652)
Carrying amount	419,396	6,642	5,088	431,126

The movement in the allowance for assets held at amortised cost during the year was as follows.

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Balance at 31 March 2018 per IAS 39				42,249
Adjustment on initial application of IFRS 9	3,993	3,924	17,750	25,557
Balance at 1 April 2018 per IFRS 9	10,673	10,445	46,688	67,806
Remeasurement ¹	(10,308)	3,163	11,542	4,397
Transfer between stages	(1,594)	(3,162)	4,756	-
Financial assets repaid	(672)	(1,775)	(1,906)	(4,353)
New financial assets acquired	12,802	-	-	12,802
Balance at 31 March 2019	10,901	8,671	61,080	80,652

1. Remeasurement includes credit risk changes as a result of significant increases in credit risk and changes in model inputs and assumptions

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

- The potential impact of ascribing 100% probability to the worst-case economic scenario (equivalent to around 350% PD increase) could increase provisions by £41.0m.
- The potential impact of inaccurately modelled PD input with a sensitivity of a 1-notch downgrade on a granular PD rating scale, equating to 1.5x multiple on all the performing loan PD inputs, could increase provisions by £7.3m.
- The potential impact of inaccurately modelled LGD input for the ECL calculations with a sensitivity of a 1-notch downgrade on a granular LGD rating scale, equating to a range of LGD input increases from 5% to 30% depending on the portfolio, could increase provisions by £23.4m.

Cash and cash equivalents

The Group held cash and cash equivalents of £152.1m as at 31 March 2019 (2018: £63.6m). The cash and cash equivalents are held with banks and financial institutions which are rated AA- to AA+ based on S&P ratings.

The Group considers that cash and cash equivalents have a low credit risk based on the external credit ratings of the holding parties. As such, an expected credit loss has not been recognised in the accounts.

Market risk

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

Interest rate risk

The Group'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 is estimated 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 are significantly mitigated by LIBOR floors.

Currency risk

The Group does not have material exposure to currency risk as the Group primarily invests in its functional currency, pounds sterling. There are some investments in funds which have an international investment mandate and are denominated in Euros or US Dollars. A condition of investment in these funds is that they invest into the UK at a fund level a larger amount than our financial investment. Approximately 5% 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 foreign currency, no currency sensitivity analysis has been performed.

Liquidity risk

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

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

In relation to the capital grants provided to the Group, they may become repayable on demand, in whole or in part, if at the absolute discretion of BEIS, certain conditions arise that affect the Start Up Loans Company adversely. The Group is dependent on continuing support from BEIS that the grants will not be recalled for a period of at least 12 months from the date of approval of these financial statements.

The Group has also entered into term facilities with BEIS, the repayment of which is managed as part of The Start Up Loans Company's cash flow forecasting, business planning and liquidity management processes which ensure that any mismatches between maturing assets and liabilities are smoothed and a degree of protection is provided against any unexpected developments that may arise.

During the year the Group entered into term facilities with the NLF, the repayment terms of which are set out in note 20. Should there be a shortfall at the repayment point of these term facilities, the Group's shareholder has confirmed they will provide the necessary cash by way of capital investment.

Other than the capital grants and term facilities, liquidity risk is not deemed significant 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.

Capital

The British Business Bank plc's share capital comprises 1,496,407,924 of issued and fully paid ordinary shares of £1. The Bank is not subject to external regulatory capital requirements under the Basel III regulatory capital framework and therefore does not manage its capital according to the Pillar 1 and Pillar 2 requirements set out in that framework. Where appropriate the Bank uses internal models for

measuring economic capital in the assessment of new investment transactions. The Bank's Adjusted Return on Capital employed is governed by BEIS and defined in a Shareholder Framework Document. The Adjusted Return on Capital Employed is a key performance indicator that is set for the Bank by its shareholder as part of the annual planning cycle and a figure of 3.6% was achieved for the financial year

ending 31 March 2019. The Bank monitors its performance against this indicator as part of its monthly performance management and for the financial year ending 31 March 2019 remained above the target throughout the year. Further details on the Adjusted Return on Capital Employed are given in Objective 4 – Manage taxpayers money efficiently section of the Strategic Report.

27. 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 related parties are disclosed below.

Key Management Personnel

Key Management Personnel refer to the Executive Committee of the Group and Non-Executive Directors.

	2019 £000	2018 £000
Compensation		
Salaries and other short-term benefits	1,965	1,815
Long term benefits	600	503
Post-employment benefits	134	123
	2,699	2,441

Aggregated contributions in respect of Key Management Personnel to defined contribution pension schemes for the year ending 31 March 2019 were £134,000 (2018: £123,000).

Trading transactions

The Department for Business, Energy and Industrial Strategy (BEIS) is the principal shareholder and parent of the British Business Bank plc. British Business Bank plc provides services to BEIS in relation to some financial assets held by BEIS. In return, British Business Bank recognises management fee income in relation to the services provided. In addition, BEIS provided temporary staff to the Group which are recharged. Nuclear Liabilities Fund Limited (NLF) is a related party by virtue of being controlled by the Group's ultimate shareholder.

Northern Powerhouse Investments Limited (NPIL), Midlands Engine Investments Limited (MEIL) and Cornwall and Isles of Scilly Investments Limited (CloS) are related parties by virtue of having directors who are also directors of British Business Bank plc and because they are companies owned by the ultimate shareholder. The Group has provided services in the year to these companies and recognises management fee income in relation to the services provided.

During the year, Group companies entered into the following transactions with related parties:

	2019 £000	2018 £000
Income		
Management fee		
BEIS	15,302	13,467
NPIL	2,691	2,135
MEIL	1,774	1,601
CloS	310	372
Innovate UK	309	204
Nuclear Decommissioning Authority	80	-
East Midlands Early Growth Fund Limited	49	-
Grant income – BEIS	17,461	17,201
Write down of repayable grant received – BEIS	7,291	16,924
	45,267	51,904
Expenditure		
Staff seconded from BEIS	199	198
Rent payable to BEIS	621	531
Other amounts payable to BEIS	54	15
	874	744
Investment transactions		
Purchase of UKIIF investment assets from BEIS	-	134,743
	-	134,743
Capital Transactions		
Shares issued to BEIS	125,000	300,000
Grants received from BEIS	4,100	25,000
Loans issued to BEIS	(600,000)	-
Repayments received on loans issued to BEIS	75,000	-
	(395,900)	325,000

27. Related party transactions (continued)

Amounts outstanding at year end

As at 31 March 2019, the Group was owed £2.8m from BEIS relating to the management fee (2018: £2.9m) and owed BEIS £0.4m.

As at 31 March 2019, the Group was owed £2.6m from NPIL (2018: £0.1m), £1.8 from MEIL (2018: £0.7m), and £0.7m from CloS (2018: £0.4m) relating to the management fee.

As at 31 March 2019 the Group was owed £539.9m in unsecured loans by BEIS and owed £97.8m in capital grants to BEIS.

As at 31 March 2019, the Group has made loan commitments to NPIL of £50m (2018: £50m) and MEIL of £32.5m (2018: £32.5m). During the year ending 31 March 2019 NPIL had drawn down £5m of its loan commitment. MEIL did not draw down on their loan commitment during the year.

As at 31 March 2019 the Group owed £600.0m in unsecured loans to NLF.

28. Events after the reporting date

On 1 April 2019 the Group disposed of its investment assets disclosed as 'Held for Sale' at 31 March 2019 to the Nuclear Liabilities Fund Limited. These assets were disposed of on an arm's length basis at fair value and the valuation recorded in the Consolidated Statement of Financial Position equates to the proceeds receivable.

29. 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

Opinion on financial statements

I have audited the financial statements of British Business Bank plc for the year ended 31 March 2019 which comprise:

- the Company Statement of Financial Position;
- the Company Statement of Changes in Equity;
- the Company Cash Flow Statement; and
- the related notes, including the significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and the 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 Directors' Remuneration Report on pages 68 to 82 that is described as having been audited.

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 2019; and
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- have been prepared in accordance with the Companies Act 2006.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the British Business Bank plc in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the British Business Bank plc's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate,

to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the directors for the financial statements

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

- the preparation of the financial statements and for being satisfied that they give a true and fair view,
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error,
- assessing the parent's company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the British Business Bank plc's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Other Information

Directors' are responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Directors' Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- in light of the knowledge and understanding of the 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; and
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

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 and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the parent company.

Hilary Lower

(Senior Statutory Auditor)

11 July 2019

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

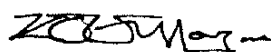
Company statement of financial position

as at 31 March 2019

	Note	2019 £000	2018 £000
ASSETS			
Cash and cash equivalents		84,677	37,927
Amounts owed by shareholder	2	525,000	-
Trade and other receivables	3	17,860	18,216
Investments	4	1,588,982	1,244,260
Property, plant and equipment		3,595	1,561
Intangible assets		4	7
Deferred tax		283	118
Total assets		2,220,401	1,302,089
LIABILITIES			
Trade and other payables	5	(139,859)	(7,400)
Corporation tax payable		(262)	-
Loans and other borrowings	6	(604,264)	-
Provisions		(300)	(120)
Total liabilities		(744,685)	(7,520)
Net assets		1,475,716	1,294,569
EQUITY			
Issued share capital		1,496,408	1,371,408
Retained earnings		(20,692)	(76,839)
Total equity		1,475,716	1,294,569

The Company has taken advantage of section 408 of the Companies Act 2006 and consequently the statement of comprehensive income (including the profit and loss account) of the parent company is not presented as part of these financial statements. The profit of the parent company for the financial period amounted to £56.2m (2018: loss £28.1m).

The financial statements of the Company were approved by the Board of Directors and authorised on 11 July 2019. They were signed on its behalf by:



Keith Morgan
Chief Executive Officer

The notes on pages 155 to 158 form an integral part of the financial statements.
Company number 08616013

Company statement of changes in equity

as at 31 March 2019

	Issued capital £000	Retained earnings £000	Total £000
Balance as at 1 April 2018	1,371,408	(76,839)	1,294,569
Net income after tax	-	56,147	56,147
Total comprehensive income	-	56,147	56,147
Issue of ordinary shares	125,000	-	125,000
Balance at 31 March 2019	1,496,408	(20,692)	1,475,716
Balance as at 1 April 2017	1,071,408	(48,721)	1,022,687
Net income after tax	-	(28,118)	(28,118)
Total comprehensive income	-	(28,118)	(28,118)
Issue of ordinary shares	300,000	-	300,000
Balance at 31 March 2018	1,371,408	(76,839)	1,294,569

Company cash flow statement

as at 31 March 2019

	Note	2019 £000	2018 £000
Profit/(loss) before tax		56,244	(28,118)
Cash flows from operating activities			
<i>Adjustments for:</i>			
Depreciation, bad debt and impairments		699	375
Interest expense		5,552	-
Impairment of investments in subsidiary undertakings	4	-	52,665
Purchase of investments in subsidiary undertakings	4	(1,547,839)	(320,853)
Disposal of investments in subsidiary undertakings	4	1,203,117	-
Corporation tax paid		-	(60)
Interest paid		(1,288)	-
Other provision expense		180	-
Movement in trade receivables	3	356	(12,567)
Movement in trade payables	5	132,459	1,965
Net cash used in operating activities		(150,520)	(306,593)
Cash flows from investing activities			
Purchases of property, plant and equipment		(2,730)	(1,355)
Net cash used in investing activities		(2,730)	(1,355)
Cash flows from financing activities			
Issue of new shares		125,000	300,000
Amounts owed by shareholder	2	(525,000)	-
Proceeds from loans received	6	600,000	-
Net cash from financing activities		200,000	300,000
Net increase/(decrease) in cash and cash equivalents		46,750	(7,948)
Cash and cash equivalents at beginning of year		37,927	45,875
Cash and cash equivalents at end of year		84,677	37,927

The notes on pages 155 to 158 form an integral part of the financial statements.

Notes to the Company financial statements

as at 31 March 2019

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 share capital have not been repeated here as there are no differences to those provided in the consolidated accounts (note 23).

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 financial statements 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. Amounts owed by shareholder

	2019 £000	2018 £000
Amounts owed by Shareholder	525,000	-

On 31 August 2018 the Company lent £350 million to BEIS, its shareholder, under the terms of a Loan Agreement. The amount lent is repayable on demand and has a zero-interest rate. In the year ending 31 March 2019, £75 million was repaid under this Loan Agreement.

On 15 January 2019 the Company lent a further £250 million to BEIS under the terms of a separate Loan Agreement. The amount lent is repayable on demand and has a zero-interest rate. In the year ending 31 March 2019, Enil was repaid under this Loan Agreement.

3. Trade and other receivables

	2019 £000	2018 £000
Amounts receivable within one year		
Trade receivables	182	53
Accrued income	375	-
Prepayments	541	385
Amounts due from Group companies	16,748	15,784
Other receivables	14	1,994
Total trade and other receivables	17,860	18,216

Trade receivables disclosed above are classified as amortised cost financial assets (2018: loans and receivables) and are measured at amortised cost.

4. 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
BBB Patient Capital Holdings Limited	Holding company
British Business Finance Limited (BBFL)	Manages investment schemes on behalf of the Group. The Start Up Loans Company (SULCo) which provides loans to entrepreneurs is a subsidiary of BBFL
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.

During the year ended 31 March 2019 the company disposed of its 100% shareholding in British Business Investments Limited (BBI) to BBB Patient Capital Holdings Limited, which is a 100% owned subsidiary of the Company. British Business Investments Limited and British Patient Capital Limited are 100% owned subsidiaries of BBB Patient Capital Holdings Limited.

See note 24 of the consolidated financial statements for details of all subsidiary holdings of the Company.

At 31 March 2019

Investment in	BBI £000	Holdings £000	BBFL £000	Total £000
Opening balance	1,203,117	-	41,143	1,244,260
Investment in year	-	1,473,839	74,000	1,547,839
Disposal in year	(1,203,117)	-	-	(1,203,117)
Closing Balance	-	1,473,839	115,143	1,588,982

At 31 March 2018

Investment in	BBI £000	BBFL £000	Total £000
Opening balance	920,764	55,308	976,072
Investment in year	282,353	38,500	320,853
Impairment	-	(52,665)	(52,665)
Closing Balance	1,203,117	41,143	1,244,260

5. Trade and other payables

	2019 £000	2018 £000
Amounts falling due within one year		
Trade payables	1,181	336
VAT and social security	542	664
Accrued expenditure	7,896	3,077
Amounts due to Group companies	127,709	-
Other payables	1,686	2,516
	139,014	6,593
Amounts after more than one year		
Accrued expenditure	845	807
	139,859	7,400

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

6. Loans and other borrowings

	2019 £000	2018 £000
Unsecured loans	604,264	-
Total loans and other borrowings	604,264	-

On 23 August 2018 the Company received a loan of £350m from the Nuclear Liabilities Fund which is repayable in full on 23 August 2020.

On 28 December 2018 the Company received a second loan of £250m from the Nuclear Liabilities Fund for the purpose of making investments on behalf of the Nuclear Liabilities Fund after 1 April 2019. The term of this loan is 4 years with the value reduced as the Group makes investment payments on the Nuclear Liabilities Fund behalf. Any amount unutilised at 28 December 2022 will be repaid on this date.

During the year repayments of £nil were made against these unsecured loans.

7. Related party transactions

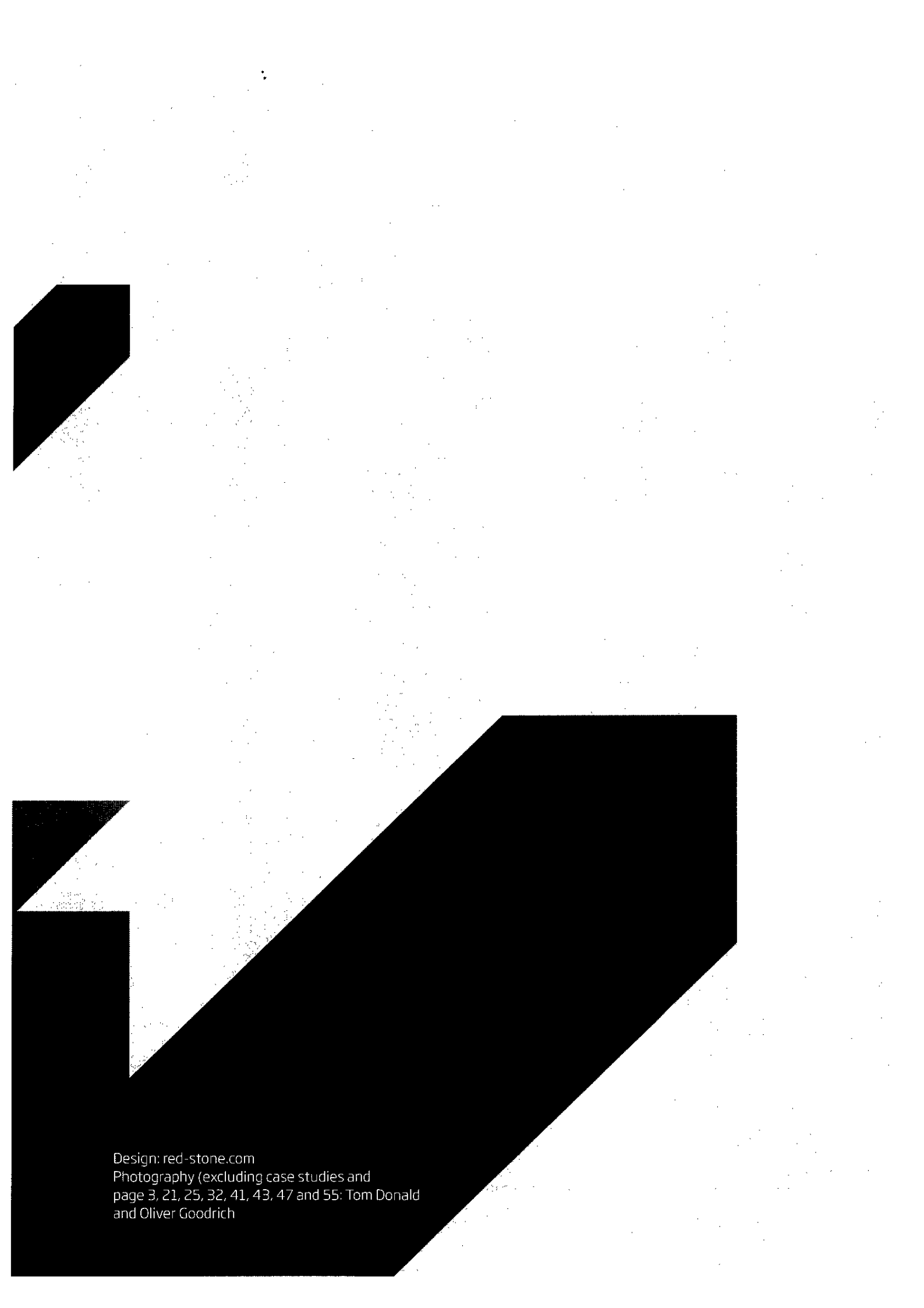
During the year under review British Business Bank plc was 100% owned by the UK Government, with the shareholder being the Secretary of State for the Department for Business, Energy and Industrial Strategy (BEIS). The Company has elected to take the exemption under IAS 24 regarding disclosure of transactions with related parties because the UK Government has control over both the Company and other related 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 BEIS and the Company's principal subsidiary undertakings BBB Patient Capital Holdings Limited, 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 27 of the consolidated financial statements. The Company provided capital to BBB Patient Capital Holdings and BBFL as shown in note 4. In addition, it made charges to its principal subsidiary undertakings in respect of services provided on their behalf amounting to £40.1m (2018: £19.8m).

8. 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 House, Crown Way, Maindy, Cardiff CF14 3UZ.

The image features a minimalist design with several black geometric shapes on a white background. In the top left, there is a small black trapezoid. In the bottom left, there is a larger black shape consisting of a rectangle and a triangle. A large, prominent black parallelogram is positioned diagonally across the lower half of the page. The text is located in the bottom left corner, within the white space.

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Photography (excluding case studies and
page 3, 21, 25, 32, 41, 43, 47 and 55: Tom Donald
and Oliver Goodrich

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All figures source British Business Bank 31 March 2019 unless otherwise stated.

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Sheffield S1 2GQ



British Business Bank plc is a public limited company registered in England and Wales (registration number 08616013, registered office at Steel City House West Street Sheffield S1 2GQ). As the holding Company of the Group operating under the trading name of British Business Bank, it is a development bank wholly owned by HM Government which is not authorised or regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). It operates under its own trading name through a number of subsidiaries, one of which is authorised and regulated by the FCA. British Business Bank plc and its subsidiary entities are not banking institutions and do not operate as such. Accordingly, none of the British Business Bank group of companies takes deposits or offers banking services. A complete legal structure chart for British Business Bank plc and its subsidiaries can be found at www.british-business-bank.co.uk