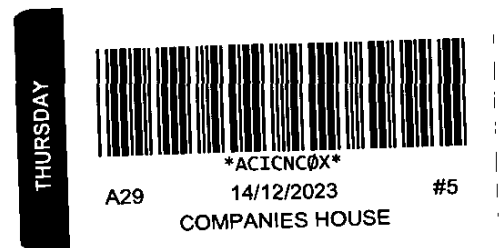


Registered number  
09091928

British Business Finance Ltd  
Annual Report and Financial Statements  
for the year ended 31 March 2023



**British Business Finance Ltd**  
**Annual Report and Financial Statements**  
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**British Business Finance Ltd**  
**Company Information**

**Directors**

Barbara Anderson  
Neeta Atkar  
James Carter  
James Connelly  
Matthew Elderfield  
David Hourican  
Eilish Jamieson  
Jennifer Knott  
Nathaniel Sloane  
David Louis Taylor  
Stephen Welton

**Bankers**

National Westminster Bank plc  
250 Bishopgate  
London  
EC2M 4AA

**Registered office**

Steel City House  
West Street  
Sheffield  
S1 2GQ

**Registered number**

09091928

## **British Business Finance Ltd Strategic Report**

### **Review of business and future developments**

British Business Finance Ltd has responsibility for some of the British Business Bank's core programmes, including the flagship venture capital programme, Enterprise Capital Funds, which supports equity investments into smaller businesses with high-growth potential.

The internal control procedures implemented by the Company and the remuneration paid to the Directors of this Company are disclosed in the consolidated accounts of British Business Bank plc which are available from Companies House.

The key operational risks the Company is exposed to are: maintaining a suitably qualified investment team to deliver the Company's investment strategy within the State Aid frameworks; and ensuring systems and processes support investment decision making, reporting and portfolio management.

The Company continues to review potential new investments and has a pipeline that the Investment team are working with to identify new partners for the Enterprise Capital Funds programme.

The significant uplift in investment valuations recorded in the prior year pointed to a recovery of the impact caused by the Covid-19 pandemic. Despite economic headwinds, the current year investment valuations have only recorded a modest decrease. The Company has continued to closely follow the guidance issued by the Financial Conduct Authority, the Financial Reporting Council and the Prudential Regulation Authority regarding the approach to assessing valuations and ECL provisions under IFRS 9 to ensure that the valuations provided are a true reflection of the value at the point in time the accounts were approved.

### **Results and dividend**

The total comprehensive loss for the year after taxation was £79.1m (2022: Profit £64.8m). The Company did not pay a dividend.

### **Principal risks and uncertainties**

The Company uses financial instruments, including cash and various other items such as trade payables that arise directly from its operations. The main risks arising from the Company's financial instruments are credit and investment risk, market and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

**British Business Finance Ltd**  
**Strategic Report (continued)**

**Credit and investment risk**

Credit and investment risk is the risk of a loss due to the failure of a counterparty of a financial instrument to meet its obligations to pay the Company in accordance with agreed terms, or due to the risk of loss due to inappropriate investment decisions. Credit risk also includes settlement risk when a counterparty fails to settle their side of a transaction and concentration risk. The Company's credit risk is also influenced by general macroeconomic conditions.

Credit risk may arise in any of the Company's assets where there is the potential for default which includes investments with a contractual repayment.

The degree to which the Company is exposed to this credit risk depends on the individual characteristics of the contract counterparty and the nature of the investment. The amount of exposure, before taking into account any collateral or security, in each class of financial asset is limited to the amount invested at any given point in time.

The concentration of credit risk is limited due to the investment base being large and spread across the Company's operating segments.

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

**Market risk**

Market risk is the risk of direct or indirect losses that arise from fluctuations in values of, or income from, assets or in movements in interest or exchange rates or credit spreads.

The Company will identify market risk arising from an inability to exit an investment within the intended time frame.

**Interest rate risk and foreign currency risk**

The Company does not have material exposure to interest rate risk as it primarily invests in fixed rate loans. The Company also does not have material exposure to foreign currency risk as it primarily invests in its functional currency, pounds sterling. There is currently no policy to hedge currency risk.

**British Business Finance Ltd**  
**Strategic Report (continued)**

**Liquidity risk**

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

Liquidity risk is not deemed significantly relevant to the Company. The Company is part of the British Business Bank plc group which is 100% Government funded, with all programmes pre-approved and committed to, and it does not have a leveraged balance sheet.

**Key Performance Indicators**

The Directors use the performance of the underlying investments as the main indicator of how well the Company is performing. The key performance indicator that management use is the fair value movement on the portfolio investments. During the year to 31 March 2023, there were total fair value losses on the underlying portfolio amounting to £44.9m (2022: gains of £144.8m). This includes impairments arising on the initial recognition of new investments amounting to £37.5m (2022: £50.0m), which is unrelated to the performance of the investments and arises from an increase in commitments made in the year. The underlying investments generated a loss of £7.7m compared with a gain of £195.3m in the year ended 31 March 2022.

This report was approved by the board on 30 November 2023 and signed on its behalf by:



Louis Taylor  
Director

**British Business Finance Ltd****Registered number:** 09091928**Directors' Report**

The Directors present their report and financial statements for the year ended 31 March 2023

**Principal activities**

The Company manages British Business Bank programmes that have an element of State Aid. It invests on a non-commercial basis, and is not expected to make returns in line with those the private sector would expect. Its programmes tackle specific market failures affecting the finance markets for smaller business; either those pre-defined by State Aid frameworks, or otherwise identified through market analysis and notified to the European Commission.

**Directors**

The following persons served as directors during the year and up to the date of signing:

Barabara Anderson  
Neeta Atkar  
James Carter  
James Connelly  
Matthew Elderfield (appointed 22 November 2022)  
David Hourican (appointed 5 December 2022)  
Eilish Jamieson (appointed 21 November 2022)  
Jennifer Knott  
Catherine Lewis La Torre (resigned 1 October 2022)  
Patrick Magee (resigned 1 July 2022)  
Dharmash Mistry (resigned 30 April 2022)  
Phillip Piers (resigned 4 December 2022)  
Nathaniel Sloane  
Lord Smith of Kelvin (resigned 4 October 2023)  
David Louis Taylor (appointed 1 October 2022)  
Stephen Welton (appointed 5 October 2023)

**Statement of Directors' Responsibilities**

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

Under company law the Directors are required to prepare the Financial Statements in accordance with recognised accounting standards. The Directors have chosen to adopt International Financial Reporting Standards (IFRSs) and Article 4 of the International Accounting Standard (IAS) Regulation which is consistent with the accounting treatment adopted by the parent company. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, IAS 1 requires that Directors:

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

**British Business Finance Ltd****Registered number:** 09091928**Directors' Report**

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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Directors' responsibility statement**

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- 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.

**Appointment and removal of directors**

The Board of Directors is responsible for the appointments to the Board.

**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.

**Going concern**

The Directors have a reasonable expectation that the Company has 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 principal accounting policies notes in the financial statements.

**Events after the reporting date**

As at the approval date of these financial statements there are no post balance sheet events that require disclosure.

This report was approved by the Board on 30 November 2023 and signed on its behalf by:



Louis Taylor  
Director



**British Business Finance Ltd**  
**Statement of Comprehensive Net Income**  
**for the year ended 31 March 2023**

	Notes	2023 £000	2022 £000
Interest income		3,394	2,471
Other income		30	12
<b>Gross operating income</b>		<b>3,424</b>	<b>2,483</b>
Net (losses)/gains on investment assets	6	(44,888)	144,831
<b>Net operating (loss)/profit</b>		<b>(41,464)</b>	<b>147,314</b>
Administrative expenses		(21,661)	(19,711)
<b>Net operating (loss)/profit before ECF loan commitments provision</b>		<b>(63,125)</b>	<b>127,603</b>
Provided in the year on new commitments	13	(54,665)	(110,003)
Utilised in the year	13	37,580	58,571
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(80,210)</b>	<b>76,171</b>
Tax charge on (loss)/profit on ordinary activities	5	956	(11,360)
<b>(Loss)/Profit for the year</b>		<b>(79,254)</b>	<b>64,811</b>
<b>Other comprehensive income</b>	7	<b>119</b>	<b>-</b>
<b>Comprehensive net (loss)/profit for the year</b>		<b>(79,135)</b>	<b>64,811</b>

All amounts relate to continuing operations.

The notes on pages 11 to 36 form part of these financial statements.

**British Business Finance Ltd**  
**Statement of Financial Position**  
**as at 31 March 2023**

	Notes	2023 £000	2022 £000
<b>Assets</b>			
Cash and cash equivalents		6,581	3,297
Trade and other receivables	10	8,653	1,033
Amortised cost investments	9	95,733	94,428
Investments held at FVTPL	8	458,281	483,979
Investment in subsidiaries	7	736	489
Corporation tax receivable	5	-	159
Deferred taxation	12	5,589	-
<b>Total assets</b>		<b>575,573</b>	<b>583,385</b>
<b>Liabilities</b>			
Trade and other payables	11	(28,874)	(2,269)
ECF loan commitment	13	(209,496)	(192,411)
Corporation tax payable	5	(4,633)	-
<b>Total liabilities</b>		<b>(243,003)</b>	<b>(194,680)</b>
<b>Net assets</b>		<b>332,570</b>	<b>388,705</b>
<b>Equity</b>			
Called up share capital	14	520,315	497,315
Retained loss	15	(187,745)	(108,610)
<b>Total equity</b>		<b>332,570</b>	<b>388,705</b>

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

The financial statements (company number 09091928) were approved and authorised for issue by the Board on 30 November 2023 and have been signed on its behalf by:



Louis Taylor  
Director

The notes on pages 11 to 36 form part of these financial statements.

**British Business Finance Ltd**  
**Statement of Changes in Equity**  
**for the year ended 31 March 2023**

	<b>Share capital</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Opening balance at 1 April 2021</b>	476,215	(173,421)	302,794
Profit for the year	-	64,811	64,811
<b>Total comprehensive income for the year</b>	-	<b>64,811</b>	<b>64,811</b>
Shares issued	21,100	-	21,100
<b>Balance at 31 March 2022</b>	<b>497,315</b>	<b>(108,610)</b>	<b>388,705</b>
 <b>Opening balance at 1 April 2022</b>	 497,315	 (108,610)	 388,705
Profit/(Loss) for the year	-	(79,254)	(79,254)
Dividends received	-	119	119
<b>Total comprehensive income for the year</b>	-	<b>(79,135)</b>	<b>(79,135)</b>
Shares issued	23,000	-	23,000
<b>Balance at 31 March 2023</b>	<b>520,315</b>	<b>(187,745)</b>	<b>332,570</b>

The notes on pages 11 to 36 form part of these financial statements.

**British Business Finance Ltd**  
**Statement of Cash Flows**  
**for the year ended 31 March 2023**

	<b>Notes</b>	<b>2023</b> <b>£000</b>	<b>2022</b> <b>£000</b>
<b>Cash flows from operating activities</b>			
(Loss)/Profit before tax		(80,210)	76,171
<i>Adjustment for non-cash item:</i>			
Increase in ECF loan commitments liability	13	17,085	51,432
Increase in trade and other receivables	10	(7,620)	(1,033)
Net decrease/(increase) in assets held at FVTPL	8	25,698	(140,950)
Net (increase)/decrease in investment in subsidiaries	7	(247)	578
Net increase in assets held at Amortised cost	9	(1,305)	(6,353)
Increase/(decrease) in trade and other payables	11	26,605	(6,335)
Intercompany tax settlement	5	159	3,198
Net cash used in operating activities		<u>(19,835)</u>	<u>(23,292)</u>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of shares	14	23,000	21,100
Dividends received	7	119	-
Net cash generated by financing activities		<u>23,119</u>	<u>21,100</u>
<b>Net cash used</b>			
Cash used in operating activities		(19,835)	(23,292)
Cash generated by financing activities		23,119	21,100
Net cash used		<u>3,284</u>	<u>(2,192)</u>
Cash and cash equivalents at 1 April		3,297	5,489
Cash and cash equivalents at 31 March		<u>6,581</u>	<u>3,297</u>
Cash and cash equivalents comprise:			
Cash at bank		<u>6,581</u>	<u>3,297</u>

The notes on pages 11 to 36 form part of these financial statements.

**British Business Finance Ltd**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2023**

**1 General information**

British Business Finance Limited (the Company) is a company 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 Company's operations and its principal activities are set out in the Directors' Report on page 5.

**2 Summary of significant accounting policies**

***Basis of preparation of financial statements***

The financial statements have been prepared in accordance with International Financial Reporting Standards, IFRIC Interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements are prepared in accordance with IFRS and Interpretations in force at the reporting date.

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

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates. The Company has used the exemption available under s400 of the Companies Act 2006 not to prepare consolidated accounts. As a result, these financial statements reflect the financial position of the Company on an unconsolidated basis. The results of the Company and its subsidiary undertakings have been consolidated within the accounts of its parent, British Business Bank plc.

On 7th February 2023, the Prime Minister announced a major machinery of government change which redistributed the activities of several existing government departments, including BEIS, and created three new departments, the Department for Business and Trade (DBT), the Department for Digital Innovation and Technology, and the Department for Energy Security and Net Zero. British Business Finance Ltd has been designated to the Department for Business and Trade with accounting officer responsibilities formally transferred from 1st April 2023. Any reference to DBT in the financial statements also infers reference to BEIS.

***Going concern***

The Company's business activities, together with the factors likely to affect its future development and position, are set out on page 2.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In arriving at that view they have assumed that in the event of a downturn the parent company and the ultimate controlling party, The Secretary of State for the Department for Business and Trade, will continue to support the Company. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

**British Business Finance Ltd**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2023**

**2 Summary of significant accounting policies (continued)**

***Adoption of new and revised Standards***

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

At the date of authorisation of these financial statements, the Directors do not expect that the adoption of Standards and Interpretations in issue but not yet effective (IFRS 17 Insurance Contracts) will have a material impact on the financial statements of the Company in future years. The Company are carrying out an impact assessment with regard to the issuance of IFRS S1 and IFRS S2.

***Revenue recognition***

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

***Interest income***

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

***Trade receivables***

Trade receivables are stated at their original invoiced value, as the interest that would be recognised from discounting future cash receipts over the short credit period is not considered to be material.

***Taxation***

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the 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 Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the tax is also recognised in other comprehensive income or directly in equity respectively.

**British Business Finance Ltd**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2023**

**2 Summary of significant accounting policies (continued)**

***Financial Instruments***

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

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

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

***Classification of financial assets***

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

The Company has undertaken an assessment of the business model in respect of each group of its financial assets and has determined that in all cases the business model is one of 'Hold to Collect' as none of its business models has an objective of sale.

The Company's financial assets comprise debt and equity instruments. Debt instruments are classified both at initial recognition and subsequently, as amortised cost instruments, where the contractual cash flows represent solely payments of principal and interest ('SPPI'). If the cash flows do not represent SPPI, the instrument is measured at FVTPL.

All of the Company's equity instruments are measured at FVTPL both on initial recognition and subsequently.

The Company currently has no financial instruments recognised as FVOCI according to IFRS 9 classification.

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

Assets that do not meet the criteria for Amortised cost or FVOCI are measured at fair value through profit or loss. Movements in the carrying amount are taken through profit or loss and presented in the profit or loss statement in 'Net losses on investment assets'. FVTPL assets include derivative financial instrument, assets held for trading or those designated as at FVTPL. The Company may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

**British Business Finance Ltd**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2023**

**2 Summary of significant accounting policies (continued)**

***Impairment of financial assets***

The Company assesses on a forward-looking basis, the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost.

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

Subsequently, financial assets are considered to be in 'stage 2' when their credit risk has increased significantly since initial recognition, at which point it is considered appropriate to recognise lifetime ECL.

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.

During the year all financial instruments in the Company were Subject to 12-month ECL.

***Loan commitments at below market rate***

The Company accepts a lower than market rate of return from ECF investments in order to encourage private sector investors to invest alongside. Although the Company expects to make a positive return from these investments, this return is less than that required by the private sector. The Company 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 the group is provided internally on that basis to the Company's key management personnel.

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 Statement of Comprehensive Net Income, to reflect the difference between the fair value and the amount drawn.

***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 in Comprehensive Net Income Statement.

***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.



**British Business Finance Ltd**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2023**

**3 Critical accounting estimates and judgements**

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

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

**Judgements**

***Debt and equity fund net asset values used in the assessment of FVTPL investment valuation:***

The future returns from FVTPL fund investments are inherently uncertain and will depend on a range of factors including the manager's success in originating lending and investment 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 values of the Company's investments in FVTPL debt and equity funds are based on the fund net asset values (NAVs). In general, the fund's investments in underlying portfolio companies do not have observable market inputs which can be used for the purposes of measuring fair value and are therefore valued using Level 3 inputs as defined by IFRS 13. The managers of the funds apply valuation methodologies in compliance with IFRS or other recognised accounting standards such as UKGAAP. Most of the Group's investment funds apply IFRS valuation methodologies or apply the International Private Equity and Venture Capital (IPEV) Valuation Guidelines.

The Company is provided with NAVs on a quarterly basis from the managers of the funds. These NAVs are reviewed with particular scrutiny given to the valuation methodologies adopted by the fund managers, ensuring that they are appropriate and consistent with IFRS, IPEV or other relevant valuation guidelines, as well as taking into account known items in respect of the underlying portfolio companies. Furthermore the funds are audited on an annual basis by independent auditors with the Company being provided with copies of these audited accounts.

The Company's investments in Enterprise Capital Funds - Direct Investments are not considered fund investments and therefore not based on fund NAVs. Further details of the valuation of these investments are shown in note 8.

The ongoing economic uncertainty (and to a lesser extent than the prior year) the Covid-19 pandemic has given rise to significant additional uncertainty as to investment valuations. The impact on investments will vary depending on individual business models and success of any mitigating market interventions. Valuation methodologies include market multiples, industry benchmarks and discounted cashflows, all of which are inherently more uncertain as market places change and so forecasts and historical reference points become less reliable.

**British Business Finance Ltd**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2023**

**3 Critical accounting estimates and judgements (continued)**

**Estimates**

***Inputs to the Enterprise Capital Fund valuation models***

The Company has modelled the estimated future cashflows generated from its Enterprise Capital Funds (ECFs) in order to derive the fair value of its investments, and financial liabilities relating to its loan commitments. The models use inputs, some of which rely on estimates and assumptions made by management that risk causing a material adjustment to the carrying amounts of the assets and liabilities.

Within the ECFs investment calculation the Company uses multiple inputs and assumptions to determine the four components (Accrued Return, Loan, Option and Additional Upside) that comprise the fair value. The profile of expected cash flows generated by the ECF's is derived from the current NAV of the individual funds. The key assumptions which involve a significant degree of management estimates are:

- the risk-adjusted discount rate used in the valuation of expected future cashflows;
- the volatility percentage, which is a benchmark for the volatility of the market price of comparable investments over time;

***Risk adjusted discount rate and Market return rate***

The ECF discount rates used in the model are as follows:

- ECFs classified as low risk: 11%
- ECFs classified as medium risk: 13.5%
- ECFs classified as high risk: 17.5%

The discount rates are reviewed annually and in practice have remained at constant levels in recent years. The weighted average discount rates applied to the investments and commitments as at year-end were 15.5% and 17.3%, respectively. This is due to a larger number of funds being classified as high risk compared to those classified as low risk.

As an indication of sensitivity on the drawn investments, if all the funds had a 2% increase in discount rate applied this would decrease the fair value of the investments by £16.3m. Alternatively, if all the funds had a 2% decrease in discount rate applied this would increase the fair value of the portfolio by £18.5m.

As an indication of sensitivity on the commitments, if all the funds had a 2% increase in discount rate applied this would increase the loan commitment provision by £17.5m. Alternatively, if all the funds had a 2% decrease in discount rate applied this would decrease the loan commitment provision by £19.7m.

**British Business Finance Ltd**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2023**

**3 Critical accounting estimates and judgements (continued)**

As a further indication of sensitivity on the drawn investments and commitments, if all the funds were treated as high risk with a 17.5% discount rate applied this would decrease the fair value of the investments by £8.4m. Alternatively, if all the funds were treated as low risk with an 11% discount rate applied this would increase the fair value of the portfolio by £56.0m.

If all the funds were treated as high risk with a 17.5% discount rate applied this would increase the loan commitment provision by £1.5m. Alternatively, if all the funds were treated as low risk with an 11% discount rate applied this would decrease the loan commitment provision by £71.0m.

***Volatility Percentage***

The volatility assumptions are based on equity indices that are considered most closely aligned to the ECF portfolio companies, considers the sector-specific focus and maturity of each fund. The volatility assumptions used in the model vary from 11.4% to 86.6%.

A 10% relative decrease in the volatility percentage used across the Enterprise Capital Funds portfolio would lead to a £3.9m decrease in the fair value of the investments. Likewise, a 10% relative increase in the volatility percentage used across the Enterprise Capital Funds portfolio would increase the value of the investments by £3.8m.

***The assessment of ECL impairment allowances against amortised cost financial assets***

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

Where there has been a significant relative increase in the probability of default (PD) compared to initial recognition, based on the customer's credit quality, the account is assessed as being in 'stage 2'. Where current PD is measurable, a significant relative increase in the PD is judged to have occurred where there has been an increase in PD from origination to the reporting date equivalent to a 3-notch downgrade on a granular external credit rating scale. In addition, assets with a PD equivalent to external credit rating grade A (Standard & Poor's/Fitch) or A2 (Moody's) are considered to be low risk and are always classed as stage 1 under the IFRS 9 low credit risk exemption.

For assets which are not re-rated and where on-going behavioural modelling is not available, a fixed percentage of the performing portfolio is assumed to be in stage 2 based on historical grade transitions where available.

Where historical grade transitions are not available the percentage is defined in line with European Banking Authority (EBA) guidance. In the ECL calculations, a scalar based on the observed performance of each respective cohort is applied to the fixed percentage.

The ongoing economic uncertainty has raised further matters for consideration in assessing the Group's amortised cost financial assets. This has been incorporated into the post-model overlay process.

**British Business Finance Ltd**  
**Notes to the Financial Statements**  
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**3 Critical accounting estimates and judgements (continued)**

***Economic scenarios and associated probability weightings***

IFRS 9 requires the calculation of ECLs to account for multiple forward-looking macroeconomic scenarios that are plausible. The ECL model adopted by the Company uses a range of forward-looking projections of UK liquidation rates generated by a macroeconomic regression model based on third party base case forecasts of Consumer Price Index growth rates, interest rates, and unemployment rates, and then under two better and three worse scenarios. The selection of variables was reviewed in 2022–23 to ensure their continued suitability as independent variables within the regression model.

To account for the volatile nature of the UK economic environment, the Company has continued to engage with our third party forecaster throughout the year to provide independent economic forecasts for use within the IFRS 9 ECL models. They provide six economic scenarios of varying severity as input to the macroeconomic regression model, and the weightings associated with each are reviewed, challenged and adjusted on a quarterly basis. As at 31 March 2023, adjustments to the scenario weightings have been applied to increase the probability of a downside scenario.

**4 Staff costs**

The Company has no employees other than the Directors. The Directors did not receive any emoluments (2022: nil) for their roles in the Company.

<b>5 Taxation</b>	<b>2023 £000</b>	<b>2022 £000</b>
<b>Analysis of charge in period</b>		
Current tax:		
UK corporation tax on profit/(loss) of the period	-	-
Adjustments in respect of previous periods	4,633	263
	<u>4,633</u>	<u>263</u>
Deferred tax:		
Origination and reversal of timing differences	(13,885)	11,785
Adjustments in respect of previous periods	8,296	(688)
	<u>(5,589)</u>	<u>11,097</u>
 Tax on (loss)/profit on ordinary activities	 <u>(956)</u>	 <u>11,360</u>

**British Business Finance Ltd**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2023**

**5 Taxation (continued)**

**Factors affecting tax charge for period**

The differences between the tax assessed for the period and the standard rate of corporation tax are explained as follows:

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
(Loss)/profit on ordinary activities before tax	<u>(80,210)</u>	<u>76,171</u>
Standard rate of corporation tax in the UK	19%	19%
	<b>£000</b>	<b>£000</b>
Loss/(profit) on ordinary activities multiplied by the standard rate of corporation tax	(15,240)	14,472
Effects of:		
Expenses not deductible for tax purposes	-	1
Movement in unrecognised losses	-	(4,460)
Tax effects of fair value movements	4,688	1,772
Adjustments to tax charge in respect of previous periods	12,929	(425)
Effects of rate change	(3,333)	-
Current tax charge for period	<u>(956)</u>	<u>11,360</u>

<b>Corporation tax payable/(receivable)</b>	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Corporation tax receivable at 1 April	(159)	(3,620)
Current tax charge for the period	4,633	263
Intercompany tax settlement	-	3,198
Receipt of Corporation Tax	159	-
Corporation tax payable/(receivable) at 31 March	<u>4,633</u>	<u>(159)</u>

**Deferred tax asset**

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Deferred tax asset at 1 April	-	11,097
Movement in the year	5,589	(11,097)
Deferred tax asset at 31 March	<u>5,589</u>	<u>-</u>

The deferred tax adjustment in respect of prior years' relates to the utilisation of brought forward losses.

**British Business Finance Ltd**  
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**6 Net gains on investment assets**

		<b>2023</b>	<b>2022</b>
		<b>£000</b>	<b>£000</b>
Fair value movement on investment in subsidiaries	7	247	(578)
Expected credit losses on amortised cost investments	9	35	83
Fair value adjustment on initial recognition of assets held at fair value through profit or loss under IFRS 9	8	(37,484)	(49,997)
Realised fair value gains on assets held at fair value through profit or loss	8	2,216	22,161
Unrealised fair value (losses) or gains on assets held at fair value through profit or loss	8	(9,902)	173,162
		<u>(44,888)</u>	<u>144,831</u>

**7 Investment in subsidiaries**

		<b>Shares in subsidiary undertakings</b>	
		<b>2023</b>	<b>2022</b>
		<b>£000</b>	<b>£000</b>
<b>Cost or valuation</b>			
As at 1 April		489	1,067
Fair value movement		247	(578)
		<u>736</u>	<u>489</u>

The Company holds 20% or more of the share capital of the following companies:

<b>Company Name</b>	<b>Country of Incorporation</b>	<b>Shareholding percentage</b>	<b>Description</b>
British Business Aspire Holdco Ltd	UK	100	Investment company
Capital for Enterprise Ltd	UK	100	Holding company
The Start-Up Loans Company	UK	N/A	Provides loans to entrepreneurs

During the year the Company received a dividend from its subsidiary Capital for Enterprise Ltd of £119,360 (2022: Nil).

At the start of the year the Company indirectly held 100% of the shareholdings in Capital for Enterprise Fund Managers Ltd and Capital for Enterprise (GP) Ltd. Both Companies were dissolved during the year.

The Start-Up Loans Company is a company limited by guarantee of which the Company is the sole member.

**British Business Finance Ltd**  
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**8 Investments**

The Company's investments have been classified as FVTPL and Amortised cost under IFRS 9.

**Enterprise Capital Funds**

The Company runs Enterprise Capital Funds. Enterprise Capital Funds are commercially focused funds that bring together private and public money to make equity investments in high growth businesses. The Company 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% to 4.5%. In return the Company is entitled to less of the remaining upside gain in excess of the agreed return.

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

The investments in ECFs are classified as FVTPL under IFRS 9.

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.

The Company signs ECF agreements committing to the prioritised return and reduced upside gain in advance of drawdowns. At the point that the Company 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. The provision is measured as the NPV of the commitment using a combination of the expected market return, minus prioritised return and the weighted average life of the portfolio. See note 13 for further commitment details.

**Enterprise Capital Fund - Direct Investment**

During the prior year, one of the ECF investments was disposed for listed shares as part of the fund being listed. The two new investments held are still considered to form part of the ECF programme but are distinctly different in their accounting treatment. These investments are Level 1 Investments and measured at FVTPL under IFRS 9 based on the list share price.

**Legacy Venture Capital Investments**

The Company also has two other smaller Venture Capital schemes: Direct Investments and Help to Grow funds. These are detailed in table 8.1.

Under IFRS 9 all investment assets have been classified as fair value through profit or loss which is consistent with the Company's documented risk management and investment strategy. The Company's investment assets portfolio is managed and its performance is evaluated by the Company's key management personnel on a fair value basis.

**British Business Finance Ltd**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2023**

**8 Investments (continued)**

**Ongoing impact of market conditions on investment valuations**

We reported in the prior year that we have seen further recovery in economic activity as we recover from the impact of Covid-19. However, market conditions during 2022/23 have been demanding and extraordinary. Inflation is at a 40 year high, and we have seen the first UK interest rate hike cycle in 15 years.

This ongoing economic uncertainty has given rise to additional uncertainty around investment valuations. The impact on investments will vary depending on individual business models and the success of any mitigating market interventions. Valuation methodologies include market multiples, industry benchmarks and discounted cashflows, all of which are inherently more uncertain as marketplaces change and so forecasts and historical reference points become less reliable.

**8.1 Investments held at fair value through profit or loss**

	Legacy Venture Capital Investments £000	Enterprise Capital Funds - Direct Investments £000	Enterprise Capital Funds £000	Total £000
<b>At 1 April 2022</b>	7,526	40,627	435,826	483,979
Additions	1,400	-	74,118	75,518
Fair value adjustment on initial recognition	-	-	(37,484)	(37,484)
Repayments	(3,389)	-	(52,657)	(56,046)
Fair value movements	113	(27,569)	19,770	(7,686)
<b>At 31 March 2023</b>	<u>5,650</u>	<u>13,058</u>	<u>439,573</u>	<u>458,281</u>

	Legacy Venture Capital Investments £000	Enterprise Capital Funds - Direct Investments £000	Enterprise Capital Funds £000	Total £000
<b>At 1 April 2021</b>	8,493	-	334,536	343,029
Additions	2,056	46,151	100,644	148,851
Fair value adjustment on initial recognition	-	-	(49,997)	(49,997)
Repayments	(1,760)	-	(151,467)	(153,227)
Fair value movements	(1,263)	(5,524)	202,110	195,323
<b>At 31 March 2022</b>	<u>7,526</u>	<u>40,627</u>	<u>435,826</u>	<u>483,979</u>



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**9 Amortised cost investments**

	<b>Loan to Start-up Loans Company</b>	<b>Loan to Northern Powerhouse Investments</b>	<b>Loan to Midlands Engine Investments Limited</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>At 1 April 2022</b>	53,837	25,633	14,958	94,428
Additions	-	-	-	-
Repayments	-	(1,348)	(776)	(2,124)
Accrued Interest	1,270	1,348	776	3,394
Expected credit loss allowance	-	20	15	35
<b>At 31 March 2023</b>	<b>55,107</b>	<b>25,653</b>	<b>14,973</b>	<b>95,733</b>

	<b>Loan to Start-up Loans Company</b>	<b>Loan to Northern Powerhouse Investments</b>	<b>Loan to Midlands Engine Investments Limited</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>At 1 April 2021</b>	52,567	20,585	14,923	88,075
Additions	-	5,000	-	5,000
Repayments	-	(731)	(470)	(1,201)
Accrued Interest	1,270	731	470	2,471
Expected credit loss allowance	-	48	35	83
<b>At 31 March 2022</b>	<b>53,837</b>	<b>25,633</b>	<b>14,958</b>	<b>94,428</b>

**10 Trade and other receivables**

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Amounts due after more than one year included in:		
Trade debtors	456	1,033
Amounts owed by group undertakings	8,197	-
	<b>8,653</b>	<b>1,033</b>

**British Business Finance Ltd**  
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<b>11 Trade and other payables</b>	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
<i>Amounts payable within one year</i>		
Trade payables	40	32
Amounts owed to group undertakings	28,144	1,797
Other payables	84	111
Accruals and deferred income	606	329
Total trade and other payables	<u>28,874</u>	<u>2,269</u>

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

<b>12 Deferred taxation</b>	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Timing differences on ECF investments	363	(8,963)
Tax losses carried forward	5,226	8,963
	<u>5,589</u>	<u>-</u>
	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
At 1 April	-	11,097
Charged to the income statement	5,589	(11,097)
At 31 March	<u>5,589</u>	<u>-</u>

Deferred tax on timing differences relating to ECF investments is calculated at 19% (2022: 19%) 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.

**British Business Finance Ltd**  
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**13 ECF loan commitment**

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
At 1 April	192,411	140,979
Provided in year on new ECFs	54,665	110,003
Released in year	(37,580)	(58,571)
At 31 March	<u>209,496</u>	<u>192,411</u>
Of which:		
Current	57,777	46,420
Non-current	<u>151,719</u>	<u>145,991</u>
	<u>209,496</u>	<u>192,411</u>

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 Statement of Financial Position date.

As permitted under IFRS 9, an election has been made to measure the financial liability arising from the undrawn commitments at FVTPL.

Included within the 2022 "Released in year" value of £58.6m in the table above is an amount of £8.4m relating to a release of provision following de-commitment as a result of an investment disposal. The remaining value relates to release on drawdown of the commitments and is directly comparable with the sum of £37.6m in 2023.

**14 Share capital**

	<b>2023</b>	<b>2022</b>
	<b>No.</b>	<b>No.</b>
Authorised: ordinary shares of £1 each	<u>520,315,457</u>	<u>497,315,457</u>
	<b>2023</b>	<b>2022</b>
Issued and fully paid ordinary shares of £1 each		
	<b>£000</b>	<b>£000</b>
At 1 April	497,315	476,215
Shares issued	23,000	21,100
At 31 March	<u>520,315</u>	<u>497,315</u>

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

During the year the company issued 23,000,000 ordinary £1 shares at par value.

**British Business Finance Ltd**  
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**15 Retained loss reserve**

	<b>2023</b> <b>£000</b>	<b>2022</b> <b>£000</b>
At 1 April	(108,610)	(173,421)
Profit for the financial year	(79,135)	64,811
At 31 March	<u>(187,745)</u>	<u>(108,610)</u>

**16 Events after the reporting date**

As at the date of this report and accounts, there have been no post reporting date events that require disclosure.

**17 Capital commitments**

The Company had the following commitments at the year end date in relation to its existing investment portfolio:

	<b>2023</b> <b>£000</b>	<b>2022</b> <b>£000</b>
Enterprise Capital Funds	<u>405,541</u>	<u>376,688</u>

## 18 Financial Instruments

The following table analyses the Company's financial assets and liabilities in accordance with the categories of financial instruments in IFRS 9 Financial Instruments, Recognition and Measurement. Assets and liabilities outside the scope of IFRS 9 are shown separately.

		Assets held at amortised cost	Assets held at FVTPL	Liabilities held at amortised cost	Liability held at FVTPL	
At 31 March 2022	Note	£000	£000	£000	£000	Total £000
<b>Assets</b>						
Cash and cash equivalents		3,297	-	-	-	3,297
Trade and other receivables	10	1,033	-	-	-	1,033
Amortised cost investments	9	94,428	-	-	-	94,428
Investments held at FVTPL	8	-	483,979	-	-	483,979
Investment in subsidiaries	7	-	489	-	-	489
<b>Total assets</b>		<b>98,758</b>	<b>484,468</b>	<b>159</b>	<b>-</b>	<b>583,385</b>
<b>Liabilities</b>						
Trade and other payables	11	-	-	(2,269)	-	(2,269)
ECF loan commitment	13	-	-	-	(192,411)	(192,411)
<b>Total Liabilities</b>		<b>-</b>	<b>-</b>	<b>(2,269)</b>	<b>(192,411)</b>	<b>(194,680)</b>
<b>Net Assets</b>		<b>98,758</b>	<b>484,468</b>	<b>(2,110)</b>	<b>(192,411)</b>	<b>388,705</b>

**British Business Finance Ltd**  
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**18 Financial Instruments (continued)**

**(ii) Fair value measurements**

The information set out below provides information about how the Company determines 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 following table presents the Company's financial assets and liabilities that are measured at fair value by balance sheet classification.

		31 March 2023			31 March 2022		
	Note	Level 1 £000	Level 3 £000	Total £000	Level 1 £000	Level 3 £000	Total £000
<b>Financial assets</b>							
<b><i>FVTPL mandatory</i></b>							
Enterprise Capital Funds	8.1	-	439,573	439,573	-	435,826	435,826
Enterprise Capital Funds – Direct Investments	8.1	13,058	-	13,058	40,627	-	40,627
Legacy Venture Capital Investments	8.1	41	5,609	5,650	419	7,107	7,526
<b>Total financial assets at FVTPL mandatory</b>		<b>13,099</b>	<b>445,182</b>	<b>458,281</b>	<b>41,046</b>	<b>442,933</b>	<b>483,979</b>
<b>Total financial assets measured at fair value</b>		<b>13,099</b>	<b>445,182</b>	<b>458,281</b>	<b>41,046</b>	<b>442,933</b>	<b>483,979</b>

		31 March 2023			31 March 2022		
	Note	Level 1 £000	Level 3 £000	Total £000	Level 1 £000	Level 3 £000	Total £000
<b>Financial Liabilities</b>							
<b><i>FVTPL designated</i></b>							
ECF loan commitment financial liability	13	-	(209,496)	(209,496)	-	(192,411)	(192,411)
<b>Total liabilities at FVTPL designated</b>		-	(209,496)	(209,496)	-	(192,411)	(192,411)
<b>Total financial liabilities measured at fair value</b>		-	(209,496)	(209,496)	-	(192,411)	(192,411)

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period. There were no transfers between levels during the year.

The valuation techniques used to value financial assets and liabilities are detailed below.

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**18 Financial Instruments (continued)**

**Investments in funds and unlisted private equities**

	<b>£000</b>
<b>As at April 2022</b>	<b>442,933</b>
Additions	75,518
Fair value adjustment on initial recognition	(37,484)
Repayments	(55,555)
Fair value movements	19,770
<b>As at March 2023</b>	<b>445,182</b>

	<b>£000</b>
<b>As at April 2021</b>	<b>342,258</b>
Additions	102,700
Fair value adjustment on initial recognition	(49,997)
Repayments	(152,875)
Fair value movements	200,847
<b>As at March 2022</b>	<b>442,933</b>

***Investments held at fair value through profit or loss (FVTPL)***

***Enterprise Capital Funds***

Although accounted for as a single instrument, for valuation purposes, the Enterprise Capital Funds investments are bifurcated into a debt and a derivative element. The primary valuation methodology used for the debt element of investments is the discounted cashflow method. Fair value is estimated by deriving the present value of the investment using reasonable assumptions of expected future cashflows 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.

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:

**British Business Finance Ltd**  
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**18 Financial Instruments (continued)**

Input	Assumption in determining the input
Net amount drawn and fund valuation as at 31 March 2023	Net amounts drawn are cashflows from the business. Fund valuations are reported by fund managers.
Time to fund exit - ranging from 0 to 10 years	Assessed separately for each fund based on remaining investment period and estimated timescale for fund exits.
Volatility – ranging from 11.4% to 86.6%	The FTSE AIM All Shares sector indices have been used as a source for calculating volatility. The volatility applied to each fund varies according to the sector focus of the fund and its expected maturity.
Prioritised return – ranging from 3.0% to 4.5%	Set to equal the contractual return which funds must pay before any upside on the option is realised.
Risk free rate	Derived from UK Government bonds

Fair value of financial assets 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 Company's financial assets measured at amortised cost.

	Carrying value 2023	Fair value 2023	Carrying value 2022	Fair value 2022
	£000	£000	£000	£000
<b>Financial assets at Amortised cost</b>				
The Start-up Loans	55,107	55,107	53,837	53,837
Northern Powerhouse Investments	25,653	25,700	25,633	25,700
Midlands Engine Investments	14,973	15,000	14,958	15,000
	<u>95,733</u>	<u>95,807</u>	<u>94,428</u>	<u>94,537</u>

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

**Liabilities held at FVTPL**

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.



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**18 Financial Instruments (continued)**

**(iii) Financial risk management**

The Company has exposure to a number of financial risks through the conduct of its operations. This note presents information about the nature and extent of risks arising from the financial instruments.

The Company has exposure to the following risks from its use of financial instruments:

- Credit and Investment risk
- Market risk
- Liquidity risk

**Credit and investment risk**

Credit risk is the risk of loss to the Company from the failure of delivery partners or underlying borrowers to meet their transactional facility repayment obligations according to our expectations. This includes concentration risk which may arise from a lack of portfolio diversification, either in a sector, geographic area or type of security, notwithstanding a desire to address market failures. Investment risk is the risk of loss due to a fall in the fair value of equity investments.

Assessment of credit and investment risk is carried out as part of the investment approval process and is revisited on an ongoing basis as part of the Company's portfolio management process.

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

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

## 18 Financial Instruments (continued)

The Company's investments are assessed by the Company's Valuation Committee. The Company produces credit risk ratings for its investments based upon the estimated Probability of Default and Loss Given Default of that investment as it is not material.

	<b>Not credit-impaired</b>		<b>Total</b>	
	<b><u>Subject to 12-month ECL</u></b>			
	<b>Gross Carrying</b>	<b>Allowance</b>	<b>Gross Carrying</b>	<b>Allowance</b>
	<b>Amount</b>	<b>for ECL</b>	<b>Amount</b>	<b>for ECL</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>As at 01 April 2022</b>	40,700	(110)	40,700	(110)
Changes to risk parameters	-	35	-	35
<b>As at 31 March 2023</b>	<b>40,700</b>	<b>(75)</b>	<b>40,700</b>	<b>(75)</b>

	Gross Carrying Amount £000's	Allowance for ECL £000's	Gross Carrying Amount £000's	Allowance for ECL £000's
As at 01 April 2021	35,700	(689)	35,700	(689)
Changes to risk parameters	-	497	-	497
As at 31 March 2022	35,700	(192)	35,700	(192)

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**British Business Finance Ltd**  
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**18 Financial Instruments (continued)**

***Trade and other receivables***

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

***Cash and cash equivalents***

The Company held cash and cash equivalents of £6,581k as at 31 March 2023 (2022: £3,297k). The cash and cash equivalents are held with banks and financial institutions which are rated AA- to AA+ based on S&P ratings.

The Company considers that cash and cash equivalents have a low credit risk based on the external credit ratings of the holding parties. As such, an expected credit loss has not been disclosed due to it being an insignificant amount.

**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.

**Interest rate risk**

The Company does not have material exposure to interest rate risk as it primarily invests in fixed rate loans.

**Currency risk**

The Company does not have material exposure to currency risk as it primarily invests in its functional currency, pounds sterling. There is currently no policy to hedge currency risk.

**Liquidity risk**

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

Liquidity risk is not deemed significantly relevant to the Company. The Company is part of the British Business Bank plc group which is 100% Government funded with all programmes pre-approved and committed to, and it does not have a leveraged balance sheet.

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**19 Contingent liabilities and indemnities**

The Group has taken advantage of the exemption available under section 479A Subsidiary companies: conditions for exemption from audit of the Companies Act which exempts qualifying companies from the audit of their individual accounts for a financial year. The exemption is in respect of Aspire Holdco Limited, Capital for Enterprise Limited and its subsidiaries Capital for Enterprise Fund Managers Limited and Capital for Enterprise (GP) Limited. As required by the Act, British Business Finance Limited therefore:

- 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;
- asserts that the guarantee is enforceable against British Business Finance Ltd by any person to whom the subsidiary companies are liable in respect of those liabilities.

**20 Disclosure of 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 Company.

Under IFRS 12 Disclosure of Interest in Other Entities, the Company is required to make additional disclosures as the Limited Partnerships are considered to qualify as structured entities.

	2023 £000	2022 £000
<b>Interest in Limited Partnerships</b>		
Assets at fair value through profit or loss	445,218	443,352
	<u>445,218</u>	<u>443,352</u>

**British Business Finance Ltd**  
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**21 Related party transactions**

The following information is provided in accordance with IAS 24, Related Party Disclosures as being material transactions with related parties during the year.

The Directors did not receive any emoluments for their roles in this Company.

	2023	2022
	£000	£000
<b>Income</b>		
Northern Powerhouse Investments Ltd - Loan interest	1,348	731
Midlands Engine Investments Ltd - Loan interest	776	470
The Start-Up Loans Company - Loan interest	1,270	1,270
	<u>3,394</u>	<u>2,471</u>
<b>Expenditure</b>		
British Business Bank plc - intra group recharge	14,503	13,724
British Business Financial Services Ltd - intra group recharge	4,552	4,343
	<u>19,055</u>	<u>18,067</u>

No Director, Board member, key manager or other related party has undertaken any material transactions with the Company during the year.

**Amounts outstanding at the year end**

As at the balance sheet date, British Business Finance Ltd had outstanding receivable and payable with the following group companies.

		2023	2022
		£000	£000
<b>Receivable</b>			
British Business Bank plc		8,197	-
<b>Loans</b>			
Northern Powerhouse Investments Ltd	9	25,653	25,633
Midlands Engine Investments Ltd	9	14,973	14,958
The Start-Up Loans Company	9	55,107	53,837
		<u>103,930</u>	<u>94,428</u>
		2023	2022
		£000	£000
<b>Payable</b>			
British Business Bank plc		27,296	4,047
British Business Financial Services Ltd		649	682
British Business Aspire Holdco Limited		199	199
		<u>28,144</u>	<u>4,928</u>

**British Business Finance Ltd**  
**Notes to the Financial Statements**  
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**22 Ultimate controlling party**

The Company's parent company is the British Business Bank plc and, in the opinion of the Directors, the Company's ultimate controlling party is the British Business Bank plc's shareholder, the Secretary of State for the Department for Business and Trade. The consolidated financial statements of the Department for Business, Energy and Industrial Strategy and the Department for Business and Trade are available from the government departments' website at GOV.UK. Copies of the Group consolidated financial statements of the British Business Bank plc are available from Companies House.