Annual Report and Accounts 2018

Delivering more for smaller businesses across the UK

We help drive economic growth by making finance markets work better for smaller businesses – wherever they are in the UK and whatever their stage of development.

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Chair's statement

Helping to drive economic growth

The British Business Bank's mission is to help drive economic growth by making finance markets work better for smaller businesses – wherever they are in the UK and whatever their stage of development.

As the UK government's economic development bank, we find ourselves in a strong position at the end of the 2017/18 financial year, having enhanced our infrastructure, our organisation and our delivery to smaller businesses. Smaller businesses make up 99 percent of the UK's business population by number, and it is vitally important to our economy to enable these businesses to prosper and grow.

A growing remit

In a productive and successful year, two major developments illustrate the growing remit of the British Business Bank group most strongly. On the 1st of April, we combined with The Start-Up Loans Company (SULCo), building our group capability to deliver for businesses at the earliest stage. For businesses further along their development, the government allocated us an extra £2.5bn at Autumn Budget 2017 to tackle the long-standing dearth of crucially-important long-term patient capital which enables high growth potential, ambitious companies to grow into large, world-leading businesses.

Because of our growing reputation, both as a trusted centre of expertise on smaller business finance and as an organisation that delivers, we are being asked by the government to deliver more and take on new responsibilities.

This is reflected in two additional objectives against which we have been asked to deliver from the start of the 2018/19 financial year: identifying and helping to reduce regional imbalances in access to finance for smaller businesses across the UK; and being the centre of expertise on smaller business finance in the UK, providing advice and support to government.

Our people

Since April last year, as our role has expanded, our numbers have increased rapidly from 167 to 248, necessitating a move to a new head office in Sheffield's Steel City House as well as changes to our systems and processes. Colleagues across the Bank have shown considerable commitment, dedication and ability in continuing to deliver against our corporate objectives during a year of such significant growth and change.

Underpinning our corporate culture is a strong set of shared values, created and owned by colleagues across the Bank and supported by the Board. I am proud to chair an organisation that considers enabling, talent, openness, connecting, innovation and commercial responsibility as the foundations on which to build its success. I am also pleased we are championing diversity as a signatory to HM Treasury's Women in Finance Charter.

The Board

There have been several Board changes this year. I would like to thank Colin Glass and Teresa Graham, who stepped down as Non-executive Directors (NEDs) in June 2017, for their valuable contributions since joining the Board in June 2014. We welcomed Piers Linney and Amanda Rendle as new NEDs in December 2017, and look forward to drawing on their considerable knowledge and experience in the future.

On my appointment last year, I said that I believe passionately that access to finance is a vital part of helping smaller businesses to invest, grow and achieve their ambitions.

We have already helped many such businesses along their journey to success. I look forward to working with the dedicated team at the Bank to help even more of those businesses to maintain and grow their enormous contribution to the UK economy.

Lord Smith of Kelvin
Chair

Colleagues across the Bank have shown considerable commitment, dedication and ability in continuing to deliver against our corporate objectives during a year of such significant growth and change.

Chief Executive's statement

Increased delivery, enhanced capability

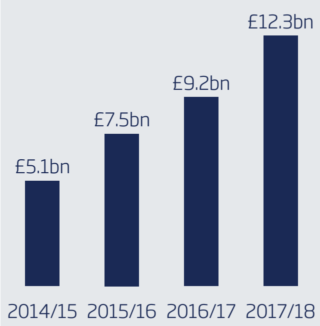
Over the course of the last financial year, we've increased our delivery of finance for smaller businesses, taking on new responsibilities while enabling ever greater supply and diversity of finance.

The British Business Bank was set up at the end of 2014 to make finance markets work better for smaller businesses. Over 74,000 businesses across the UK now benefit from our programmes, which increase both the range and the amount of finance available. Smaller businesses at all stages – whether startups, scaleups or well-established firms – need the right sort of finance to realise their potential. We help the market meet those needs more effectively.

During 2017/18, we saw money flowing to smaller businesses from our national and regional programmes. Against our four Key Performance Indicators:

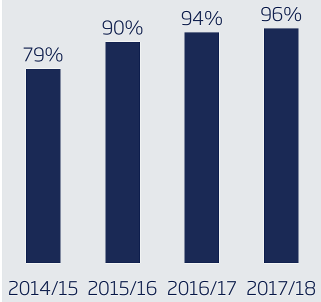
- we increased the total stock of finance provided through our programmes by 33%
- we supported further diversity of finance, delivering 96% of our support through smaller banks, non-bank lenders, alternative lenders and equity investors
- we expanded how we promote information about finance options, helping businesses to become more aware of, consider and explore their options
- we achieved a 4.7% adjusted return on capital, exceeding the target set by our government shareholder.

1
Increase the supply of finance



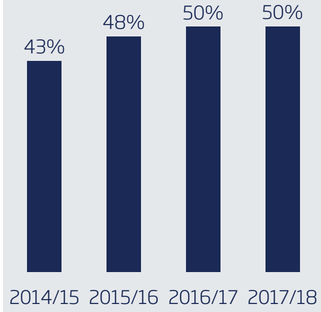
Stock of finance

2
Help to create a more diverse finance market



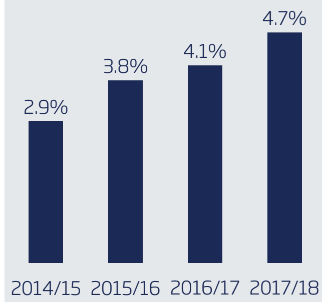
Percentage through non-Big Four banks

3
Promote better information in the market



Awareness of different forms of finance

4
Achieve this whilst managing taxpayers' money efficiently



Adjusted return on capital employed

The financial statements for British Business Bank plc show an operating profit of £48.3m (before provision for ECF loan commitments) and a profit before tax of £11.3m.

Our first two regional funds – the Northern Powerhouse Investment Fund and the Midlands Engine Investment Fund – are now delivering critically-important debt and equity finance to boost their respective regional economies. A third regional fund for Cornwall and the Isles of Scilly, a new angel investment fund focused outside of London and the South East, and our forthcoming Regional Manager Network will address further the well-documented imbalances in regional finance.

We are continuing to deliver high volumes of funding through our well-established programmes such as the Enterprise Finance Guarantee. Alongside this, 2017/18 saw the Bank increasingly focus on scaleup businesses. As well as making total commitments of £285m through our Venture Capital (VC) Catalyst, Enterprise Capital Funds and Angel CoFund – providing much-needed equity finance – the government asked us at Autumn Budget 2017 to deliver a significant increase in long-term patient capital provision. In 2018/19 we intend to nearly double our commitments, to £543m, to help innovative scaleups become the global successes of tomorrow.

Following on from our successful Business Finance Guide, which we publish jointly with the Institute of Chartered Accountants in England and Wales, this year we have been developing an innovative Information Hub – FinanceYourGrowth.co.uk – which enables growing businesses to understand and choose the best finance for their needs.

As the government's centre of expertise on smaller business finance, this year we've increasingly been called on to provide research and informed analysis. This includes leading government-sponsored research into VC industry diversity and capability and how Intellectual Property might be used to secure finance.

The British Business Bank now supports smaller businesses at all stages – from startup to long-term patient capital for high-growth potential scaleup businesses. The gearing up of our delivery and capability in the last year means we are ready and able to support more UK businesses in the future, whatever opportunities and challenges may lie ahead.

> The British Business Bank now supports smaller businesses at all stages – from startup to long-term patient capital for high-growth potential scaleup businesses.

Keith Morgan
Chief Executive Officer

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 businesses[1] – wherever they are in the UK and wherever they are on their business journey – enabling them to prosper and grow.

1. Small and Medium-sized Enterprises (SME) and small mid-cap businesses.

In 2017/18 the Bank had four key objectives:

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

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

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

4 **To achieve these while managing taxpayers' money efficiently** within a robust risk management framework

Evolving our objectives

During the year our shareholder undertook a review of our objectives which resulted in the refinement to the existing objectives and the creation of two new objectives. These new objectives formalise the targeting and measurement of work that the Bank is already undertaking.

When the British Business Bank was first assigned KPIs against which to measure its objectives, it was considered that there was a market failure around provision of finance to mid-caps, so these were included in targets and reporting. As this part of the market now appears to be functioning well, in future we will be measuring success against delivery of finance to smaller businesses (SMEs) only for objectives one and two.

Objective two now excludes the five largest banks instead of the largest four. The wording of our third objective is also being changed to focus more on our role in promoting behavioural change amongst smaller businesses.

Therefore the Bank's objectives from 2018/19 are:

- **To increase the supply of finance** to smaller businesses where markets don't work well
- **To help create a more diverse finance market for smaller businesses**, with greater choice of options and provider
- **To encourage and enable SMEs to seek the finance best suited** to their needs
- **To achieve the Bank's other objectives whilst managing taxpayers' money efficiently** within a robust risk management framework
- **Identifying and helping to reduce regional imbalances in access to finance** for smaller businesses across the UK
- **Being the centre of expertise on smaller business finance in the UK**, providing advice and support to government.

Our SME finance programmes

The Bank manages a range of SME finance programmes for Government, both on our own balance sheet and acting as agent for assets on the Department for Business, Energy and Industrial Strategy's (BEIS) balance sheet. Our performance is assessed by our shareholder, BEIS, based on the performance of all the assets we manage, so this strategic report covers both. Assets that we manage on behalf of BEIS (and included in this strategic report) include the Angel CoFund, ENABLE, Enterprise Finance Guarantee and the Northern Powerhouse and Midlands Engine Investment Funds. A description of all our programmes and their relative size is set out below.

Debt

Start Up Loans
Loans and mentoring to help people start their own companies or become self-employed.

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

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

ENABLE Funding
Allowing smaller lenders to access funding through the capital markets cost-effectively, meaning they can provide more finance to businesses.

Investment programme
Increasing volume and diversity of finance for smaller businesses by supporting the growth of new and alternative lenders.

Regional debt funding
Providing micro and small business debt finance to the Northern Powerhouse and Midlands Engine regions.

Equity

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

Enterprise Capital Funds
Increasing the supply of early stage venture capital to high growth potential businesses and lowering barriers for fund managers entering the VC market.

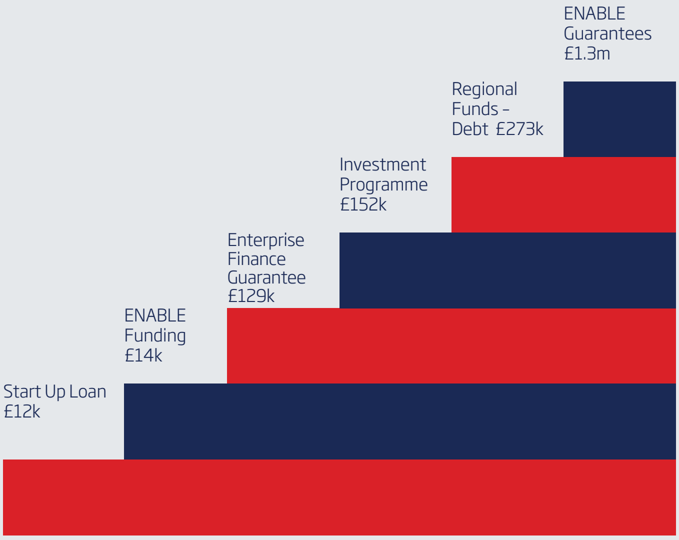
Venture Capital (VC) Catalyst
Increasing the supply of venture capital to high growth potential businesses.

Growth Capital
A pilot scheme to support equity funds that invest in ambitious, established and expanding small businesses that may have insufficient collateral for a loan.

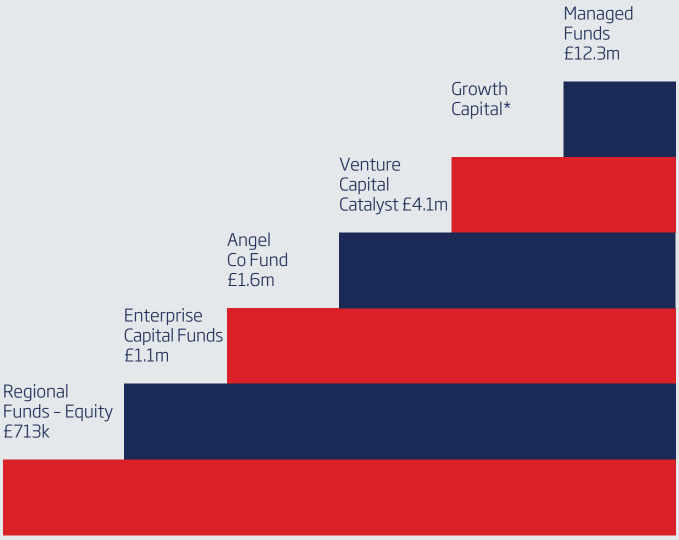
Managed Funds
Investments into Funds of Funds designed to increase institutional funding of long-term patient capital for high growth innovative businesses.

Regional equity funding
Providing equity finance to the Northern Powerhouse and Midlands Engine regions.

Average size of facility to SME – debt



Average size of investment in SME – equity



* This programme made its first commitment in November 2017 and therefore limited data is available.

State of the market

There were a record 5.7m smaller businesses in the UK at the start of 2017, up 0.2m from the previous year. Growing those new start-ups remains a challenge, with only 1.9% of those that started in 2014 reaching turnover of £1m in 2017.

Scaleups

Productivity in the UK has stagnated since the financial crisis. Ensuring that smaller businesses with high growth potential get the finance they need to realise their ambitions can help reverse this trend. Equity finance is typically the most appropriate type of finance for such firms.

While the number and value of equity deals in the UK reached historically high levels in 2017, bouncing back from a weaker 2016, the size of the UK venture capital market relative to the size of its economy remains below that of the US. Recommendations from both the Scale Up Task Force and the Patient Capital Review seeks to address this gap.

Regional issues

The regional distribution of equity investment in smaller businesses also remains highly uneven, with London-based businesses receiving more than the rest of the UK combined, both in terms of volume and value. This is exacerbated further by lower levels of awareness of finance options among smaller businesses outside of London. One of the five foundations of the Government's Modern Industrial Strategy, 'Places', acknowledges the need for interventions to reduce these regional disparities.

Finance demand, diversity and information

Bank lending volumes have stayed relatively flat in 2017 while other forms of debt finance, such as asset finance and peer-to-peer lending, grew significantly. The increasing use of alternatives to traditional bank loans means that finance markets are more diverse than before.

Attitudes against borrowing have also become more entrenched, however, with around 70% of smaller businesses willing to accept a slower growth rate rather than borrowing to grow faster. Together with the increase in positive cash balances held by smaller businesses, this suggests a broader reluctance to invest in growth. Demand for loans continued to decline, as did the confidence of smaller businesses that they would get a loan when they applied.

This underscores the importance of improving the information available to smaller businesses, especially those with growth potential, about their finance options.

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

5.7m

smaller businesses in the UK at the start of 2017

Our business model

Our expertise in finance markets for smaller UK business allows us to take an evidence-based and market-led approach to addressing the challenges faced by small businesses when accessing finance. The need for continual monitoring of the finance markets and close engagement with market players is ever more critical in an uncertain economic environment. Our programmes are reviewed regularly and, where necessary, we make adjustments to 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.

The British Business Bank's integration with The Start-Up Loans Company in 2017 further extended our capabilities to include direct lending and a regional footprint in microfinance. Having brought the two organisations together over the course of the year, we are now in a better position to leverage each other's strengths to achieve more effectively our mission of making finance markets work better for smaller businesses.

Our expertise in finance markets for smaller UK business allows us to take an evidence-based and market-led approach to addressing the challenges faced by small businesses when accessing finance.

Objective 1

Increase supply of finance in the UK

Why it is important

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

At a glance

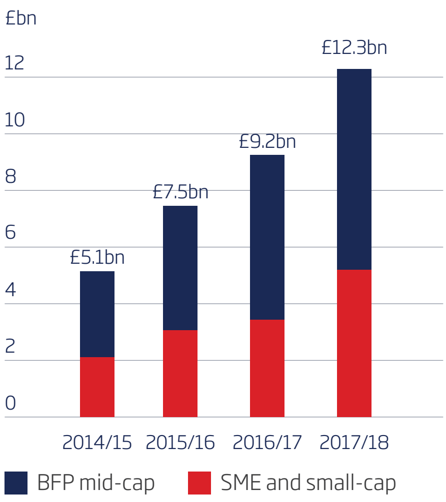
£12.3bn
Stock as at end March 2018

£678m
of new commitments made in 2017/18

74,000+
Number of businesses supported

9
new VC Catalyst funds invested into, collectively valued at £1bn in 2017/18

Stock of finance



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 this by looking at both how much we deploy directly into the market and the contribution from the private sector alongside our investment.

Within a given year, the Bank will influence this metric by committing funding through its programmes. Once the funding is committed, our partners will then typically take a number of years to draw the funding down as they invest it in smaller businesses. The combined funds drawn are added to the stock of finance. When a borrower repays a loan or an investment is realised, 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 £678m.

When the Bank was launched in November 2014, we were set a target of £10bn on this metric, which we were expected to achieve by 31 March 2019. We reached this important milestone midway through the 2017/18 financial year, 18 months ahead of schedule. As at the end of 2017, we had £12.3bn of stock of finance facilitated, an increase of 33% from £9.2bn the previous year. Of this, £5.2bn went towards SMEs and £7.1bn for mid-cap firms.

The increase was driven primarily by the strong performance of the Investment Programme and Business Finance Partnership. Both of these attracted higher than expected levels of private sector investment, demonstrating the powerful catalytic effect that our investment can have in unlocking private sector participation.

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

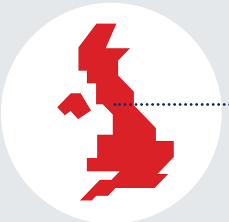
Four and Twenty Restaurant

Founded in 2014, Four and Twenty is a family-run restaurant based in Penrith.

The founders needed external finance to refurbish and equip what was a bank, to transform it into a premier dining destination.

British Business Bank partner Enterprise Answers provided assistance, guidance and a £34,300 loan under the Bank's flagship Enterprise Finance Guarantee programme. This new finance enabled the owners to complete the refurbishment of the premises, allowing them to realise their vision.

The restaurant has achieved great recognition, including holding the number one position on Trip Advisor for the first three years after opening and creating numerous skilled positions.



Debt

Start Up Loans

Since its inception in 2012, the Start Up Loans programme has delivered over 55,000 loans, providing over £400m of funding, helping to back on average 28 businesses a day, and contributing to the creation of more than 56,600 jobs.

The combination of the Bank and SULCo in April 2017 enables both organisations to collaborate as we seek to support microbusinesses and deliver the government's manifesto commitment of 75,000 Start Up Loans by 2020.

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 29,000 business loans to a value of over £3.1bn. It was extended for a further four years at Autumn Budget 2017.

With a wide range of delivery partners, including all the major high street lenders, it has a broad reach, making it a useful instrument for quickly targeting specific market requirements. In February 2018, we made available support for up to £100m of lending to small businesses affected by Carillion's liquidation through our Enterprise Finance Guarantee.

£3.1bn+

EFG debt programme has supported the provision of over 29,000 business loans to a value of over £3.1bn

Case study

Melt Aberdeen

Inspired by the London foodie scene, Mechelle Clark's redundancy spurred her on to launch her own business, Melt Aberdeen.

This was enabled by mentoring and £20k of funding through The Start-Up Loans Company, part of the British Business Bank.

Using quality locally sourced ingredients such as sourdough bread, local Scottish cheddars, haggis and homemade sauces, Melt moves the 'toastie' up a level from the days of Brevilles and cheap white bread.

Melt has now been trading for two years, turning over £89k and employing two staff members. Mechelle is investigating mobile catering opportunities and, potentially, opening a second store in 2018.

Aberdeen
Scotland

Case study

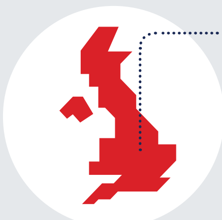
Exonate

Exonate aims to introduce a revolutionary, game-changing eye drop for the treatment of retinal vascular disease, including wet age-related macular degeneration and diabetic macular oedema.

Currently, patients have monthly eye injections – which are not effective for everyone – to treat these conditions.

The company has expertise in the identification of compounds that are potent, selective and permeate to the back of the eye. They are currently refining their product and expect to enter clinical trials in 2020.

Exonate raised £2.8m in angel funding, supported by funding from the Universities of Nottingham and Bristol and the British Business Bank-sponsored Angel CoFund.



Nottingham
East Midlands

ENABLE Guarantees

The ENABLE Guarantee programme has entered into £383m of transactions with three lenders during 2017/18.

The British Business Bank expanded its ENABLE Guarantee programme in November 2017 to facilitate loans specifically targeted at the housebuilding sector for the first time – rather than diverse portfolios of SME loans – providing a guarantee to United Trust Bank (UTB) to support development finance.

ENABLE Funding

This year we entered into three transactions for a total amount of £104m under our ENABLE Funding programme bringing the total funding we have committed to smaller finance providers to over £340m.

Since the first transaction in September 2015, the ENABLE Funding programme has supported lending to nearly 17,000 businesses.

> The British Business Bank expanded its ENABLE Guarantee programme in November 2017 to facilitate loans specifically targeted at the housebuilding sector for the first time.

Case study

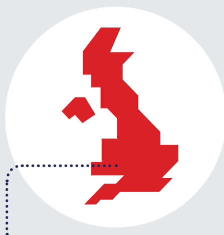
Planet Fitness

Aberbargoed-based Planet Fitness is an independent gym which has been trading for 20 years.

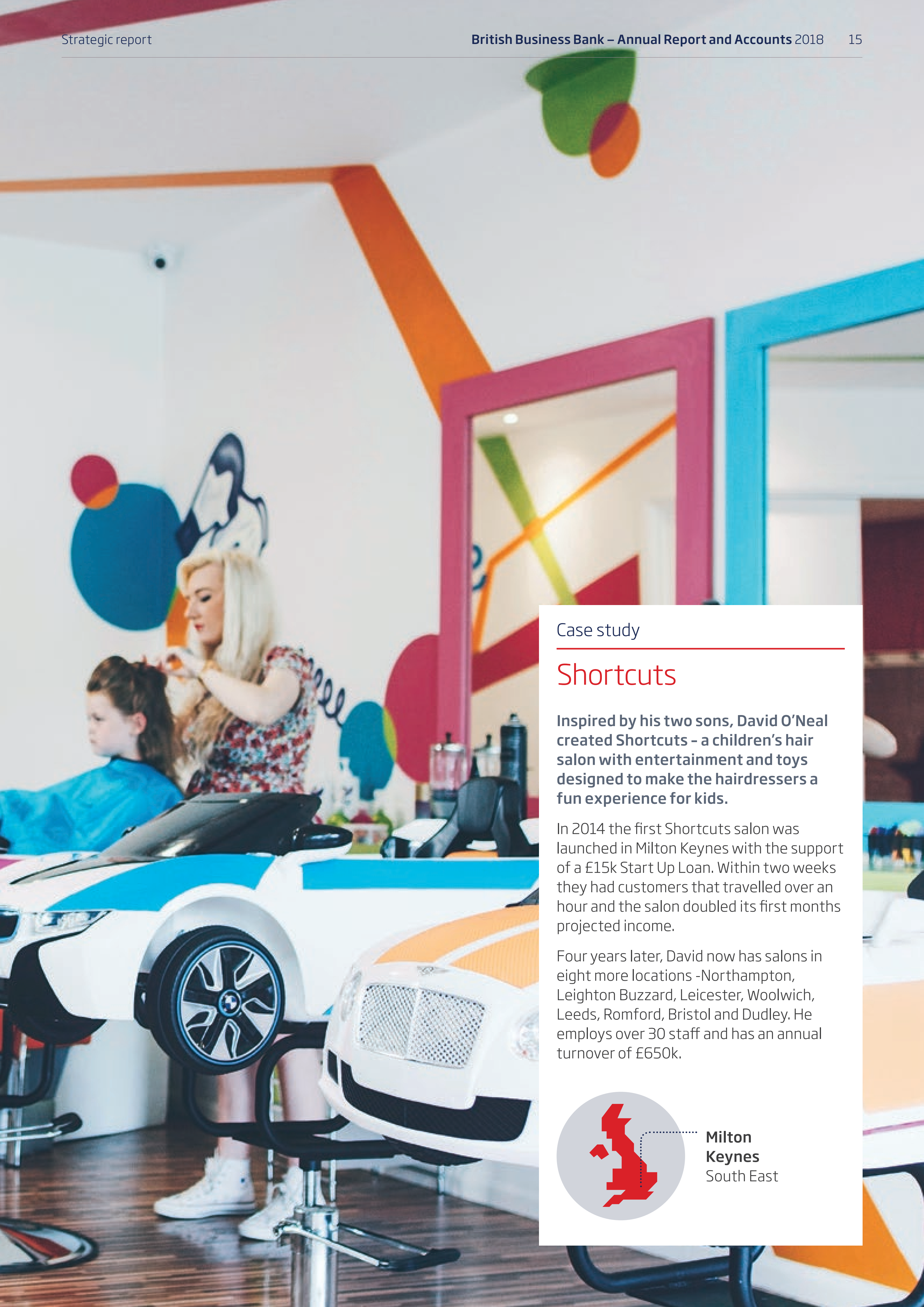
When they needed funding to set up a second gym in Tredegar, they approached British Business Bank ENABLE Funding partner Henry Howard Finance.

As well as receiving helpful advice, they secured £450k of asset finance in March 2018 to purchase the latest gym equipment, air conditioning and fixtures and fittings.

This enabled Planet Fitness to open their new 40,000 sq ft second site, which has already signed up 2,000 new members. The company is now on the lookout for potential locations for new outlets.



Aberbargoed
Wales



Case study

Shortcuts

Inspired by his two sons, David O'Neal created Shortcuts – a children's hair salon with entertainment and toys designed to make the hairdressers a fun experience for kids.

In 2014 the first Shortcuts salon was launched in Milton Keynes with the support of a £15k Start Up Loan. Within two weeks they had customers that travelled over an hour and the salon doubled its first months projected income.

Four years later, David now has salons in eight more locations -Northampton, Leighton Buzzard, Leicester, Woolwich, Leeds, Romford, Bristol and Dudley. He employs over 30 staff and has an annual turnover of £650k.

Milton Keynes
South East

Equity

Angel CoFund

Now in its sixth year of operation, it has invested nearly £40m in over 80 companies, with business angels contributing over £180m.

The portfolio of high growth businesses is diverse, covering sectors such as healthcare and life sciences, digital media and information technologies (including Fintech), creative and food.

Enterprise Capital Funds

In 2017/18, we launched three new Enterprise Capital Funds (ECFs):

- £50m Imbiba Growth Fund for high growth UK leisure and hospitality businesses, to which the Bank contributed £30m
- £75m Longwall Ventures 3 for science, engineering and healthcare start-up and early stage businesses, to which the Bank contributed £50m
- £60m Episode 1 for UK Seed to Series A investments, to which the Bank contributed £36m.

Venture Capital Catalyst

The Bank received £400m of resources at the Autumn Statement 2016 to expand its Venture Capital (VC) Catalyst programme with a broader mandate to target later stage VC investment. To ensure that equity investment into growth businesses continues to be available in the run up to Brexit, the Chancellor announced that we would bring forward some of the allocated resources more quickly than the original £100m a year intended.

As a result, we made £169m of new commitments to nine VC funds in 2017/18:

Fund managers	Target market	Bank contribution
FPE Fund II LP	Growth businesses in the TMT, energy and business service sectors	£20m
Seedcamp IV LP	Early stage technology businesses	£18m
Balderton Capital VI	Series A technology companies	£15m
Kindred Capital Base I SCSp	Seed investments in software	£10m
Kindred Capital Opportunity I SCSp	Series A Investments in software	£10m
Notion Capital Opportunities LP	Digital and cybersecurity growth businesses	£17m
OXX I LP	B2B SaaS growth businesses	£20m
Dawn Capital III	Series A investments in TMT	£50m
Dementia Discovery Fund	Pre-clinical stage firms specialising in dementia discovery and life sciences	£9m
Total		**£169m**

£185m

total size of new Enterprise Capital Funds (ECFs)

Growth Capital

We launched a pilot scheme to support equity funds that invest in small businesses requiring equity finance to fund ambitious investment and expansion plans.

This segment is distinct from VC because, while these businesses will be growing, they are unlikely to have the very high revenue growth rates that VC funds seek. They also tend to be more established and operate across a broad range of sectors.

Such funds often have a regional, rather than a national focus, and are more likely to invest in businesses located across the whole of the UK. In 2017/18, we made our first £15m commitment to WestBridge, which invests in the West of England and Wales.

> We launched a pilot scheme to support equity funds that invest in small businesses requiring equity finance to fund ambitious investment and expansion plans.

Case study

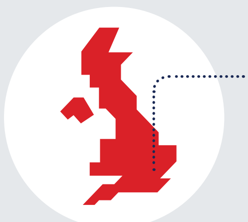
Captify

Captify, listed by Forbes as 'One to Watch', was founded in 2011 by entrepreneurs Dominic Joseph and Adam Ludwin. An ad-tech company specialising in 'search retargeting', it is a global leader in Search Intelligence, playing a crucial role for some of the world's biggest brands.

It raised its first funding in 2013 – £1.2m from British Business Bank Enterprise Capital Funds programme partner Panoramic Growth Equity – enabling growth from nine to 37 staff.

Panoramic invested again, alongside Smedvig, in a subsequent £8m round to help enable further international expansion.

The company now expects to achieve £50m+ turnover and has over 200 people in six countries.



London
London

Objective 2

Increase diversity of SME finance in the UK

Why it is important

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

At a glance

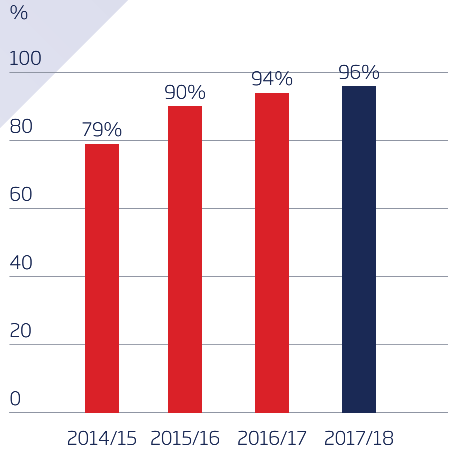
21
new delivery partners in 2017/18

73
FinTech firms invested in through the VC funds we have supported to date

£630m
Facilities to the value of £630m in 3 challengers banks during the year

£153m
committed to 5 direct lending funds in 2017/18

Percentage through non-Big Four banks



In addition to boosting the supply of finance to smaller businesses, it is equally important to ensure that the supply is spread across a mix of products, a range of providers and an array of funding sources. Diversity of finance options 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 obtain the most appropriate form of finance for their needs.

The primary metric we use to measure our performance on this objective is the proportion of the stock that we facilitate through smaller finance providers. Increasing provider diversity also helps with the other dimensions of a diversified finance market as different providers will offer different products and tap different sources of funding.

Over 2017/18, we onboarded 21 new delivery partners – nine across our VC and growth capital programmes, five in the Investment Programme, five with ENABLE and two for EFG. This takes the total number of providers that we work with to over 120.

> 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

Olberon Medical

Dr Arash Bakhtyari, a practicing doctor for 25 years, founded Nottingham-based Olberon Medical Innovation after he recognised the need for specialist medical devices that would improve intravenous accessibility and help with ear and nose procedures.

The business received a loan from Enterprise Loans, part of the Midlands Engine Investment Fund, to support the manufacturing of their new Vacuderm™ – a single-use tourniquet which helps inflate the vein in cases where access is difficult – enabling them to go to market.

The funding has enabled the company to send samples to distributors worldwide. They now have 25 distributors on board to bring their products into hospitals.

Case study

ComplyAdvantage

ComplyAdvantage is a high growth technology and data company focused on anti-money laundering and anti-terrorist financing.

It was founded in 2014 by Charles Delingpole, an experienced investment banker, investor and entrepreneur.

The business recently went through series B funding – a process they describe as giving them adequate 'financial firepower' to achieve the scale and scope needed to address credibly the problem of global terrorist financing.

They raised $7m, including from British Business Bank VC Catalyst programme partner Balderton Capital, enabling a scale up of staff from 20 to 95. The company now has plans for further expansion internationally.

Challenger banks

We continue to work with challenger banks, adding three new partners in 2017/18:

– £30m Tier 2 capital facility with Atom Bank through the Investment Programme

– An ENABLE Guarantee for United Trust Bank to increase its funding to new build and redevelopment projects undertaken by SME housebuilders and developers

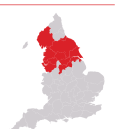
– An ENABLE Guarantee for Cambridge and Counties Bank to target smaller businesses.

FinTech

In 2017/18, we provided a further £5m to Liberis, a merchant cash advance provider. This is on top of the £5m initially awarded in 2016. In addition to the FinTech providers that we have supported directly, we have also invested a further £103m to 73 FinTech firms through the equity funds that we have supported to date.

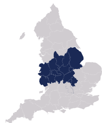
Regional funds

Northern Powerhouse Investment Fund



Addressing the regional disparities in access to finance remains a key focus for the Bank. We celebrated the first anniversary of the £400m Northern Powerhouse Investment Fund in February 2018.

Midlands Engine Investment Fund



The £250m Midlands Engine Investment Fund launched its debt and small business loans funds in August 2017, and its equity and proof-of-concept funds in February 2018.

Cornwall and Isles of Scilly Investment Fund

We have launched the £40m Cornwall and Isles of Scilly Investment Fund in June 2018.

Asset finance and asset based lending

We continued our support for these finance types in 2017/18, announcing commitments of over £36m to two providers – Shire and IGF – through our Investment Programme, and over £140m to four providers – Shire, Tower Leasing, Simply Asset Finance and 1pm – through ENABLE Funding. We also accredited two providers – Hitachi Capital (UK) and Aldermore – under the new asset finance variant of our flagship Enterprise Finance Guarantee programme.

Direct lending funds

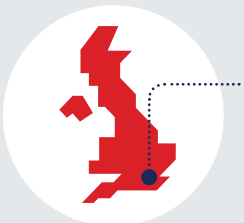
In 2017/18, British Business Investments made five new commitments to direct lending funds, each focused on different strategies. These included a commitment to Shard Credit Partners' first fund, enabling it to start lending, as well as commitments to follow-on funds from Beechbrook, Growth Capital Partners, Harbert and TDC. By the end of 2017/18, these new funds had made investments in 19 UK SMEs.

Case study

Wilton & Bain

Wilton & Bain (W&B) provides executive search services in the professional services, digital services and legal sector in the UK, Europe and USA.

Additional funding provided by British Business Bank partner, Beechbrook, enabled their senior management team to finance a management buyout and shareholder realignment.



London
London

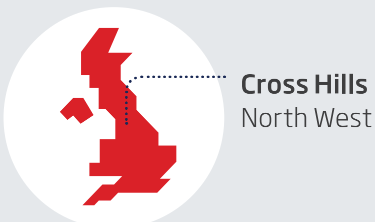
Case study

Crimson Bear

Cross Hills-based designer radiator firm Crimson Bear applied successfully for a £31k loan from NPIF – BEF and FFE Microfinance, part of the Northern Powerhouse Investment Fund.

The additional funding is enabling co-founders Paul Johnson and Andrew Smith to expand further their warehouse and office space, and to hire a third apprentice and an online trading manager.

The loan means the company can focus on the development of its apprentices as they progress through the company – something they're extremely passionate about, even sending apprentices to their radiator factory in Poland so they can become fully immersed in the business.



£31m

The Northern Powerhouse Investment Fund invested £31m in Northern-based SMEs during its first 12 months of operation

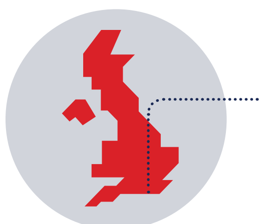
Case study

KiTE SURF & SUP Co

An ex-competitive windsurfer with a huge passion for watersports, Christine Johnson quit her office job to pursue her dream of becoming a kitesurfing instructor.

One year later, after Christine completed her kitesurfing instructor course, she put her learnings into practice and founded KiTE SURF & SUP Co, a kitesurfing school and online shop based in beautiful Brighton and Worthing.

After two years of steady and successful growth, fast financial support from 126 investors through British Business Bank partner Funding Circle enabled Christine to grow her online shop and update her website to develop the company even further.



Brighton
South East

Objective 3

Improve SME understanding of finance options

Why it is important

When we make better information available to smaller businesses, we help them make better choices about finance. Being more aware of and having more confidence in their options means they are more likely to seek funding.

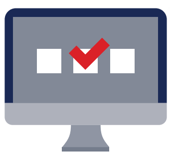
At a glance

85,000

nearly 85,000 Business Finance Guides viewed online or distributed

50%

SME awareness of a given range of finance products

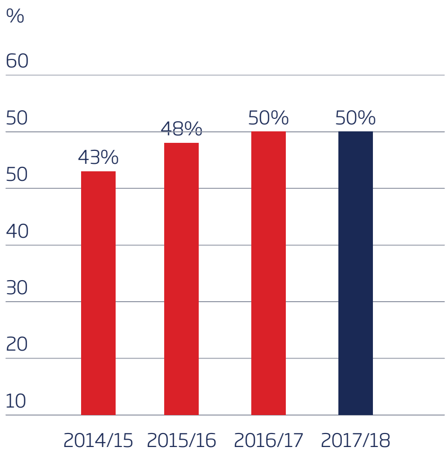


Information Hub launched on 4 June 2018, enabling businesses to better understand their finance options

78,000+

people reached through British Business Bank attendance at events

Awareness of different forms of finance



We raise levels of awareness and understanding among smaller businesses of the finance options and providers available so that they are able to make better informed decisions. This helps stimulate the demand side of finance markets.

Researching our markets

We work with a range of partners to gather better information about the market. Our flagship publication is our annual Small Business Finance Markets report. In 2017/18, it showed that finance markets broadly continued to supply smaller businesses with the majority of the finance they seek but that certain key gaps remain. The report highlighted particular gaps in financing for scaleups, uneven access to finance across regions and a need to raise awareness of finance options further, so that smaller businesses get the finance that best meets their needs.

Centre of SME finance expertise

During 2017/18, we published five research reports:

- Equity Tracker – an in-depth assessment of equity markets for smaller businesses using a wide range of data sources
- Benefits of diverse finance markets
- UK Business Angels Market Report (joint publication with UKBAA and IFF Research)
- Internationalisation of SMEs (joint publication with KfW, BPI, ICO and CDP)
- Small Business Finance Markets Report (includes the Bank's Business Finance Survey results).

We use our annual business finance survey to measure whether small businesses are aware of the various finance options, looking at the average awareness among smaller businesses of six products – leasing, VC, business angels, peer-to-peer lending, crowdfunding and mezzanine finance. This was 50% in our November 2017 survey.

We also monitor whether smaller businesses are confident that they know where to obtain information on the types of finance and specific providers available. 66% of smaller businesses surveyed responded yes, improving slightly from 65% in the previous year. Another key metric is the proportion of smaller businesses that contacted only one provider the last time they sought finance, which reduced from 69% to 58%.

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

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

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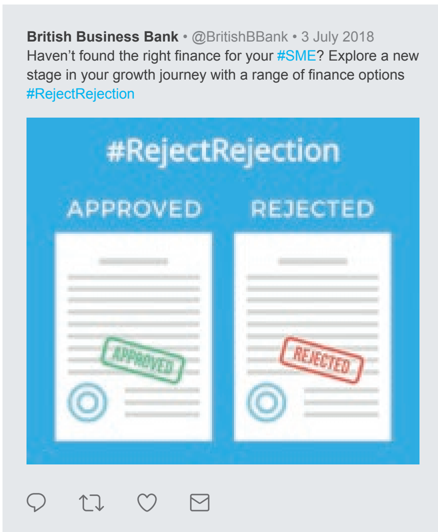
Providing information to drive demand for finance

Currently, we raise awareness of finance options for businesses primarily through the publication of the Business Finance Guide, published jointly with the Institute of Chartered Accountants in England and Wales (ICAEW) Corporate Finance Faculty with contributions from a further 21 partner organisations. The guide is also available online. In 2017/18, the guide was accessed online or distributed in hardcopy nearly 85,000 times.

Building on the success of the Business Finance Guide, we recently launched a new interactive website – FinanceYourGrowth.co.uk – that offers independent information on finance options for scale up, high growth and potential high growth businesses.

In August 2017, we ran a social media campaign to encourage businesses to explore all their finance options, #RejectRejection. We ran this in conjunction with a host of partners and which averaged over 4,000 daily impressions over the course of a month.



4,000

daily impressions over the course of a month from our social media campaign, #RejectRejection

Improving finance markets

To help overcome information asymmetries and improve smaller businesses' awareness of the availability of alternative finance options, we are continuing to advise HM Treasury on the designation of Credit Reference Agencies (CRAs) to share SME credit data for the benefit of a wide range of banks and lenders.

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

Case study

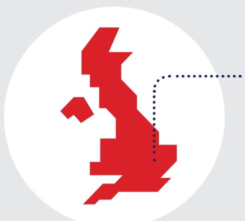
KisanHub

Founded in 2012, KisanHub's platforms are used by some of the world's largest farming businesses and agrichemical companies.

Its Crop Intelligence Platform connects businesses with their crops to deliver insights throughout the agricultural season, helping to provide food security across the world.

British Business Bank Enterprise Capital Fund partners IQ Capital and Notion Capital were part of KisanHub's £1.7m fund-raise, enabling them to scale up the company, accelerate the development of their flagship products, and execute faster on the existing market opportunity.

The funding enabled their move into larger premises and increase their headcount to more than 30 people.



Objective 4

Manage taxpayer money efficiently

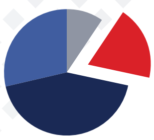
Why it is important

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

At a glance

4.7%

return on capital for the year



£48.3m

operating profit of £48.3m

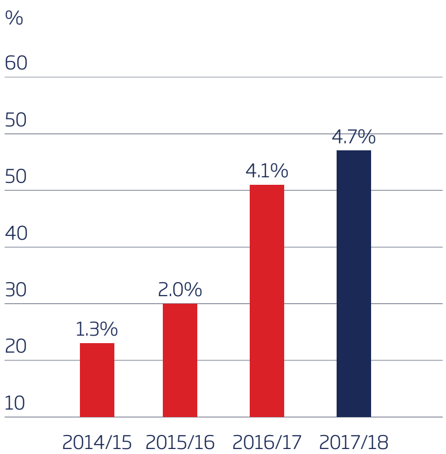
39%

increase in gross assets in 2017/18

30%

increase in net operating profit for 2017/18

Return on capital employed



All our programmes, with the exception of the grant funding and operating costs element for The Start-Up Loans Company, 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 4.7% return on capital employed in 2017/18, which was higher than the 4.1% generated in 2016/17 and our target for the year. This rise was principally generated by strong investment performance with an increase in income from the Investment Programme assets and legacy Venture Capital funds as well as foreign exchange gains.

Income from Wholesale and Guarantee Solutions programmes has also increased. This has been offset by a fall in income from EFG, increased impairments in the Investment Programme and a fall in positive fair value movements on VC Catalyst. Operating costs have also increased as the Bank expands to assume additional responsibility for new objectives and as it invests in its systems, controls and processes.

Excluding foreign exchange gains of £0.7m and income from legacy Venture Capital funds of £22.8m, the return would have been 1.5% lower.

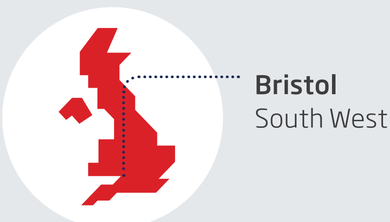
Case study

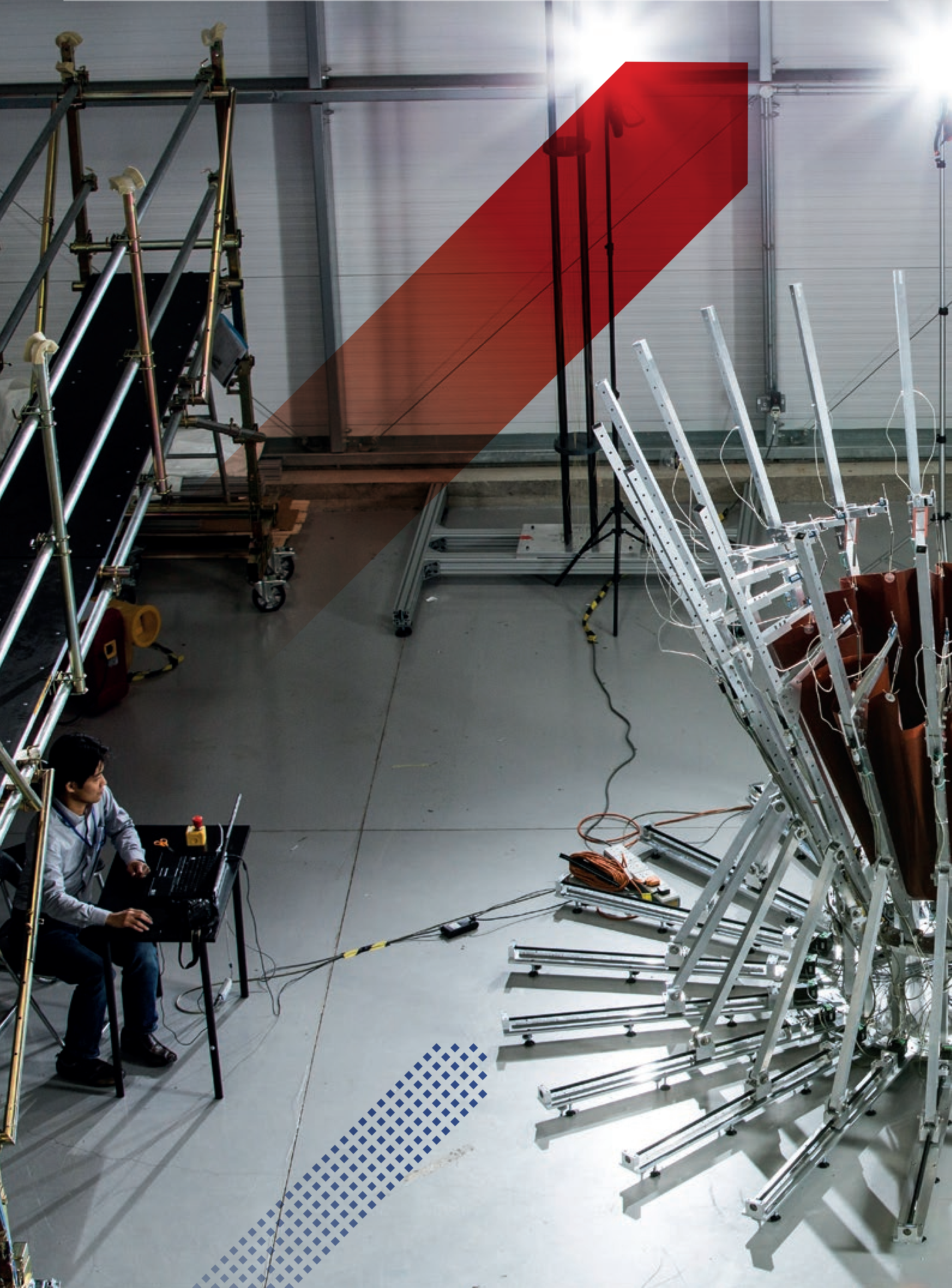
FiveAI

UK-based FiveAI is using the power of autonomy to transform Europe's cities. The business is bringing together leading AI, engineering and mobility talent to deliver a fully autonomous shared transport service.

As well as receiving government grant funding, FiveAI has raised £29m of investment across Seed and Series A rounds, including investment from British Business Bank VC Catalyst/Enterprise Capital Funds partners Kindred Capital, Amadeus Capital Partners and Notion. This long-term patient capital is enabling the team to develop the complex systems required to make their vision a reality, for the benefit of people and planet.

Initial road trials are due to start in London in early 2020.





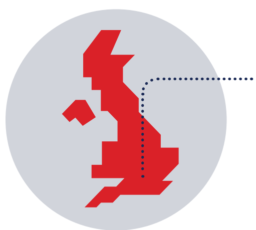
Case study

Oxford Space Systems

Founded in 2013, Oxford Space Systems is a space technology business supplying deployable satellite antennae and structures based on its proprietary materials and origami engineering techniques.

To fund the commercialisation of their intellectual property, the company received £500k from IQ Capital, an Enterprise Capital Fund that included British Business Bank investment, as well as £100k from Innovate UK.

The funding enabled them to scale-up rapidly and build a multi-award winning team that has set a record for the space sector for time to orbit for a new product. It has also enabled them to de-risk the technology by having back-up solutions whilst also funding various cutting-edge technologies.



Oxfordshire
South East

Summary of financial performance and calculation of adjusted return

Year ended 31 March 2018 (£m)	Audited Accounts	Adjustments for SULCo, ECFs and UKIIF	British Business Bank Adjusted	Programmes managed on behalf of BEIS (unaudited)	Total
Investment income					
Investment Programmes	53.3	–	53.3	–	53.3
Venture Capital Solutions	23.6	(13.7)	9.9	23.2	33.1
Start Up Loans	32.7	(32.7)	–	–	–
Wholesale and Guarantee Solutions	–	–	–	16.4	16.4
Total investment income	**109.6**	**(46.4)**	**63.2**	**39.6**	**102.8**
Management fee and other income	19.5	–	19.5	(13.0)	6.5
Grant income	17.2	(17.2)	–	–	–
SULCo intercompany loan interest	–	0.2	0.2	–	0.2
Total operating income	**146.3**	**(63.4)**	**82.9**	**26.6**	**109.5**
Net investment costs					
Investment Programmes	12.0	(17.2)	(5.2)	–	(5.2)
Venture Capital Solutions	(28.9)	32.6	3.7	–	3.7
Start Up Loans	(49.4)	49 .4	–	–	–
Wholesale and Guarantee Solutions	–	–	–	(11.4)	(11.4)
Total net investment costs	**(66.3)**	**64.8**	**(1.5)**	**(11.4)**	**(12.9)**
Net gain on write down of repayable capital grant	**16.9**	**(16.9)**	**-**	**-**	**-**
Operating costs					
Staff Costs	(23.5)	4.2	(19.3)	–	(19.3)
Other costs	(25.1)	13.0	(12.1)	–	(12.1)
Total operating costs	**(48.6)**	**17.2**	**(31.4)**	**-**	**(31.4)**
Net operating profit before ECF loan commitments provision	**48.3**	**1.7**	**50.0**	**15.2**	**65.2**
ECF derivative gain (cash)			5.7	–	5.7
ECF permanent diminution in value			0.5	–	0.5
Adjusted return			**56.2**	**15.2**	**71.4**
Average Capital Employed					**1,530 .2**
Adjusted return on average capital employed					**4.7%**

Year ended 31 March 2018 (£m)	Audited Accounts	Adjustments for SULCo	British Business Bank Adjusted	Programmes managed on behalf of BIS (unaudited)	Total
Investment assets					
Investment Programmes	1,053.2	–	1,053.2	–	1,053.2
Other BBI Programmes	132.0	–	132.0	–	132.0
Wholesale and Guarantee Solutions	–	–	–	229.7	229.7
Venture Capital Solutions	282.0	–	282.0	76.4	358.4
Start Up Loans	135.7	(115.6)	20.1	–	20.1
	1602.9	(115.6)	1,487.3	306.1	1,793.4
Investment liabilities					
Wholesale and Guarantee Solutions	–	–	–	(63.6)	(63.6)
Venture Capital Solutions	(183.7)	–	(183.7)	–	(183.7)
	(183.7)	–	(183.7)	(63.6)	(247.3)
Net investment assets	**1,419.2**	**(115.6)**	**1,303.6**	**242.5**	**1,546.1**
Other assets/(liabilities)					
Cash	63.6	(1.9)	61.7	–	61.7
Tangible and intangible assets	3.6	(2.0)	1.6	–	1.6
Loans and borrowings	(116.2)	116.2	0.0	–	0.0
Net other payables	(16.0)	3.3	(12.7)	–	(12.7)
	(65.0)	115.6	50.6	0.0	50.6
Total net assets	**1,354.2**	**0.0**	**1,354.2**	**242.5**	**1,596.7**

The Bank manages a number of investments on behalf of BEIS under a service agreement; these include Angel CoFund, Northern Powerhouse Investment Fund, Midlands Engine Investment Fund, Cornwall and Isles of Scilly Investment Fund, ENABLE funding 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. In 2017/18, we have maintained the way we calculate the adjusted return consistent with the 2016/17 calculation. 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 ECF. Permanent diminutions are included in the adjusted return whilst temporary, non-cash fair value adjustments are excluded. Positive fair value movements on VC Catalyst are also included.

In general, for assets on BEIS's balance sheet we have used BEIS's accounting treatments for determining the returns recognised in the calculation above. For assets classified as Available-for-sale, this means that losses are recognised immediately but profits are not recognised until they are realised. Upon the adoption of IFRS 9, all unrealised gains and losses from Available-for-sale financial assets on the Bank's and BEIS's balance sheet are expected to be recognised in the income statement as these assets are expected to be measured at fair value through profit and loss. Furthermore, the measurement of impairment on assets classified as amortised cost will change from being on an incurred loss basis to an expected loss basis. For the financial year ending 31 March 2019, the Bank will re-state the historic numbers to take account of IFRS 9 and include in the adjusted return calculations, the transition adjustments to retained earnings arising upon the adoption of IFRS 9. It is only the historic numbers for the adjusted return that will be restated for IFRS 9. The Bank will not restate comparatives for its consolidated financial statements on initial application on 1 April 2018.

Overall results for the British Business Bank for 2017/18 are as follows:

- We generated a net operating profit of £48.3m;
- The value of investments under management increased by £222m;
- We made new commitments of £678m;
- Net assets increased by £307m to £1,354m.

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 within the Investment Programmes 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 £53.3m of returns from the Investment Programme investments. The Venture Capital programmes, which include both market rate and sub-market rate investments, contributed £33.1m of income, £22.8m of which arose from legacy Venture Capital funds.

Whilst year on year operating costs increased by £8.4m to £31.4m (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 28.7% (excluding SULCo) remains consistent with the previous financial year when it was 28.9%.

The profit before tax shown in the Consolidated Statement of Comprehensive Net Income is £11.3m compared with the adjusted return of £71.4m. This is explained by the exclusion from the return calculation of the temporary non-cash fair value ECF adjustments and impairments and ECF provisions which total £51.5m and the inclusion in the adjusted return calculation of the contribution from investments held on the BEIS balance sheet but managed by the Bank.

Funding

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

To fund our capital investments we issue shares to our shareholder and utilise available cash from our operations, including asset repayments. The Start-Up Loans Company is also funded by our shareholder in the form of a repayable capital grant and term loans. At 31 March 2018, the UK Government held shares totalling £1,371m in British Business Bank plc, comprising the entire share capital of the Company. This amount increased by £300m during the year which funded the increase in the Group's net assets. At 31 March 2018, the UK Government had also provided £14.9m of unsecured loans and £101.3m of capital grants to The Start-Up Loans Company.

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 £13m in 2017/18.

At 31 March 2018, British Business Bank plc held £63.6m 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 (£53m) are held within the Government Banking Service to ensure that there is minimal cost to the Exchequer.

Our assets

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

This is reflected in the split of these investments:

- Loans and receivables £346.1m
  - BFP Small Cap £0.6m
  - Investment Programme £209.8m
  - Start Up Loans £135.7m
- Held to maturity Investment Programme assets £31.1m
- Available-for-sale financial assets £985.8m
  - BFP Mid Cap £555.6m
  - BFP Small Cap £14.1m
  - Investment Programme £242.0m
  - ECF and Venture Capital £174.1m
- Assets designated at fair value through the profit and loss £208.2m
  - VC Catalyst £76.2m
  - UKIIF £132.0m
- Derivative financial instruments £31.7m.

Start Up Loans of £135.7m are not included in total investments under management as disclosed on page 33.

During the year to 31 March 2018 we invested £552.4m in assets included on our balance sheet. This included investments of £252.5m in the Investment Programme, £50.7m in the BFP Mid Cap programme and £64.3m in ECFs. The Bank also invested in £43.3m of Venture Catalyst assets and purchased the UKIIF investments from Department for Business, Energy and Industrial Strategy with total investments in this fund amounting to £141.6m in the year.

The Bank has also experienced significant capital and interest returns in the year of £358.7m (£298.7m excluding Start Up Loans) primarily in BFP Mid Cap which amounted to £115.0m. These returns reflect a large amount of capital being available 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 at 31 March 2018, the British Business Bank plc had further undrawn commitments of £1,137.5m to be invested across its portfolio.

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 company, valued at $1bn or more. Through its investments, the Bank has helped the following UK companies reach Unicorn status.

Unicorn	Description	Programme	Funding Partner
IMPROBABLE	Platform for third parties to build vast virtual and simulated worlds	Enterprise Capital Funds	Amadeus
MATCHESFASHION.COM	High street and online fashion boutique	VC Catalyst & UK Innovation Investment Fund	SEP
mimecast unified email management	Leading international company specialising in cloud-based email management	Enterprise Capital Funds	Dawn Capital
PURPLE BRICKS	Online real estate agent that helps its clients to sell, buy, and let their properties	UK Innovation Investment Fund	DN Capital
Revolut	Digital banking alternative that includes a pre-paid debit card, currency exchange, cryptocurrency exchange and P2P payments	UK Innovation Investment Fund	Balderton

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

The Directors confirm that they have carried out a robust assessment of the principal risks facing the company. We reviewed our risk framework in 2017, with a focus on how it operated relative to the Bank's risk appetite. Given our strategy, we continue to monitor and respond to a number of material risks.

People and processes

There is a risk that the Bank does not secure, develop and maintain adequate human resources to meet its objectives, or have the effective processes and systems in place to manage its operating model. The past two years have seen our staff numbers grow from 117 in April 2016 to 248 in March 2018. This has in part been driven by the integration with SULCo, though also through further expansion of our mandate and new variations to our product suite. We expect to continue to grow our portfolio both in volume and complexity through the delivery of our 2018/19 Business Plan. Therefore we need to ensure that we have appropriate people, processes and systems in place to manage this growth and control the associated operational risks through this period of continued organisational change.

Political environment

The current Brexit negotiations add uncertainty to the economic environment and the outcome of negotiations may impact on the Bank.

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

The Bank is monitoring the changing market need and will consider and advise government on what responses may be appropriate.

Demand

The British Business Bank is continuing to establish further products and increased information awareness to both address market gaps and deliver on our shareholder's policy objectives. It is important that our products are both appealing to our delivery partner network and the end beneficiaries. While we engage with our network and market test our products and initiatives to ensure they are attractive and meet the needs of UK smaller businesses, demand for our products and services may be impacted by macroeconomic or political factors.

Delivery partners

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

Credit and investment

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

Compliance with State aid and other regulation

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

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. The range and scope of data that we collect, collate, and control will increase as our operations grow.

We have achieved our first re-accreditation of the Cyber Security Essentials certification in September 2017, encompassing our SULCo subsidiary, which is the standard expected of a government owned entity. In light of the EU General Data Protection Regulations, which came into effect on 25 May 2018, the Bank also enhanced its internal controls for handling of personal data to meet the new standards.

It is important that our products are both appealing to our delivery partner network and the end beneficiaries.

Stakeholder engagement and delivery on objectives

As a national development bank wholly owned by the UK government, we are required to deliver on government policy objectives in relation to smaller business finance. Because of this, even though we are operationally independent, some processes 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 Board reviewed the effectiveness of the company's risk management and internal control systems including financial, operational and compliance control. A summary of the key risks that the Bank is facing and monitoring is outlined within the Directors' report on pages 60 to 65.

Our people

The British Business Bank has an HR strategy which supports the growing organisation and its new business initiatives. This financial year, our aim is to implement efficient people processes, introduce smarter ways-of-working and increase colleague engagement across the business.

The HR strategy reflects the size and needs of the organisation while providing value for money.

The Bank offers a unique employment proposition with a strong purpose – an opportunity to transform the finance landscape for smaller UK businesses, with a range of broad and interesting roles where people can make a real difference. Our annual employee engagement survey showed that 94% of colleagues said they were proud to work for the organisation.

During 2017 we won the award for 'Excellence in HR (Public Sector)' in the Personnel Today awards.

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

94%

of colleagues said they were proud to work for the organisation

Key 'people' milestones in 2017/18

- **April 2017:** We merged The Start-Up Loans Company with British Business Bank, bringing the unique skills of new colleagues on board.
- **May 2017:** We introduced 'learning at work week', joining a national campaign that encourages curiosity and creativity about on-the-job learning.
- **June 2017:** We continued our summer internship programme, which aims to develop young people's skills and experience to succeed in their future careers.
- **July 2017:** We invested in the design and delivery of a new digital HR, payroll and finance service.
- **October 2017:** As part of our location strategy, we moved our Sheffield Head Office to brand new premises, 'Steel City House'. The new building provides us the space necessary to expand.
- **November 2017:** At Autumn Budget the Chancellor provided the Bank with substantial new resources, bringing about a rapid expansion to deliver new initiatives.
- **January 2018:** We launched a new employee benefits system. We also increased our focus on mental health support to colleagues, including appointment of mental health first aiders.
- **February 2018:** We rolled out new finance, HR and payroll systems to offer significant improvements to the employee experience. The improved and automated services better support colleagues, maximise productivity and improve our approach to performance management. We also introduced a new recruitment system to improve the candidate experience.
- **March 2018:** The British Business Bank signed up to HM Treasury's Women in Finance Charter. We introduced a discretionary incentive award scheme to encourage good performance and increase colleague motivation.

How do we continue to ensure that we are fit for growth?

Organisation's culture and performance:

- By continuing to build the British Business Bank as a credible organisation, measuring our performance against our goals and objectives.
- By taking the best elements from public and private sector to make the Bank both successful and a great environment in which to work.
- Our Colleague Forum meets every two months with colleagues from Sheffield and London representing teams across the business, to ensure our organisational values remain core to how we work together.

Diversity and inclusion agenda:

- By reporting on the gender pay gap, commissioning an equal pay audit and signing up to HM Treasury's Women in Finance Charter, demonstrating our commitment to promoting diversity and inclusion.

Learning and development:

- By supporting ongoing learning and development to empower colleagues to have real accountability and provide timely and relevant expertise based on market requirements.
- By introducing 'Talent' as one of our cultural values, we are committed to building a culture where developing colleagues' talents becomes a key business driver.
- By rolling out a number of leadership coaching and management training programmes for business leaders.

Remuneration:

- By implementing a robust performance and remuneration strategy ensuring it reflects the organisation's reward philosophy.

HR analytics:

- By introducing HR analytics during 2017/18 to ensure we are efficient and effective in our people operations and planning for the long term.

Our values

The British Business Bank reviewed its values in March 2018, in collaboration with its Colleague Forum and Human Resources.

We have been integrating The Start-Up Loans Company with the British Business Bank since they joined the group on 1 April 2017. An important part of this has been the coming together of the two organisations' Colleague Forums to consider issues created by the merger which affect all parts the new organisation.

As part of this integration we introduced five shared values, each of which stem from our core theme, 'Enabling'.

Enabling

We harness our talent to help UK smaller businesses to get the funding they need to start, grow and prosper. We are proud of our brands and passionate in the design and delivery of products and solutions that make finance markets work better.

Commercially Responsible

Exercising good commercial judgement, we work responsibly with taxpayer resources to deliver economic and social benefit.

Innovative

We respond with flexibility and agility to drive the development of solutions that challenge our way of thinking and improve our ability to positively impact financial markets.

Openness

We have a shared sense of purpose, openness and integrity in serving our market, stakeholders and colleagues.

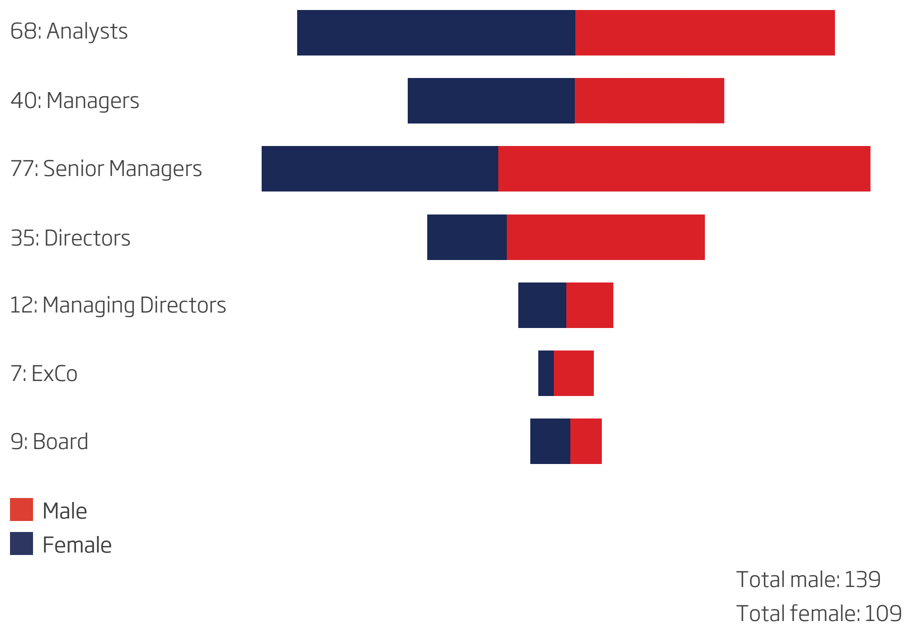
Talent

We are a diverse community where talent is recognised and nurtured, and colleagues feel empowered to be proactive in their own development.

Connecting

Connecting teams across the group and collaborating with government, chosen partners, customers and our wider network to deliver funding, support and improve financial markets for smaller businesses.

Male and female split of British Business Bank colleagues at 31 March 2018



In shaping our new values, the Colleague Forum took the approach of identifying themes which represent our ways of working and developed five values from those, building on the similarities in the two sets of respective values for The Start-Up Loans Company and the British Business Bank.

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

Diversity and equality

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

Our Managing Diversity and Equal Opportunities policy lays out the need to promote and implement equality of opportunity and to manage diversity so that people maximise both their potential and their contribution. Our male/female split at 31 March 2018 is shown above.

Gender Pay Reporting

From 5 April 2018, all organisations with 250 or more employees must provide information regarding their organisational gender pay gap. When the Bank took its snapshot on 5th April 2018 the number of employees was 248. However we have opted to make a voluntary disclosure. The gender pay gap figures are opposite. In conjunction with the gender pay calculations, the Bank commissioned PricewaterhouseCoopers to conduct an equal pay report to explore whether the Bank is paying men and women equal pay for the same roles/ bands. The results were positive, with a small number of instances to be investigated.

> The business additionally provides a day off annually for colleagues to undertake such voluntary work. Many colleagues give their own time to volunteer with charities and other organisations.

Gender pay gap within the British Business Bank

The difference in mean hourly pay rate of male and female employees	30.0%
The difference in median hourly pay rate of male and female employees	10.6%
The difference in mean bonus paid to male and female employees	35.0%
The difference in median bonus paid to male and female employees	44.6%

The proportion of male and female employees who were paid a bonus

Male	Female
63%	56%

Proportion of male and female employees at or below the lower quartile

Male	Female
48.4%	51.6%

Proportion of male and female employees above the lower quartile but at or below the median

Male	Female
58.1%	41.9%

Proportion of male and female employees above the median quartile but at or below the upper quartile

Male	Female
48.4%	51.6%

Proportion of male and female employees above the upper quartile

Male	Female
69.4%	30.6%

Corporate Social Responsibility (CSR)

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

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

- charity work
- environment
- volunteering

British Business Bank colleagues continued to build on initiatives across all three areas of our corporate social responsibility mandate in 2017/18. We nominated three charities during the year to receive funds raised from our CSR activities. Our official national nominated charity is Shelter, the homeless charity. We also support two local charities close to our offices: Bluebell Wood Children's Hospice in Sheffield and The Trussell Trust in London.

Charity work

Colleagues took part in fundraising activities to raise money directly for our three nominated charities, raising over £3,000 through activities including book sales, a Great British Business Bank Bake Off, a Christmas raffle of luxury hampers and a tuck shop run by staff. Separately, they also participated in activities – including sponsored walks, runs, fun runs and bike rides – to raise money for other charitable causes. The business additionally provides a day off annually for colleagues to undertake such voluntary work. Many colleagues give their own time to volunteer with charities and other organisations.

Environment

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

Future developments

Our expertise and experience in small business finance markets means that we are frequently called upon to be closely involved with important government policy initiatives – two recent examples are the Patient Capital Review and the Modern Industrial Strategy.

These initiatives and our own market research have identified gaps in the supply of equity capital for smaller businesses. In particular, early stage investment outside of London and follow-on investment in firms that had already received initial investment were highlighted as specific areas of weakness.

The Bank was allocated an additional £2.5bn at Autumn Budget 2017 to target these companies. By co-investing with the private sector, a total of £7.5bn of investment will be unlocked. Our approach to patient capital is to increase the volume, diversity and accessibility of longer term finance so that smaller businesses can access the finance they need to achieve their growth ambitions. In doing so, we want to ensure that the UK remains the key place in Europe to invest in scaleups and successfully grow a business.

We launched a new Managed Funds programme in May 2018 to seed private sector funds-of-funds, and in June 2018 we created British Patient Capital to invest in venture and growth capital funds and other evergreen vehicles. In addition, we will be setting up a Regional Angels programme to invest alongside business angels and encourage the development of business angel networks across the UK, particularly in areas of the UK that are currently underrepresented. These programmes will significantly increase the supply of equity finance for innovative smaller businesses.

Also at Autumn Budget 2017, the Bank's longstanding Enterprise Finance Guarantee was extended for a further four years with a greater lending capacity. We accredited the first delivery partner under the new EFG Asset Finance variant in October 2017 and announced a second in March 2018. We will continue to build out the EFG platform over the next year.

We are expanding our capability to stimulate investment in those regions where financing opportunities fall short. Adding to the Northern Powerhouse and Midlands Engine Investment Funds, we launched the Cornwall and Isles of Scilly Investment Fund in June 2018.

To complement the supply-side interventions by these regional investment funds, we are putting in place a Regional Network Team to raise awareness of finance options among smaller businesses and help build local and regional finance ecosystems.

This year, we will also be undertaking studies into various aspects of finance markets, building on our existing market research and economic analyses. These include the challenges faced by women when seeking venture capital investment, the capabilities of venture capital managers, the potential for using intellectual property to access bank loans and the feasibility of investment companies based on the US Small Business Investment Company programme run by the Small Business Administration.

As the government prepares the UK for leaving the European Union, we stand ready to respond to market gaps which may arise.

Keith Morgan
Chief Executive Officer

12 July 2018

£7.5bn

By co-investing with the private sector, a total of £7.5 billion of investment will be unlocked

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 2018. The Corporate Governance Statement is set out on pages 52 to 59 and forms part of this report.

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

- a description of the principal activities of the Group during the course of this year is included in the Strategic Report
- details of the significant events since the balance sheet date are contained in note 26 to the financial statements
- information about the use of financial instruments by the Company and its subsidiaries is given in note 23 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 53.

Director	Position	Initial appointment date	Initial appointment expiry	Reappointment effective date	Reappointment expiry
Lord Smith	Chair	5 Jul 2017	4 Jul 2020	N/A	N/A
Christina McComb	Non-executive Director (Interim Chair from 1 October 2016 – 4 July 2017)	29 Oct 2013	18 Nov 2016	18 Nov 2016	18 Nov 2019
Jonathan Britton	Non-executive Director	28 Apr 2014	27 Apr 2017	28 Apr 2017	27 Apr 2020
Neeta Atkar	Non-executive Director	1 Jul 2016	30 Jun 2019	N/A	N/A
Teresa Graham	Non-executive Director	24 Jun 2014	23 Jun 2017	N/A	N/A
Caroline Green	Non-executive Director	24 Jun 2014	23 Jun 2017	20 Jul 2017	19 Jan 2019
Colin Glass	Non-executive Director	24 Jun 2014	23 Jun 2017	N/A	N/A
Piers Linney	Non-executive Director	7 Dec 2017	6 Dec 2020		
Amanda Rendle	Non-executive Director	7 Dec 2017	6 Dec 2020		
Ceri Smith	Shareholder Representative Director	29 Oct 2013	13 Nov 2016	13 Nov 2016	13 Nov 2019
Keith Morgan	Chief Executive Officer	10 Dec 2013			
Christopher Fox	Executive Director	13 Jan 2015			
Patrick Magee	Executive Director	10 Mar 2015			

Directors' biographies

Lord Smith of Kelvin
Chair

One of the UK's most experienced chairs, Lord Smith has led organisations in the private, public and voluntary sectors.

He was chair of UK Green Investment Bank until August 2017 and SSE until July 2015. In 2014 he chaired the Organising Committee for Glasgow 2014 (Commonwealth Games) and the Smith Commission on further powers for the Scottish Parliament. A chartered accountant by profession and former President of the Institute of Chartered Accountants of Scotland, Lord Smith was knighted in 1999, appointed to the House of Lords as an independent cross-bench peer in 2008, appointed Knight of the Thistle in 2013, and awarded the Companion of Honour in 2016.

He is currently Chair, IMI plc, Alliance Trust plc and Forth Ports Ltd; Chancellor, University of Strathclyde.

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

Christina McComb has held a range of senior private and public sector roles and has a track record in private equity and venture capital investment as well as advising small and medium-sized businesses.

Christina is a former director of 3i plc and has senior public sector experience, having been a founding Director of the Shareholder Executive established by the Cabinet Office and former Department of Trade and Industry. Christina was a member of the Small Business Investment Task Force and the SME Growth Capital Review Panel.

Christina is currently Chair of OneFamily, a modern financial mutual organisation. She is also Senior Independent Director at Standard Life Private Equity Trust plc and a Non-executive Director of Big Society Capital and Nexeon Ltd.

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

Neeta has 30 years' experience in financial services, having held a series of positions at both banks and insurance companies, working across all aspects of risk throughout her career.

She began her career at the Bank of England, before moving on to the Financial Services Authority (FSA) on its creation, leaving in 2000 to move into consulting, working with a range of financial services clients.

Following this Neeta worked at Abbey National and then at Royal & Sun Alliance. She moved to Lloyds Bank in 2007, initially working in the retail bank and then, at Group level, leading the Operational Risk & Financial Crime integration of LTSB and HBOS. Most recently, at TSB Bank plc, she held the role of Chief Risk Officer until the end of 2016.

Neeta is also a Non-executive Director of the Nomura Europe Holdings plc, and a Non-executive Director of Yorkshire Building Society and Chair of its Risk Committee. She is a Trustee of the National Skills Academy for Financial Services. Neeta has also been a magistrate for over 20 years.

Jonathan Britton

Independent Non-executive Director and Chair of Audit Committee

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

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

Jonathan is currently a Non-executive Director of Nomura Europe Holdings plc, and also chairs its Audit Committee. From 2006 to 2017 he was a Director of Sparks, a leading children's medical research charity, becoming Chairman in 2012. He was a Non-executive Director and chair of the Audit Committee of ICIC Bank Uk Ltd from 2011 to 2017.

Caroline Green

Independent Non-executive Director

Caroline was Chief Operating Officer and Chief Finance Officer of network accessories vendor ProLabs Limited until June 2018, 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. She started her career at Xerox Corp in a variety of roles including supply chain, manufacturing and finance.

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

Piers Linney

Independent Non-executive Director

Piers Linney is an entrepreneur and investor with a professional background in the City in both law and investment banking at Credit Suisse.

Piers qualified as a lawyer in the City with SJ Berwin before joining the investment banking teams at Barclays de Zoete Wedd (BZW) and Credit Suisse. Piers has founded several technology and communication businesses and has won a range of entrepreneurship awards. He sat on the Cabinet Office SME Panel and the Board of TechUK, and is a Trustee of Nesta, the UK's leading innovation charity.

Piers is known as a champion of entrepreneurship and SMEs after appearing as an investor on Dragons' Den. He has been recognised as one of the top 100 most influential Black Britons and won the inaugural Entrepreneur of the Year award at the EY sponsored Black British Business Awards. In 2018 Piers was recognised as one of the UK's top 20 Ethnic Minority Executives in the Financial Times/EM Power list.

Amanda Rendle
Independent Non-executive Director

Amanda has over 30 years of marketing experience in both agencies and clients across numerous sectors including: financial services, professional service and FMCG sectors. She is the former Global Head of Marketing for Commercial Banking and Global Banking and Markets at HSBC. More recently she has been working with a new UK challenger bank, Masthaven Bank, supporting their successful launch.

Amanda began her career at Barclays Bank before moving to Limbo (Bartle Bogle Hegarty). She also set up a consultancy recognising the opportunity to focus on customer experience.

Amanda is a Non-executive Director for Tesco Bank, The Royal Mint, a Trustee of Keep Britain Tidy, and a Non-executive Director for the Government Communications Service Ministerial Board. She is also a Fellow of the Marketing Society and a member of Women in Advertising & Communications London.

Ceri Smith
Shareholder Representative Director

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

Keith Morgan
Chief Executive Officer

Keith led the planning and establishment of the British Business Bank from January 2013, and was appointed Chief Executive Officer in December 2013. Prior to this, Keith was a Director at UK Financial Investments, joining in 2009 to manage the UK Government's shareholdings in Bradford & Bingley, Northern Rock and Northern Rock Asset Management. Keith joined UKFI from Banco Santander where he was a Director of Sovereign Bancorp in the US. He was previously Director of Strategy and Planning at Abbey National and a member of the Executive Committee, and also served as Chairman of Santander's Asset Management and Credit Card businesses in the UK. Before joining Abbey in 2004, Keith spent 17 years at LEK Consulting, where he was a partner specialising in financial services.

Christopher Fox
Chief Financial Officer

Christopher is Chief Financial Officer and his remit includes Human Resources, Policy and Communications and Strategy, Economics and Business Development. Prior to joining the British Business Bank, Christopher was Head of Banking at UK Financial Investments (UKFI), where he was responsible for overseeing HM government's shareholdings in Lloyds Banking Group, Royal Bank of Scotland and UK Asset Resolution. He was also a Non-executive Director at UK Asset Resolution, Bradford & Bingley and Northern Rock Asset Management. Christopher joined UKFI from UBS, where he gained extensive experience of financial services over nearly 20 years.

Patrick Magee
Chief Commercial Officer

Patrick joined the British Business Bank as Chief Operating Officer in October 2014 and became Chief Commercial Officer in October 2017. He had previously represented the government's shareholder interests on its Board. Before joining the Shareholder Executive in June 2012, Patrick was a Managing Director of corporate finance at JP Morgan Cazenove, having worked at the predecessor firms for almost 18 years. During his time at the Shareholder Executive Patrick led the team working on the set-up and governance of the British Business Bank as well as working on a range of the companies in the Shareholder Executive portfolio. At the British Business Bank Patrick is responsible for overseeing the Start Up Loans, Guarantee and Wholesale Solutions and Venture and Regional Solutions Business areas.

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.

Viability statement

The British Business Bank is 100% funded by the UK government, its sole shareholder, and its continuation as an entity is ultimately at the discretion of the UK government that is in power. The Board assumes that the Bank has, and will continue to have, government support and that its funding arrangement will remain in place. The Board undertakes a business planning exercise each year to outline the five year plan for the organisation.

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

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

Greenhouse gas emission reporting

Scope of disclosure

The British Business Bank reports its Scope 1 and Scope 2 emissions based on its property portfolio. The British Business Bank occupies four floors of office space and is able to provide emission reporting for 2016/17 and 2017/18 in respect of its premises and company travel activities.

Reported Scope 1 emissions cover emissions generated from the gas and oil used in all buildings from which the Group operates and Scope 2 includes its emissions from electricity. The figures provided in Scope 1 and Scope 2 in the table below are estimated emissions relating to energy consumed in properties where the landlord controls the supply and recharges the British Business Bank. Reported Scope 3 emissions relate to business travel undertaken by all colleagues using rail and air travel which has been booked through our corporate travel agent. These results are summarised in the table on page 51. Currently we do not report on any other Scope 3 emissions. Business mileage in private vehicles is not included as this is not a mode of travel used significantly by the organisation.

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 ratio	Emissions per full time employee (FTE)

GHG emissions

	2016/17 Scope CO_2 (tonnes)	2017/18 Scope CO_2 (tonnes)	Comparison 2016/17 to 2017/18 (%)
Scope CO_2 (tonnes)			
Scope 1 (Gas)	29	28	- 3
Scope 2 (Electricity)	91	191	+ 110
Scope 3 (Travel)	37	95	+ 157
Total	157	314	+ 100
Total per average number of employees	1.1	1.25	

Sustainability principles

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

Auditors

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

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

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

Approved by the Board of Directors

Keith Morgan
Chief Executive Officer

12 July 2018

Corporate governance statement

The British Business Bank constitution consists of its Articles of Association and a Shareholder Relationship Framework Document between the British Business Bank and BEIS. The British Business Bank plc operates, so far as is practicable, a corporate governance framework that accords with best practice and complies with the provisions of the UK Corporate Governance Code (other than Section E Relations with Shareholders).

The UK Corporate Governance Code is freely available from the Financial Reporting Council. The 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 2017 insofar as it applies to the British Business Bank.

Role and responsibility of the Board of Directors of the company

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

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

Our Board and Committees have the appropriate balance of skills, experience and independence to enable them to discharge their duties and responsibilities effectively. The Board considers that the Chair was independent on appointment and that all Non-executive Directors other than Ceri Smith are independent for the purposes of the Code. Ceri Smith is the Shareholder Representative Director.

The Board reviewed the schedule of matters reserved for the Board in June 2017. The matters reserved for the Board include strategy and management, Company structure and capital, financial reporting and controls, risk management and internal controls, Board membership and other appointments, remuneration, delegation of authority, corporate governance, appointment of professional advisors, litigation and 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 staff in consultation with our Shareholder. This is further explained in the Directors' Remuneration Report at page 66.

The Chair is responsible for leading the Board and its discussions and for encouraging open debate and challenge. The Chief Executive leads the Executive in the day to day running of the business and the implementation of strategy and is supported in this by the Senior 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 propriety and regularity of the public finances.

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

Christina McComb acted as Interim Chair from 1 October 2016 until 4 July 2017 on appointment of the new Chair.

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

The composition of the Board during the year is set out on page 45 of the Directors' report.

The Shareholder selected Korn Ferry as an independent recruitment consultant for the appointment of a new Chair. In accordance with the Shareholder Relationship Framework Document, our Shareholder announced the appointment of Lord Smith of Kelvin as the new Chair of the British Business Bank in April 2017 for a term of three years, commencing in July 2017.

In June 2017 the three-year terms of Colin Glass, Teresa Graham and Caroline Green ended and they stepped down from the Board. In July 2017 the Board confirmed the re-appointment of Caroline Green for a term of 18 months, commencing in July 2017.

Following a tender process, Audeliss was appointed as an independent search consultant for the appointment of two new Board Members for the British Business Bank. In November 2017, Piers Linney and Amanda Rendle were appointed as Non-executive Directors for terms of three years commencing in December 2017.

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

Annual Director election

At the 2017 Annual General Meeting (AGM) Lord Smith of Kelvin was elected and Jonathan Britton, Christina McComb and Keith Morgan were each re-elected for a period of three years. Caroline Green was re-elected for a period of 18 months.

Board information

All Directors are provided with updates on corporate governance developments, legislative and regulatory changes, and relevant industry and technical information. The Board is supplied in a timely manner with the appropriate information to enable it to discharge its duties and any further 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, notably Audit, Remuneration, Risk and Nomination committees. The British Business Bank Board has approved terms of reference for each committee.

Audit Committee

Under the chairmanship of Jonathan Britton, the other members of the committee during the year were Teresa Graham, Caroline Green and Neeta Atkar, who are all independent Non-executive Directors. The Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, General Counsel, Managing Director Finance and Head of Internal Audit attend Committee meetings along with the external auditors who are invited to attend and report at all meetings.

The committee also meets privately with both internal and external audit. Attendance can be found on page 59.

Role

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

During the financial year 2017/18, the Audit Committee considered and approved the following matters:

In relation to financial statements:

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

> During the year the Audit Committee undertook a self-assessment using the NAO Audit and Risk Assurance Committee Effectiveness Checklist.

In relation to internal and external audit:

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

In relation to governance and other matters:

- Migrating the payroll, finance and expenses system from UKSBS to inhouse using an alternative system
- Approval of amendments to its Terms of Reference
- Funding structure and accounting for SULCo as a subsidiary of the group
- Changes to the Bank's financial framework with government.

During the year the Audit Committee undertook a self-assessment using the NAO Audit and Risk Assurance Committee Effectiveness Checklist. The committee concluded that it was operating effectively but undertook to make a small number of changes in line with some of the suggestions made by the participants of the self-assessment.

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

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

External audit brought four matters to the Audit Committees attention in their 2016/17 management letter.

These were:

- Timing of the Adjusted Return calculation to allow for appropriate review
- The process for reporting the valuation of the VC Catalyst Fund
- Timing for the calculation of the ECF provision to allow for appropriate review
- Minor corrections required to the final proof of the Annual Report.

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 Remuneration Committee is chaired by Christina McComb. The Committee was chaired for an interim period by Teresa Graham during Christina McComb's appointment as interim Chair of the Board between October 2016 and July 2017. The other members of the Committee were Caroline Green (who was appointed to the Committee with effect from its September 2017 meeting and stepped down following its December 2017 meeting), Amanda Rendle (who was appointed to the Committee with effect from its February 2018 meeting) and Ceri Smith. Attendance can be found on page 59.

Role

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

During the financial year 2017/18, the Remuneration Committee considered and approved the following matters:

- review of the objectives for Executive Directors and members of the Senior Leadership Team
- performance ratings and annual bonus
- Short Term Incentive Plan and Long Term Incentive Plan awards
- annual reward strategy review
- review of market benchmarks for remuneration
- approach to publication of gender pay gap data
- review of the design of the Long Term Incentive Plan
- incentives for senior executives departing The Start-Up Loans Company following the transaction with the Bank
- review of the committee's terms of reference.

Risk Committee

The Risk Committee is chaired by Neeta Atkar. The other members of the Committee during the year were Colin Glass, Jonathan Britton, Piers Linney (who was appointed to the Committee with effect from its March 2018 meeting), Christina McComb and Ceri Smith. Attendance can be found on page 59.

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.

During the financial year 2017/18, the Risk Committee considered and approved the following matters:

- the updated risk management framework
- the risk appetite statement
- corporate governance statement
- policies on Credit and Investment Risk, Reputational Risk, Data Retention and Risk Appetite
- position in relation to State aid
- the outputs of macroeconomic and other stress tests on our portfolio and business plan
- the impact of market risk on the portfolio
- the approach to business intelligence
- updates in relation to the risks arising from the SULCo integration
- risks relating to the major change programmes
- the risks arising from the Bank's strategic plan.

Nomination Committee

The Nomination Committee is chaired by Lord Smith. The Committee was chaired on an interim basis by Christina McComb between October 2016 and July 2017. Christina McComb and Ceri Smith were members of the Committee throughout the year. Attendance can be found on page 59.

Role

The role of the nomination committee is to consider succession planning, review the leadership needs of the organisation and identify and nominate board members.

During the financial year 2017/18, the committee discussed and considered succession planning for Executive and Non-executive Directors and for members of the Senior Leadership Team, the appointment of further Non-executive Directors to the Board, the re-appointment of an existing Non-executive Director, membership of the Board's Committees, and a review of the Committee's Terms of Reference.

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

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 with regard to 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.

Other committees

In addition, during 2017/18 Board committees were established to discuss the following ad hoc matters:

- procurement of fund managers in respect of Midlands Engine Investment Fund
- matters relating to a potential third party investor in the Bank
- the establishment of a patient capital entity as a new subsidiary of the Bank.

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

Board and committee attendance

The table on page 59 sets out the attendance of Directors since 1 April 2017 who attended each Board and committee.

Board performance

The Bank is committed to ensuring that the Board and its committees operate effectively and are continually improving. In May 2017 the Board conducted an externally facilitated Board evaluation. The external evaluation process was undertaken by Independent Audit following a competitive process to ensure value for money. A self-evaluation of the Board and its committees was conducted in May 2018. A report detailing findings and suggested improvements has been accepted by the Board and an action plan has been established for implementing key recommendations during 2018/19. Overall 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 disclosure, review and authorisation of Directors' conflict of interest, which requires written disclosure of any actual or potential conflicts of interest for all Directors and staff. The procedure requires Directors to notify formally the Chair or the Company Secretary as soon as they become aware of any actual or potential conflicts of interest with their duties to the Bank, or of any material change in existing or potential conflicts that may have been authorised by the Board.

The Board believes that outside interests can be beneficial for both the Executive and Company and has authorised the outside interest of the Chief Executive Officer in his role as a Non-executive Director at UK Asset Resolution. The Bank has not made any political donations or incurred any political expenditure during the financial year.

Attendance at meetings and committees

The table below sets out the attendance of Directors since 1 April 2017 who attended each Board and committee:

	Board	Audit	Risk	Remuneration	Nomination
Total number of meetings	**10**	**4**	**4**	**5**	**4**
Chair					
Lord Smith (appointed 5 July 2017)	8/8	–	–	–	3/3
Non-executive Directors					
Neeta Atkar	9/10	3/4	4/4	–	–
Jonathan Britton	8/10	4/4	4/4	–	–
Colin Glass (stepped down 23 June 2017)	2/2	–	1/1	–	–
Teresa Graham (stepped down 23 June 2017)	2/2	1/1	–	2/2	
Caroline Green (stepped down 23 June 2017, re-appointed 20 July 2017)	9/9	3/3	–	2/2	–
Piers Linney (appointed 7 December 2017)	3/3	–	0/1	–	
Christina McComb (interim Chair to 4 July 2017)	10/10	–	3/4	5/5	4/4
Amanda Rendle (appointed 7 December 2017)	2/3	–	–	1/1	
Ceri Smith	8/10	–	3/4	5/5	4/4
Executive Directors					
Keith Morgan	9/10				
Christopher Fox	10/10				
Patrick Magee	10/10				

Risk management and internal control

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

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

To ensure robust and effective decision making within the Bank, it has approved terms of reference for each executive level investment 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
- is owned by the Chief Risk Officer (CRO) and approved by the British Business Bank Board. Any changes to the Risk Management Framework are recommended by the Board Risk Committee to the Board for approval
- outlines the risk management vision and objectives, and the approach for evolving the risk management capability of the British Business Bank
- is reviewed on an annual basis and, if required, more frequently to reflect any significant material changes to the business, economic or regulatory outlook.

A discussion of how the Bank handles its risks in relation to financial instruments is set out in note 23 of the financial statements.

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

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

Risk appetite

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

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

The Board undertook a review of the British Business Bank's risk appetite in March 2018 in conjunction with setting its business plan for 2018/19.

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 30 sub-categories of level 2 risk.

As part of this review the Board revisited the descriptions of our Level 1 risks and also added two new Level 2 risks.

The Risk Appetite Statement is as follows:

Risk	Definition	Categories	Example mitigants
Strategic and Business Risk **Risk appetite:** Low – Medium	The (residual) risks of direct or indirect financial losses arising from a suboptimal business strategy or business model and the risk of failure to meet internal and/or public policy objectives.	– 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.	– 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 the strategic risk register by the senior team and Board Members. – Change function and Change Board to manage the growth of the organisation. – Regular review of market conditions, impact on SMEs and ongoing communication with stakeholders. – Assessing the risks and mitigants to meeting our objectives during the business planning process.

Risk	Definition	Categories	Example mitigants
Credit and Investment Risk **Risk appetite:** Medium – High	The risk of direct or indirect financial losses in 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.	– 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 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.	– 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.	– The Bank makes material losses due to foreign exchange movements through its investments. – The Bank investments are subject to interest rate fluctuations.	– 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 FX movements. – The Bank requires some delivery partners to manage market risk directly within the terms of the investment.
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.	– 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 the Bank does not have, recruit or retain the right staff, with the right culture, to meet its objectives.	– 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. – Target operating model planning and regular employee engagement, including Colleague Forum.

Risk	Definition	Categories	Example mitigants
Information Risk **Risk appetite:** Low	Information Risk encompasses any compromise to the information BBB handles during its creation, storage, processing, transfer or disposal (the information lifecycle).	– Risk of inaccurate or incomplete data processed within operations. – Breach of legal or regularity requirements relating to handing, safe-keeping, retention or disclosure of information. – Risk of business, customer or employee information being leaked or accidentally made available in 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. – The risk that the information owned by BBB is not available to meet its business objectives or fulfill its legal and regulatory obligations.	– Business information and data governance projects established within 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 staff training programme covering information security, cyber crime, data protection, and freedom of information. – The Bank Maintains BCP plans which contain robust disaster recovery of information technology systems. – Disaster Recovery testing.
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 British Business Bank to fines and penalties as well as other associated financial losses.	– Risk that the Bank's regulated entity breaches regulatory requirements. – Breach of applicable laws relating to financial crime, money laundering and conflicts of interest. – Risk that the Bank enters into regulated activities within its programmes, without being regulated. – The Bank employees breach compliance standards.	– New products and programmes are assessed against the UK and EU regulatory environments. – All new investments are subject to Know Your Customer and anti-money laundering reviews. – The Bank has a Compliance Risk Management Framework and a suite of compliance related policies. – Bank employees are subject to a Code of Conduct policy, annual Compliance Declaration and mandatory e-Learning.
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.	– The Bank operates an outsourcing model which is subject to delivery partner conduct and performance.	– A Reputational Risk Policy is in place. – The Bank undertakes extensive due diligence on new delivery partners and monitors existing delivery partners. – Service Level Agreements are in place with delivery partners. – The Bank has a robust Complaints Policy in place.

The Bank undertook an exercise to quantify the potential downside risks of a severe downturn against our Business Plan. This assessed the likely impact on our portfolio assuming a 1 in 20 year scenario across the various programmes, and further scenarios including those based upon Bank of England guidelines and a delayed stress event are also considered.

The outcomes were considered by both the Board Risk Committee and the Board. Further detail on this exercise is covered in the corporate governance section.

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

Three lines of defence model

First line of defence

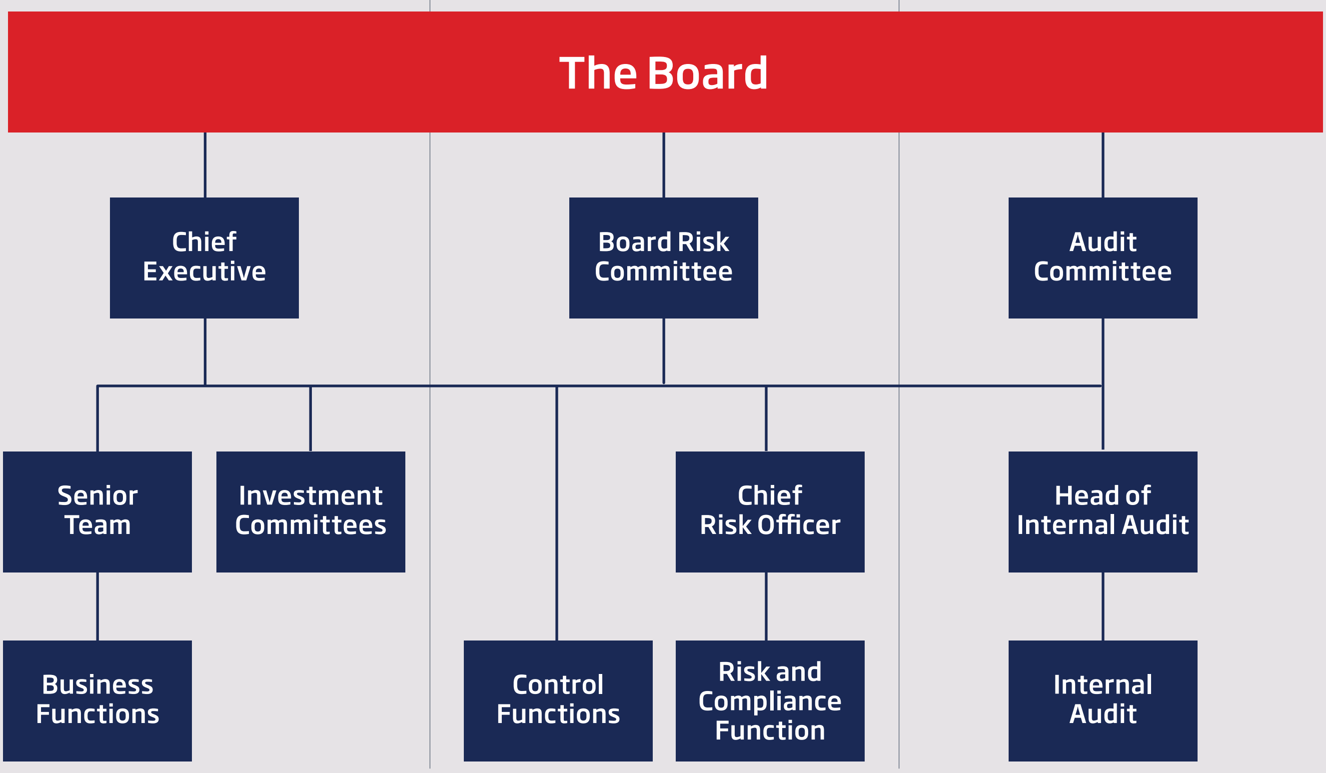
Day to day management and risk ownership

Second line of defence

Risk policies, methodologies and independent oversight and challenge

Third line of defence

Independent assurance



Risk governance

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

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

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

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

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

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

They outline how we intend to function, taking account of regulatory or legal requirements and industry best practice. Policies are approved by the appropriate committees and communicated to staff. Colleagues are also subject to the British Business Bank Code of Conduct and annual compliance declarations.

Approved by the Board of Directors,

Keith Morgan
Chief Executive Officer

12 July 2018

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 2018. 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 2017/18, the Bank continued to make significant progress, as outlined in the Chair's statement. The committee has also played an important role in monitoring and reviewing a remuneration framework that reflects the particular circumstances of the Bank as a public owned company operating in a commercial environment. Accordingly, the committee has continued with an incentive scheme that is designed to reward senior employees based on the long-term sustainable success of the Bank. Key decisions made by the committee and recommended to the Board during the year were:

- agreeing the annual pay review for 2018
- reviewing the Long Term Incentive Plan (LTIP) appropriate to the particular circumstances of the Bank
- measuring corporate and individual performance targets for 2017/18 and the second cycle LTIP
- reviewing the overall remuneration policy and strategy for the Bank
- agreeing the remuneration approach for the new British Patient Capital subsidiary
- reviewing the Bank's gender pay gap report
- recommending that the Bank should sign up to the Women in Finance charter.

In accordance with the rules of the Bank's Long Term Incentive Plan (LTIP), 2017/18 was the second year in which awards were assessed for the corporate performance element of the scheme over the three year cycle 2015/16 to 2017/18. 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 80% 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 2017. In the context of the Bank's policy remit, the committee recognises that remuneration policy will need to be reviewed from time to time to ensure that it is meeting the requirements of our shareholder and is fit for purpose. Where appropriate, the committee will seek relevant external advice and guidance.

Looking ahead to 2018/19, the committee will be reviewing the business targets for the next period and setting stretching business and personal targets for the executive. We will also review the remuneration strategy in general in light of the growth of the Bank and the planned organisational change, including the creation of British Patient Capital.

Christina McComb

Remuneration policy report

Policy overview

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

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

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

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

How the views of the shareholder have been taken into account

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

The remuneration policy for directors and the senior team

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

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

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

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

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

Table 1: Remuneration policy

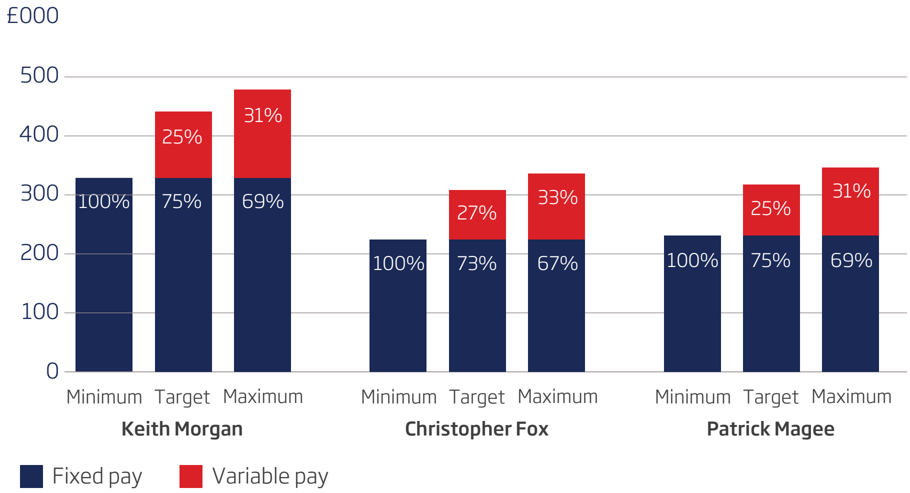
Element	Operation, opportunity and performance framework
Base salary	
Objective To attract and retain high-calibre senior leaders.	Base salaries are reviewed annually taking into account the nature of the role and responsibilities. Roles are benchmarked against relevant comparator organisations in the public and private sectors. The Remuneration Committee also takes into account the external environment and views of the shareholder. 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: – 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	Executive Directors and certain other senior executives are eligible to participate in a Long Term Incentive Plan (LTIP). 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. 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, taking into account 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. Corporate targets cover rolling three year periods and will generally be in line with the Bank's business plan objectives. The current targets for the LTIP awards granted during the year and the threshold levels are set out in Annual Report on Remuneration and have no specific weightings. Personal targets are designed to take into account the specific responsibilities of individual senior leaders in the Bank. The current incentive is a maximum cash award of 50% of base salary. In the case of Executive Directors, awards are paid at the end of the relevant three-year cycle; in the case of the second cycle LTIP, any award will be paid in August 2018. In the case of other recipients of the LTIP, any awards in respect of personal objectives may be paid after two years and the corporate element after three years. There is no annual bonus award for Executive Directors and the senior team.

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	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.
	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'.
	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.
Pension and other benefits	
Objective To provide an attractive and cost-effective package	The Bank contributes up to a maximum 15% of base salary to its defined contribution scheme or an approved personal pension scheme, subject to a minimum employee contribution of 3%. This benefit is tiered depending on the grade of the colleague. The CEO receives a cash-in-lieu allowance of 10%. Any other colleague below Executive Director level who has reached his or her pension Lifetime Allowance may also receive a cash-in-lieu allowance of 10%.
	Current benefits are provided via EdenRed 'My Life Style' Benefits portal offering child care vouchers, cycle to work, etc. The Bank also provides private medical insurance and life insurance. 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.
Loss of office payments	
Objective To provide fair but not excessive contract features	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.
	Should an individual be considered a 'good leaver' under the LTIP rules, an appropriate portion of their LTIPs may, at the discretion of the Remuneration Committee, be retained. All termination payments are subject to Cabinet Office Guidelines.
New Executive Director remuneration	
Objective To attract and retain high-calibre senior leaders	Remuneration for any new appointments will be set in accordance with the policy set out in this table. The same approach will be taken with respect to any internal appointments. We do not offer any signing-on payments or other compensation for loss of deferred compensation from previous employment.

Table 2: Scenarios chart: ranges for Executive Director remuneration

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



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

External appointments

Executive Directors may be invited to become Non-executive Directors in other companies. These appointments can enhance their knowledge and experience to the benefit of the Bank. It is the Bank's policy that Board approval is required before any external appointment may be accepted by an Executive Director. The Executive Director is permitted to retain any fees paid for such services. During the year, Keith Morgan served as a Non-executive Director at UK Asset Resolution Ltd and received a fee of £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
Basic fee – Chair	
Remuneration is in the form of an annual cash fee, in line with practice in the UK	The Chair fee will be reviewed from time to time by the Remuneration Committee.
Basic fee – Non-executive Directors	
Remuneration is in the form of an annual cash fee, in line with practice in the UK	Non-executive Director remuneration is reviewed annually by the Chair and the Executive Directors. Any recommendations are subject to Board approval, with Non-executive Directors not voting on their own remuneration. Additional fees are paid to the Senior Independent Director and Chairs of the Audit, Risk and Remuneration Committees, in recognition of the additional time spent in respect of their committee activities. This is in line with UK practice generally.

Bank wide remuneration and incentive plans

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

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

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

Short Term Incentive Plan (STIP)

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

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

Annual Bonus

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

Actual awards are based on corporate and personal performance.

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 first cycle LTIP matured on 31 March 2017, covering the period 2014/15 to 2016/17, and awards were paid in August 2017. The second cycle LTIP matured on 31 March 2018, covering the period 2015/16 to 2017/18, and awards are payable in August 2018. Awards under the scheme are determined based on both corporate performance (making up 60% of the total potential award) and personal performance (making up 40% of the total potential award).

Taking into account performance against KPIs (as shown in table 4 overleaf) and other considerations, the Remuneration Committee has determined that a corporate performance pay-out of 80% is appropriate which is slightly above on-target for Corporate Performance.

Membership of the Remuneration Committee

The Remuneration Committee comprises Christina McComb (Chair), Amanda Rendle and Ceri Smith (representing the Shareholder). 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.

The Chief Executive, Chief Financial Officer, General Counsel 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. Aon McLagan provided benchmarking data for a fee of £35,100 and Mercer completed a review of the LTIP scheme for a fee of £41,950. Neither of these advisors have any connection with the Bank.

Table 4: Original KPI targets, revised targets and actual outcomes (Second cycle LTIP corporate performance)

Objective	KPI	2017/18 Actual	2017/18 LTIP - original methodology		
			Lower	Stretch	Challenge
Increase Supply	Up to £10bn stock of finance facilitated through our programmes over five years		£8.0bn	£9.9bn	£10.5bn
			2017/18 LTIP - revised methodology		
		£12.3bn	£8.5bn	£10.3bn	£10.9bn
More diverse finance market	Over 75% of our finance facilitated through providers other than the four largest banks over five years	95.7%	81.0%	86.0%	91.0%
Manage taxpayers' resources efficiently	To earn greater than the government's medium term cost of capital over the next five years measured by the five year gilt rate at the beginning of the plan	4.7%	1.6%	2.0%	2.2%
Improve SME understanding of finance options	Better provision of information (measured through average awareness of six alternative finance options from British Business Bank customer research)		**2017/18 LTIP - original methodology**		
		N/A	47.0%	49.0%	51.0%
			2017/18 LTIP - revised methodology		
Improve SME understanding of finance options	Awareness	50%	N/A	50%	N/A
	Confidence	66%		66%	
	Shopping Around	58%		59%	
	Awareness of BBB in general	13%		15%	
	Attendance at BBB Events	78,268		70,000	
	Media Views (advertising value equivalent)	£11.6m		£9.0m	
	BFG distributed/downloaded	84,936		60,000	
	CRA/FP legislation	Live		Live	

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

The personal performance of the Executive Directors, as confirmed by the Remuneration Committee, is set out for each of the years 2015/16, 2016/17 and 2017/18 below. The 2015/16 and 2016/17 years' performance are used to determine the personal element of the second cycle LTIP.

Keith Morgan

Keith exceeded his personal objectives for the 2015/16 year and the remuneration committee awarded 80% of the maximum for 2015/16. For 2016/17 the committee assessed personal performance as on-target and awarded 75%. For 2017/18 the committee assessed personal performance as ahead of target and awarded 90%.

Christopher Fox

In 2015/16 the committee concluded that Christopher exceeded his personal performance objectives for this period and awarded 90% personal award. For 2016/17 the committee assessed personal performance as on-target and awarded 75%. For 2017/18 the committee assessed personal performance as ahead of target and awarded 80%.

Patrick Magee

For 2015/16 and 2016/17 the committee assessed personal performance as on-target and awarded 75%. For 2017/18 the committee assessed 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	80%	23.9	21.0	90%	18.9	21.0	75%	15.8
Personal Performance Y2	29.9	75%	22.4	21.0	75%	15.8	21.0	75%	15.8
Corporate Performance	89.7	80%	71.8	63.0	80%	50.4	63.0	80%	50.4
Total Award	**149.5**		**118.1**	**105.0**		**85.1**	**105.0**		**82.0**

This represents cycle 2

Table 6: Executive Director remuneration (audited)

	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**	**1070.3**

	Year ended 31 March 2017					
	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	119.6	29.9	448.5
Christopher Fox	210.0	0.2	0.0	58.2	0.0	268.4
Patrick Magee	210.0	0.2	0.0	63.1	21.0	294.3
Total	**719.0**	**0.4**	**0.0**	**240.9**	**50.9**	**1,011.2**

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 2017/18. The long term incentive payments relate to the three year period ending 31 March 2018 and are payable in August 2018.

Table 9 overleaf sets out the corporate three-year performance targets for the Executive Directors, which have no specific weightings, for the fourth 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 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**	**1030.9**

Year ended 31 March 2017

	Salary £000	Taxable Benefits £000	Annual Incentive £000	Corporate element of first cycle LTIP £000	Personal element of second cycle LTIP £000	Pension Payments (including cash supplements) £000	Total £000
Shanika Amarasekara	202.0	0.2	0.0	41.6	31.0	30.3	305.1
Mark Gray	202.0	0.2	0.0	45.0	30.0	30.3	307.5
Andrew Grant							
Catherine Lewis La Torre	122.0	0.0	0.0	0.0	0.0	12.0	134.0
Total	**526.0**	**0.4**	0.0	**86.6**	**61.0**	**72.6**	**746.6**

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 2017/18 and, for those eligible for an LTIP award, has made provisional awards in the range of 40% – 90% for the senior team. (2016/17: 75% – 80%) Subject to continued performance, these awards are payable in August 2018 and August 2019.
3. Shanika Amarasekara (General Counsel and Company Secretary), Mark Gray (Chief Risk Officer) Andrew Grant (Chief Operating Officer) and Catherine Lewis La Torre (Chief Executive Officer of British Business Investments) along with the Executive Directors form the Executive Committee of the Bank.
4. Catherine Lewis La Torre is paid by British Business Investments and joined the Bank in September 2016.
5. Andrew Grant joined the Bank in September 2017.

This section of the annual report on remuneration sets out the LTIP grants made during the year and which will vest in March 2020 subject to meeting the performance conditions.

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

The senior team are invited to participate in a long term incentive plan. The following individuals have elected to join the plan and have been granted interests during the 2017/18 year worth up to a maximum of 50% of salary. Any pay-out is subject to a number of conditions, including performance conditions.

	Year ended March 2018						
	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**	**End of corporate performance period**
Keith Morgan	Cash LTIP	50%	59.8	89.7	149.5	50%	31 Mar 20
Christopher Fox	Cash LTIP	50%	44.9	67.3	112.2	50%	31 Mar 20
Patrick Magee	Cash LTIP	50%	42.0	63.0	105.0	50%	31 Mar 20
Shanika Amarasekara	Cash LTIP	50%	41.2	61.8	103.0	50%	31 Mar 20
Mark Gray	Cash LTIP	50%	41.2	61.8	103.0	50%	31 Mar 20
Andrew Grant	Cash LTIP	50%	33.3	54.3	87.6	50%	31 Mar 20
Catherine Lewis La Torre	Cash LTIP	50%	42.4	64.2	106.6	50%	31 Mar 20

Notes
1. Personal performance targets are not included in this calculation as they are not subject to threshold conditions.
2. Andrew Grant's 2017/18 total award has been pro-rated for his start date.

Table 9: Group targets for the fourth cycle (March 2020)

Objective	**2019/20 target from business plan**		
	Lower threshold	**Stretch**	**Challenge**
Up to £10bn stock of finance facilitated through our programmes over five years	£7.8bn	£9.8bn	£10.8bn
– of which SME	£5.8bn	£7.2bn	£7.9bn
More diverse finance market (measured by Finance facilitated through non-Big Four lenders)	88%	93%	95%
Better provision of information (measured though a balanced 'scorecard' showing an average of green across each year in the plan (score in brackets))	Amber/Green (2)	Green (4)	Green (6)
Manage taxpayers' resources efficiency through earning an appropriate return on equity	2.0%	2.8%	3.0%

Table 10: Non-executive Director remuneration (audited)

	Total Fees 2017/18 £000	**Total Fees 2016/17 £000**
Lord Smith (Chairman)	89	–
Christina McComb (senior independent director)	65	83
Jonathan Britton	30	30
Teresa Graham	8	29
Caroline Green	23	25
Colin Glass	6	25
Neeta Atkar	30	23
Piers Linney	8	nil
Amanda Rendle	8	nil
Ceri Smith	nil	nil
Ron Emerson	nil	60

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 chairman of the Risk Committee until 1 July 2016. She was also appointed to Chair the Remuneration Committee in place of Christina McComb. She received an additional pro-rated fee of £5k per annum whilst she was chairing a board committee.
4. Neeta Atkar was appointed on 1 July 2016.
5. In June 2017 the three year terms of Colin Glass, Teresa Graham and Caroline Green ended.
6. Caroline Green was re-appointed to the Board on 20 July 2017.
7. Piers Linney and Amanda Rendle were appointed to the Board on 7 December 2017.
8. Ceri Smith is the shareholder representative and therefore does not receive a fee.
9. Ron Emerson resigned from the Bank from 30 September 2016.

The base fee for Non-executive Directors is £25,000 and the base fee for the Senior Independent Director is £45,000. 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 2016/17 to illustrate the relative importance of spend on pay.

	Total revenue (£k)	Total remuneration (£k)	%
2017/18	146,279	23,550	16%
2016/17	80,872	15,346	19%

1. The total revenue figures in this table have been prepared on a different basis from 2016/17 as explained in note 2 to the accounts.

Changes in CEO/colleague pay and median comparison

The median salary of employees for 2017/18 was £58,000 (2016/17: £58,000). This compares to the CEO's annual base salary of £299,000. No employee earns more than the highest paid Director.

The CEO did not receive a salary increase during the 2016/17 or 2017/18 performance year. A 1.9% general pay increase was awarded to colleagues below Executive Director in the 2017/18 performance year (awarded 1 April 2017) and the 2018/19 pay increase has been agreed as 2.3% for all colleagues (excluding SULCo) below Executive Director level effective 1 April 2018.

Pension entitlements

The Bank does not offer a defined benefit pension scheme for new staff. However, staff that transferred into the Bank from the Department for Business Innovation and Skills (BIS), now the Department for Business, Energy and Industrial Strategy, are able to continue to participate in BEIS's defined benefit scheme. No Executive Directors have participated in a defined benefit scheme in 2017/18 and only one colleague who transferred from BIS continues to participate in the BEIS defined benefit scheme.

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

Board of Directors terms of office

The dates of appointment and terms of office of Non-executive and Executive Directors are provided in the Directors' Report, page 45.

Implementation of the Remuneration Policy for 2018/19

For 2018/19, the Remuneration Committee will continue to implement the policy on a similar basis to 2017/18. The British Business Bank will seek approval from the Shareholder for any changes to the policy.

The business and personal objective themes for 2018/19 include delivery of strategic initiatives such as an enhanced information strategy including delivery of the Information Hub, delivery of the Autumn Budget 2017 announcements including British Patient Capital, Managed Funds Programme and Regional Angels, and creation of the new Demand Unit which will deliver the Bank's regional strategy.

Approval of the Directors' Remuneration Report

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

Signed on behalf of the Board of Directors.

Yours sincerely

Christina McComb
Chair of the Remuneration Committee

Directors' responsibilities

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

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 (IFRSs) as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and 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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
- Make an assessment of the Company's ability to continue as a going concern.

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

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

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- The strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- The annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

Keith Morgan
Chief Executive Officer

12 July 2018

Christopher Fox
Chief Financial Officer

12 July 2018

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 2018 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 affairs of the British Business Bank plc group as at 31 March 2018 and of the group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the Companies Act 2006.

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 investment valuations as set out below; fraud in revenue recognition, with specific regard to investment income; and 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 54–55.

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

- I identified an additional significant risk in relation to the implementation of a new finance system during the financial year. The significant risk related to the accurate transfer of financial information to the new system and I do not consider this to be a key audit matter.
- I identified an additional significant risk around The Start-Up Loans Company joining the BBB group on 1 April 2017. This has been included as a key audit matter below.

Valuation of investments

Description of risk	How the scope of my audit responded to the risk
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 Ltd (BBFL), British Business Investments Ltd (BBI) 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 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 VC Catalyst and UKIIF programmes which are valued at £208m which is approximately 13% 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. IAS39 requires SULCo to recognise its loans at fair value when they are first recognised and to review them for impairment. The fair value adjustment and impairment provision are significant estimates which are derived from internally developed models using non-observable inputs. These estimates are therefore subject to a significant risk of material misstatement.	In auditing the investment valuations I performed the following procedures: – I have tested the operating effectiveness of the controls applied by British Business Bank plc over the valuation process for investments. This included attendance at key internal meetings where I observed management's review and challenge of valuations provided by fund managers or derived from valuation models. I have undertaken similar testing through my audit of BBI in relation to the group investments held within that company. For SULCo I have tested the design and implementation of controls over the loan models. – 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 BBB 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 investments are held by BBI, I have taken assurance from my work on the financial information of that company. – 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. I sought confirmation that management had reassessed the assumptions made in the prior year which underpin the valuation models to confirm that they remain appropriate at year end and challenged management on how it has addressed estimation uncertainty. Where loans are held by the Start-Up Loans Company, I have taken assurance from my work on the financial information of that company where I used auditors' experts to support my testing of the models. – 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 new investments and considered whether management's judgements on appropriate accounting treatments are consistent with the relevant accounting standards and the underlying substance and form of legal agreements. **Key observations** The results of my audit procedures enabled me to conclude that the valuation of investments in the financial statements is not materially misstated.

The Start-Up Loans Company joining the British Business Bank group

Description of risk

The Start-Up loans Company (SULCo) is a separate company which joined the British Business Bank plc group on 1 April 2017 and is therefore included in the consolidated group accounts for the first time this year.

Management needed to ensure that the accounting policies of SULCo were aligned with the group on consolidation and that suitable classification adjustments were made to the presentation of the Statement of Financial Position. Management also needed to ensure that the business combination was accounted for appropriately and in line with the requirements of the accounting standards.

This risk is pervasive over the group financial statements and could potentially affect all financial statement line items.

How the scope of my audit responded to the risk

In auditing the consolidation of SULCo into the BBB group accounts I performed the following procedures:

- I assessed the design and implementation of the controls applied by British Business Bank plc over the consolidation method for the inclusion of the SULCo figures in the BBB group accounts.
- I have reviewed the accounting treatment proposed by BBB plc for the business combination to ensure it was in line with the underlying documents supporting ownership and complied with the requirements of accounting standards.
- I reviewed consolidation of the financial information of SULCo and ensured that it had been included correctly and that suitable adjustments had been made. Assurance over the completeness and accuracy of the financial information was provided by my audit of the SULCo financial information.
- I reviewed the disclosure in the BBB group financial statements to ensure that they are complete and in line with the understanding obtained from my audit of the SULCo financial information.

Key observations

The results of my audit procedures enabled me to conclude that the inclusion of the SULCo figures in the BBB group accounts is not materially misstated.

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 or irregularity. 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 £33.5m, which is approximately 2% of total assets. BBB 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 determined that for financial statement components connected with payroll, management fee income and operating expenditure, misstatements of a lesser amount than overall materiality could influence the decisions of users of the accounts given the disproportionate size of these balances compared to value of investments and the level of public interest in the group's performance in these areas. I have therefore determined that the level to be applied to these components is £11m, being approximately 10% of income.

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors in the disclosure of Directors' remuneration. 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 would have had no impact on net assets.

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 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 group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 group's ability to continue as a going concern. 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.
- 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.

Audit scope

The scope of my British Business Bank plc Group audit 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, British Business Investments Limited, British Business Financial Services Limited, British Business Finance Limited and the subsidiaries of this company: 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 performed an audit of the complete financial information of the significant components of the group, identified as British Business Bank plc, British Business Investments Limited, British Business Finance Limited and Start-Up Loans Company (a subsidiary of British Business Finance Limited). In addition British Business Investments Limited and Start-Up Loans Company require statutory audits and the required work for these is carried out by separate audit teams. The work on the other significant components is performed by the group engagement team. In addition we have determined specific transactions in British Business Financial Services Limited to be significant to the group accounts and have performed targeted testing of these transactions. This work has been performed by the group 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 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.

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.

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 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.

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

Conclusions relating to principal risks, going concern and viability statement

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

– confirming that they have carried out a robust assessment of principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;

– describing those risks and explaining how they are being managed or mitigated;

– on whether they considered it appropriate to adopt the going concern basis, and their identification of any material uncertainties to the entity's ability to continue over a period of at least twelve months from the date of approval of the financial statements; and

– explaining how they have assessed the prospects of the 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.

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

Other matter

I have reported separately, on pages 136 to 138, on the Parent Company Financial Statements of British Business Bank plc for the year ended 31 March 2018 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

12 July 2018

Consolidated financial statements

Consolidated statement of comprehensive net income

for the year to 31 March 2018

	Note	2018 £000	2017 £000
INCOME			
Interest income	4.1	109,584	65,213
Grant income	4.2	17,201	–
Management fee	4.3	18,208	14,339
Other income	4.4	1,286	1,320
Gross operating income		146,279	80,872
Net losses on investment assets	5	(66,272)	(20,677)
Net gain on write down of repayable capital grant	6	16,924	–
Net operating income		**96,931**	**60,195**
EXPENDITURE			
Staff costs	7.1	(23,550)	(15,346)
Other operating expenditure	7.2	(23,858)	(7,332)
Depreciation and amortisation	7.3	(1,214)	(326)
Operating expenditure		**(48,622)**	**(23,004)**
Net operating profit before ECF loan commitments provision		**48,309**	**37,191**
ECF loan commitments provision	16	(36,998)	(38,531)
Profit/(loss) before tax		**11,311**	**(1,340)**
Tax expense	8.1	(17,546)	(10,823)
Loss for the year		**(6,235)**	**(12,163)**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Net gain on investments recognised in reserves	12.3	6,718	12,216
Other comprehensive income reclassified to net losses on investment assets		1,120	–
Items that will not be reclassified to profit or loss:			
Deferred tax relating to ECF investments	8.1	5,034	1,499
Total comprehensive income for the year		**6,637**	**1,552**

All operations are continuing.

The notes on pages 93 to 135 form an integral part of the financial statements.

The results by operating segment are shown in note 9 to the financial statements.

Consolidated statement of financial position

as at 31 March 2018

	Note	2018 £000	2017 £000
ASSETS			
Cash and cash equivalents	10	63,641	58,432
Trade and other receivables	11	5,782	3,783
Loans and receivables	12.1	346,068	138,405
Held to maturity investments	12.2	31,090	31,090
Available-for-sale financial assets	12.3	985,793	922,222
Assets designated at fair value through profit or loss	12.4	208,229	29,522
Derivative financial instruments	12.5	31,653	24,319
Property, plant and equipment	13	1,670	525
Intangible assets	14	1,882	50
Deferred tax asset	8.3	3,953	–
Total assets		**1,679,761**	**1,208,348**
LIABILITIES			
Trade and other payables	15	(14,225)	(7,033)
Corporation tax payable	8.2	(11,353)	(5,897)
Provisions	16	(183,861)	(146,863)
Deferred tax liability	8.3	–	(1,099)
Loans and other borrowings	17	(116,160)	–
Total liabilities		**(325,599)**	**(160,892)**
Net assets		**1,354,162**	**1,047,456**
Equity			
Issued share capital	20	1,371,408	1,071,408
Financial instruments reserve		41,633	28,761
Retained earnings		(58,879)	(52,713)
Total equity		**1,354,162**	**1,047,456**

The financial statements of the Group (parent company number 08616013) were approved by the Board of Directors and authorised for issue on 12 July 2018. They were signed on its behalf by:

Keith Morgan
Chief Executive Officer

The notes on pages 93 to 135 form an integral part of the financial statements.

Consolidated statement of changes in equity

as at 31 March 2018

	Note	Issued capital £000	Financial instrument reserve £000	Retained earnings £000	Total £000
Opening balance as at 1 April 2016		**837,526**	**15,046**	**(40,550)**	**812,022**
Loss for the year		–	–	(12,163)	(12,163)
Other comprehensive income, net of tax		–	13,715	–	13,715
Total comprehensive income		**-**	**13,715**	**(12,163)**	**1,552**
Issue of ordinary shares	20	233,882	–	–	233,882
Balance at 31 March 2017		**1,071,408**	**28,761**	**(52,713)**	**1,047,456**
Opening balance as at 1 April 2017		**1,071,408**	**28,761**	**(52,713)**	**1,047,456**
From business combination with SULCo		–	–	69	69
Loss for the year		–	–	(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	20	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 2018

	Note	2018 £000	2017 £000
Profit/(loss) before tax		**11,311**	**(1,340)**
Cash flows from operating activities			
Adjustments for non-cash items:			
Net gain on write down of repayable capital grant	6	(16,924)	–
Depreciation and amortisation	7.3	1,214	326
ECF loan commitments provision	16	36,998	38,531
Other comprehensive income reclassified to income statement		1,120	–
Other provision expense	16	–	120
Changes in operating assets and liabilities:			
Net increase in loans and receivable	12.1	(100,321)	(65,518)
Net increase in available-for-sale assets	12.3	(56,853)	(180,271)
Net increase in assets designated at fair value through profit or loss[1]	12.4	(178,707)	(14,493)
Net increase in derivative financial instruments	12.5	(7,334)	(5,408)
Movement in trade and other receivables		(229)	14,318
Movement in trade and other payables		2,083	(8,842)
Payment of corporation tax	8.2	(12,108)	(10,834)
Net cash used in operating activities		**(319,750)**	**(233,411)**
Cash flows from investing activities			
Purchases of property, plant and equipment	13	(1,393)	(414)
Proceeds from disposal of property, plant and equipment	13	2	–
Purchase of intangible assets	14	(926)	(7)
Net cash used in investing activities		**(2,317)**	**(421)**
Cash flows from financing activities			
Issue of new shares[1]	20	300,000	233,882
Capital grants received		25,000	–
Net cash from financing activities		**325,000**	**233,882**
Net increase in cash and cash equivalents		**2,933**	**50**
Cash and cash equivalents at beginning of year		**58,432**	**58,382**
Cash on business combination with SULCo at 1 April 2017		**2,276**	**-**
Cash and cash equivalents at end of year		**63,641**	**58,432**

1. The acquisition of investment assets designated at fair value through profit or loss from the shareholder for £134,743,000 was funded by the issues of new shares and these two transactions were settled on a net basis.

Interest received was £76,782,000 (2017: £54,763,000) and interest paid was nil (2017: nil)

The notes on pages 93 to 135 form an integral part of the financial statements.

Notes to the consolidated financial statements

for the year ended 31 March 2018

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 44.

2. Significant accounting policies

Basis of preparation

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

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and non-financial assets that are measured at fair values 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. The format of the Consolidated Statement of Comprehensive Net Income and the Consolidated Statement of Financial Position has been amended in these financial statements compared to the previous year because the Directors believe this new format provides a better understanding and presentation of the financial position of the Group.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 March 2018. Control is achieved when the Company:

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

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

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 income statement 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 IAS 39 *Financial Instruments: Recognition and Measurement*.

Details of the Group's significant holdings are shown in notes 21 and 22.

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 exercised control over the company prior to the business combination.

The assets, liabilities and transactions of The Start-Up Loans Company are included in the Group consolidation from 1 April 2017 which is the date the business combination is considered to have occurred. The value at which assets have been brought into the Group on 1 April 2017 are as presented in the 31 March 2017 (restated) financial statements of The Start-Up Loans Company. The difference between the consideration paid of £nil and the net assets of the company at the date of the business combination has accounted for in the Consolidated Statement of Changes in Equity.

As The Start-Up Loans Company was not controlled by the Company prior to 1 April 2017, the Directors have determined that no comparatives will be presented for the year ended 31 March 2017 and that the financial statements are more fairly presented if the assets, liabilities and transactions of The Start-Up Loans Company are consolidated from 1 April 2017. The Directors have developed this policy under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* as the business combination is outside the scope of the acquisition accounting requirements in IFRS 3.

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 Business, Energy and Industrial Strategy 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, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Adoption of new and revised Standards

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

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

– *IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions;*
– *IFRS 9 Financial Instruments;*
– *IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;*
– *IFRS 15 Revenue from Contracts with Customers;*
– *IFRS 16 Leases;*
– *IFRS 17 Insurance Contracts;*
– *Annual Improvements to IFRSs 2015-2017 Cycle;*
– *IAS 19 (amendments) Employee Benefits;*
– *IAS 40 (amendments) Transfers of Investment Property;*
– *IFRIC 22 Foreign Currency Transactions and Advance Consideration;*
– *IFRIC 23 Uncertainty over Income Tax Treatments.*

Other than IFRS 9 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 9 will impact the classification and measurement and disclosures of financial instruments. Further details about the impact on the Group from the implementation of IFRS 9 can be found in note 25.

IFRS 16, which has an effective date of 1 January 2019, 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. The Group's current operating leases are shown in note 19.2. Although IFRS 16 would require these operating leases to be shown on the Consolidated Statement of Financial Position the Directors do not believe this would lead to a material adjustment on transition or in future years.

Revenue recognition

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

Dividend and interest income

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

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

Grant income

Grant income represents funding from the Company's shareholder to cover the operating costs of The Start-Up Loans Company. Any grant income in excess of operating cost is treated as deferred income and has been included as a liability in the Consolidated Statement of Financial Position.

Taxation

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

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

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

Impairment of property, plant and equipment and intangible assets

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

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

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

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

Financial instruments

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

Financial assets

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

Effective interest method

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

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

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

Financial assets are classified as at FVTPL when the financial asset is a derivative financial instrument, held for trading or it is designated as at FVTPL. The VC Catalyst and UKIIF investments have been designated as at FVTPL on the basis that their performance is evaluated internally by the Directors on a fair value basis. There are no held for trading financial assets.

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.

Held-to-maturity investments

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

Available-for-sale (AFS) financial assets

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

The Group has investments in Limited Partnerships and venture capital investments which are classified as being AFS. Fair value is determined in the manner described in note 23. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the financial instrument reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in 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.

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

Fair value at initial recognition and provisioning – Enterprise Capital Funds(ECFs)

The British Business Bank plc accepts a lower than market rate of return from ECF investments in order to encourage private sector investors to invest. Although the Bank expects to make a positive return from these investments, this return is less than that required by the private sector. Accounting standards require the Bank to recognise a financial liability when it makes a commitment to a fund. The Bank records this financial liability as a provision. When a commitment is drawn, the loan commitment provision is released and a separate fair value adjustment on the resulting investment is recognised in the Consolidated Statement of Comprehensive Net Income to reflect the difference between the fair value and the amount drawn. Interest income is 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.

Loans and receivables

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

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

Fair value at initial recognition – Start Up Loans

When the Group makes a new Start Up Loan, the Group adjusts the carrying value of that loan to fair value. This reflects the fact that the future expected cash flows from these assets, discounted by an appropriate discount rate, does not equate to the face value of the loan. This is because the Group charges a single rate of interest (6%) to 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%. This reflects the non-commercial nature of the scheme.

To calculate the fair value at initial recognition the Group has developed a future cash flow model which is based on the recent past performance for a similar cohort of loans. The model uses roll rates, which is the probability of a loan moving from one arrears state to another between months, and transition matrices. A transition matrix is a process where probabilities are multiplied together to predict future states. The model calculates expected repayments by multiplying the roll rates together for a number of periods, based on the average term of the loans.

The future expected cash flows are 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. This information has been sourced from published Moody's market analysis.

The difference between the face value of the loans at initial recognition and the fair value at initial recognition is included in net losses on investment assets in the Consolidated Statement of Comprehensive Net Income. This is a true and fair override of the requirements within IAS 39 *Financial Instruments Recognition and Measurement* which relate to a situation where an entity determines that the fair value on initial recognition differs from transaction price, but this fair value measurement is not evidenced by a valuation technique that uses data only from observable markets. In this instance, IAS 39 requires the carrying amount of the financial instrument on initial recognition to be adjusted to defer the difference between the fair value and transaction price. This would require the Group to defer the losses arising from the loan transactions. The Directors have determined that the losses arising should be recognised immediately in the Consolidated Statement of Comprehensive Net Income as this more appropriately reflects the commercial position and so have applied a true and fair override.

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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 cases 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 directly 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.

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

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.

De-recognition of financial assets

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

Financial liabilities and equity

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

Financial guarantee contract liabilities

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

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

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

Financial liabilities

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

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

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

Loans and other borrowings

The Group has received two types of funding from the Secretary of State for Business, Energy and Industrial Strategy that are classified as a financial liability:

- 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;
- Loan facilities in respect of the Start Up Loans scheme. The terms of these agreements are unsecured and carry an interest rate of zero.

The Group initially measures the loans and capital grant as the amount received from the Secretary of State for Business, Energy and Industrial Strategy. Subsequently the Group will adjust the amount recorded with any repayments made and in respect of the capital grant, any amounts the Group believes will not be recoverable from the loans entrepreneurs under the scheme.

The carrying value of the loans reflects the amount at which the Group expects to settle these liabilities with the Secretary of State for Business, Energy and Industrial Strategy.

De-recognition of financial liabilities

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

Cash and cash equivalents

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

Provisions

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

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

Contingent liabilities

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

Foreign exchange

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

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

Retirement costs

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

Employee benefits

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

Leases

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

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

- Fluctuations in the fair values of Available-for-sale financial assets and FVTPL assets where valuation models and techniques are used to determine estimated future cash flows and include a number of other assumptions.
- Fluctuations in the fair value of financial liabilities/guarantees relating to loan commitments provisions measured using modelling techniques.
- Probabilities or roll rates applied in the transition matrices for the Start Up Loans arrears forecasting model which is used for estimating expected capital and interest repayments from loans to entrepreneur.
- Directors' judgements with regard to the loss given default and arrears roll rate assumptions applied in the impairment models for Start Up Loans.

The Group has calculated effective interest rates for all debt fund investments on a consistent basis. As indication of sensitivity, a 25 basis points decrease in the effective interest rate would decrease interest income by around £2.5 million over a one-year period.

The future returns from the debt fund investments are not limited to contracted 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 Group has estimated that a 200 basis points increase in LIBOR would decrease the fair value of Available-for-sale debt investments by around £6 million. Likewise, a 200 basis points decrease in LIBOR would increase the fair value of debt investments by around £6 million.

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 £11 million over a one-year period.

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 debt investment by around £12 million.

A 200 basis points decrease in the volatility percentage used across the Enterprise Capital Funds portfolio would decrease the fair value gain on derivatives included in the Consolidated Statement of Comprehensive Net Income by around £1 million over a one-year period and results in a corresponding decrease in the fair value of the derivatives by the same amount. Likewise, a 200 basis points increase in the volatility percentage used across the Enterprise Capital Funds portfolio would increase the fair value gain on derivatives by around £1 million.

A critical accounting judgement for Start Up Loans is the discount rate used to discount expected cash flows from entrepreneur loans which is based on market rates for Caa/C rated corporate debt and impacts the fair value at initial recognition. The discount rate for each cohort of loans is determined by reference to the 5-year median yield for Caa/C rated corporate debt applicable at the year of origination.

The effective interest rate for Start Up loans to entrepreneurs is estimated by calculating the rate that exactly discounts the contractual cash flows to the fair value at initial recognition. There is inherent uncertainty in both the expected cash flows and the discount rate used to calculate the fair value at initial recognition.

4 Income

4.1 Interest income

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

		2018		2017	
	Note	**£000**	**£000**	**£000**	**£000**
Interest from loans and receivables	12.1	19,690		6,323	
Amortisation of fair value adjustment on initial recognition from loans and receivables	12.1	23,069			–
Effective interest rate income			42,759		6,323
Interest from held to maturity investments	12.2		2,550		2,550
Interest from Available-for-sale assets	12.3	50,614		43,628	
Amortisation of fair value adjustment on initial recognition from Available-for-sale assets	12.3	13,661		12,712	
Effective interest rate income			64,275		56,340
Total interest income			**109,584**		**65,213**

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.

4.2 Grant income

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

	2018 £000	**2017 £000**
Grant received from shareholder	17,201	–
Total grant income	**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.

4.3 Management fee

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

	2018 £000	**2017 £000**
Management fee earned from:		
Angel CoFund	413	460
Department for Business, Energy and Industrial Strategy	13,467	10,075
Northern Powerhouse Investments Limited	2,135	2,386
Midlands Engine Investments Limited	1,601	1,414
Cornwall and Isles of Scilly Investments Limited	372	–
Innovate UK	204	–
Other	16	4
Total management fee income	**18,208**	**14,339**

4.4 Other income

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

	2018 £000	2017 £000
Arrangement and other fees	1,286	1,320
Total other income	**1,286**	**1,320**

5. Net losses on investment assets

	Note	2018 £000	2017 £000
Impairment allowance on loans and receivables	12.1	(16,185)	(1,394)
Fair value adjustment on initial recognition of loans and receivables	12.1	(36,165)	–
Impairment of Available-for sale assets	12.3	(11,496)	(12,025)
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	12.3	(32,300)	(19,607)
Foreign exchange gains on Available-for-sale financial assets	12.3	755	1,859
Fair value gains on assets held at fair value through profit or loss	12.4	17,234	5,082
Fair value gains on derivatives	12.5	13,005	5,408
Total net losses on investment assets		**(66,272)**	**(20,677)**

6. Net gain on write down of repayable capital grant

	2018 £000	2017 £000
Write down of repayable capital grant received	16,924	–
Total net gain on write down of repayable capital grant	**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 17). On expiry of the grant period, 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.

7. Operating Expenditure

7.1 Staff numbers and staff costs

The average monthly number of employees including executive directors was:

	2018 No.	2017 No.
Permanent staff	210	120
Seconded staff	4	6
Temporary and agency staff	44	18
Total staff numbers	**258**	**144**

Their aggregate remuneration comprised:

	2018 £000	2017 £000
Wages and salaries – permanent staff including executive directors	13,569	8,668
Wages and salaries – seconded staff	667	537
Wages and salaries – temporary and agency staff	2,674	1,768
Non-executive directors' fees	387	314
Short and long-term incentive plans and bonus scheme	2,553	1,641
Social security costs	1,973	1,265
Pension costs	1,727	1,153
Total staff costs	**23,550**	**15,346**

7.2 Other operating expenditure

	2018 £000	2017 £000
Professional fees – investment scheme design and transactions	3,296	2,679
– operational fees	2,847	827
Accommodation and office services	1,994	807
Information technology	2,247	1,106
Marketing	2,204	618
SULCo delivery partner fees	8,880	–
Auditor's remuneration	207	109
Staff related costs, including training and travel	1,428	856
Other purchase of goods and services	755	330
Total other operating expenditure	**23,858**	**7,332**

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.

7.3 Depreciation and amortisation

	Notes	2018 £000	2017 £000
Property, plant and equipment depreciation	13	394	250
Intangible assets amortisation	14	820	76
Total depreciation and amortisation		**1,214**	**326**

8. Taxation

8.1 Tax on profit on continuing activities

	2018 £000	2017 £000
Current tax		
Current year	19,622	10,558
Adjustment in respect of prior years	(2,058)	463
Total current tax	**17,564**	**11,021**
Deferred tax		
Current year	(5,052)	(1,697)
Total deferred tax	**(5,052)**	**(1,697)**
Total tax on continuing activities	**12,512**	**9,324**
Recognised through profit and loss	17,546	10,823
Recognised through other comprehensive income	(5,034)	(1,499)
Total tax on continuing activities	**12,512**	**9,324**

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, which was 19% (31 March 2017: 20%). The differences are explained in the table on the following page. The change in the corporation tax rate is due to the change in the enacted corporation tax rate for the year commencing 6 April 2017. 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% (31 March 2017: 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.

8.1 Tax on profit on continuing activities (continued)

The tables below reconcile the tax charge for the year.

	2018 £000	2017 £000
Profit/(loss) before tax	11,311	(1,340)
Tax on profit at standard UK tax rate 19% (2017: 20%)	2,149	(268)
Effects of:		
Net gain on investments recognised in reserves	1,276	2,443
Permanent disallowances relating to:		
ECF loan commitments provision	7,030	7,706
Amortisation of ECF fair value adjustment on initial recognition	(2,596)	(2,542)
Other permanent disallowances	(130)	(205)
Timing differences relating to:		
ECF fair value gains on derivatives	(2,471)	(1,082)
ECF accrued return	(1,888)	(1,897)
ECF fair value adjustment on initial recognition	6,137	3,921
ECF impairment	1,689	2,230
ECF realised gains/(losses)	8,323	(1,206)
Long-Term Incentive Plan accrued expenditure	82	90
Other timing differences	21	162
Losses carried forward	–	1,206
Total tax charge	**19,622**	**10,558**

	Unrealised losses		Deferred tax	
	2018 £000	2017 £000	2018 £000	2017 £000
Unrealised losses on ECF investments	(29,616)	(8,818)	(5,034)	(1,499)
Other unrealised losses	(106)	(1,165)	(18)	(198)
Unrealised losses subject to deferred tax	**(29,722)**	**(9,983)**	**(5,052)**	**(1,697)**

8.2 Corporation tax payable

	2018 £000	2017 £000
Corporation tax payable at 31 March 2017	5,897	5,710
Tax expense for the year	17,564	11,021
Tax paid	(12,108)	(10,834)
Corporation tax payable at 31 March 2018	**11,353**	**5,897**

8.3 Deferred tax (asset)/liability

	2018 £000	2017 £000
Deferred tax liability at 31 March 2017	1,099	2,796
Movement in the year	(5,052)	(1,697)
Deferred tax (asset)/liability at 31 March 2018	**(3,953)**	**1,099**

9. Operating segments

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

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

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 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	**(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**

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 what is included in the note above with the exception of British Business Investments Limited where all the investments are accounted for as at fair value through profit or loss.

9. Operating segments (continued)

Consolidated Statement of Comprehensive Income for the year ending 31 March 2017

	BBFL £000	BBI £000	Company plc and BBFSL £000	Intra-group eliminations £000	Total Group £000
Income					
Investment Programmes	–	43,018	–	–	43,018
Venture Capital Solutions	22,195	–	–	–	22,195
Management fee & other income	120	1,324	27,751	(13,536)	15,659
	22,315	44,342	27,751	(13,536)	80,872
Net losses on investment assets					
Investment Programmes	–	5,480	–	–	5,480
Venture Capital Solutions	(26,157)	–	–	–	(26,157)
	(26,157)	5,480	–	–	(20,677)
Operational expenditure					
Staff costs	(802)	(1,099)	(13,445)	–	(15,346)
Professional services	(115)	(919)	(5,262)	–	(6,296)
General operations	(2,683)	(3,399)	(8,816)	13,536	(1,362)
	(3,600)	(5,417)	(27,523)	13,536	(23,004)
Net operating profit before ECF loan commitments provision	**(7,442)**	**44,405**	**228**	**-**	**37,191**
ECF loan commitments provision	(38,531)	–	–	–	(38,531)
Profit/(loss) before tax	**(45,973)**	**44,405**	**228**	**-**	**(1,340)**

9. Operating segments (continued)

Enterprise Capital Funds

The British Business Bank plc accepts a lower than market rate of return from ECF investments in order to encourage private sector investors to invest. Although the Bank expects to make a positive return from these investments, this return is less than that required by the private sector. Accounting standards require the Bank to recognise a financial liability when it makes a commitment to a fund. The Bank records this financial liability as a provision. When a commitment is drawn, the loan commitment provision is released and a separate fair value adjustment on the resulting investment is recognised in the Consolidated Statement of Comprehensive Net Income to reflect the difference between the fair value and the amount drawn. Interest income is 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 financial target interest income, realised gains on derivatives and permanent diminutions in value are 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.

	2018 £000	2017 £000
Interest income	9,934	9,483
Fair value gains on derivatives	13,005	5,408
Fair value adjustment on initial recognition	(32,300)	(19,607)
Impairment	(8,887)	(11,148)
Amortisation of fair value adjustment on initial recognition	13,661	12,712
Provision released in year (note 16)	34,323	22,483
	29,736	19,331
Provision against future commitments (note 16)	(71,321)	(61,014)
Net loss on Enterprise Capital Funds	(41,585)	(41,683)

Start Up Loans

The British Business Bank plc 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 Bank to recognise a fair value adjustment on initial recognition when it makes a Start Up Loan.

	2018 £000	2017 £000
Gross lending advanced in the year	104,989	–
Fair value adjustment on initial recognition	(36,165)	–
Fair value on initial recognition	68,824	–
Fair value adjustment/Gross lending	34.45%	–

9. Operating segments (continued)

Consolidated Statement of Financial Position as at 31 March 2018

	BBFL £000	BBI £000	SULCo £000	Company plc £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 fair value through profit or loss					
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 £1,244,260,000 which are eliminated in full on consolidation.

9. Operating segments (continued)

Consolidated Statement of Financial Position as at 31 March 2017

	BBFL £000	BBI £000	Company plc £000	Total Group £000
Investment assets				
Loans and receivables				
BFP Small Cap	–	2,332	–	2,332
Investment Programme	–	136,073	–	136,073
Held to maturity investments				
Investment Programme	–	31,090	–	31,090
Available-for-sale financial assets				
BFP Midcap	–	587,072	–	587,072
BFP Small Cap	–	37,816	–	37,816
Investment Programme	–	121,577	–	121,577
Enterprise Capital Funds	171,227	–	–	171,227
Other venture capital investments	4,530	–	–	4,530
Assets designated at fair value through profit or loss				
VC Catalyst	–	29,522	–	29,522
Derivative financial instruments	24,319	–	–	24,319
Total investment assets	**200,076**	**945,482**	**-**	**1,145,558**
ECF loan commitments provision	(146,743)	–	–	(146,743)
Net investment assets	**53,333**	**945,482**	**-**	**998,815**
Other assets/(liabilities)				
Cash	2,884	9,579	45,969	58,432
Property, plant and equipment and intangible assets	–	–	575	575
Corporation tax	477	(6,314)	(60)	(5,897)
Provisions	–	–	(120)	(120)
Deferred tax	(1,243)	1	143	(1,099)
Amounts owed from group undertakings	714	(3,428)	2,714	–
Net other payables	(147)	(561)	(2,542)	(3,250)
Total net assets	**56,018**	**944,759**	**46,679**	**1,047,456**

At 31 March 2017 the Company held investments in subsidiaries of £976,072,000 which are eliminated in full on consolidation.

10. Cash and cash equivalents

The following balances were held at year end:

	2018 £000	2017 £000
Government Banking Service	53,038	52,057
Commercial banks	10,603	6,375
Total cash and cash equivalents	**63,641**	**58,432**

The British Business Bank generally maintains a cash balance of at least £50m to fund investments. As at 31 March 2018, the cash balance was £63.6m with drawdowns in April and May 2018 exceeding this amount. As the majority of the cash is held in the Government Banking Service there is minimal cost to the Exchequer.

11. Trade and other receivables

	2018 £000	2017 £000
Amounts receivable within one year		
Trade receivables	299	626
Accrued income	4,146	2,819
Prepayments	534	304
Other receivables	803	34
Total trade and other receivables	**5,782**	**3,783**

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

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

12. 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 managed by fund managers who lend to medium-sized businesses with turnover of up to £500m. All of the BFP Mid Cap investments are classified as Available-for-sale financial assets. See note 12.3 for details.

The second strand is the BFP Small Cap which invests in debt funds and non-bank lenders that provide an alternative source of lending for small businesses with turnover up to £75m. 95% of the BFP Small Cap's investments are classified as Available-for-sale financial assets. See note 12.3 for details.

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

Investment Programme

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 are classified as Available-for-sale financial assets. This programme has provided invoice discount finance, participated in peer to peer lending, has provided asset finance and in addition provided other credit facilities. This lending is classified as loans and receivables. During the year BBI made an investment in non-listed Tier 2 capital subordinated loan notes which has also been classified as loans and receivables. See note 12.1 for details.

In addition, 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 28th October 2015. See note 12.2 for details.

VC Catalyst

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

VC Catalyst investments are accounted for and measured at fair value through profit or loss as explained in the accounting policies in note 2. See note 12.4 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 investment is accounted for and measured at fair value through profit or loss as explained in the accounting policies in note 2. See note 12.4 for details.

Enterprise Capital Funds

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

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

The investments which BBFL makes in ECFs meet the accounting definition of a loan and by election are classified as Available-for-sale financial assets. Any upside returns which the funds may generate are separately accounted for as derivatives and measured at fair value through profit or loss.

Accounting standards require that Available-for-sale 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. Interest income is recognised on an effective interest rate basis using the effective interest rate determined at initial recognition. The difference between the contractual and effective interest rates represents the amortisation of the fair value adjustment on initial recognition. ECF investments are measured at fair value on an ongoing basis. See note 12.3 for details.

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

When written these agreements include a derivative whose value is related to the potential upside return. Where a fund performs well the derivative will increase in value. These are detailed in note 12.5.

Other Venture Capital Investments

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

Start Up Loans

The Start-Up Loans Company lends to entrepreneurs via a number of delivery partners. These loans are made to entrepreneurs at a flat interest rate of 6% whilst losses on these loans are expected to be between 30-40% of the total loans advanced. This reflects the non-commercial nature of the scheme. This lending is classified as loans and receivables.

Accounting standards require that these loans are fair valued 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 in totality by multiplying the average loan asset by the effective interest rate. 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.

12.1 Loans and receivables

As at 31 March 2018

	Opening £000	On business combination £000	Transfers £000	Additions £000	Fair value adjustment on initial recognition £000	Repayments £000	Accrued Return £000	Amortisation of fair value adjustment on initial recognition £000	Impairment £000	Closing £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**

As at 31 March 2017

	Opening £000	On business combination £000	Transfers £000	Additions £000	Fair value adjustment on initial recognition £000	Repayments £000	Accrued Return £000	Amortisation of fair value adjustment on initial recognition £000	Impairment £000	Closing £000
BFP Small Cap	6,209	–	–	–	–	(4,093)	290	–	(74)	2,332
Investment Programme	66,678	–	2,996	79,905	–	(18,219)	6,033	–	(1,320)	136,073
Total	**72,887**	**-**	**2,996**	**79,905**	**-**	**(22,312)**	**6,323**	**-**	**(1,394)**	**138,405**

Capital repayments expected within one year at 31 March 2018 were £65.1m.

See note 2 for Start Up Loans from business combination on 1 April 2017.

12.2 Held to maturity investments

As at 31 March 2018

	Opening £000	Transfers £000	Additions £000	Repayments £000	Accrued Return £000	Impairment £000	Closing £000
Investment Programme	31,090	–	–	(2,550)	2,550	–	31,090
Total	**31,090**	**-**	**-**	**(2,550)**	**2,550**	**-**	**31,090**

As at 31 March 2017

	Opening £000	Transfers £000	Additions £000	Repayments £000	Accrued Return £000	Impairment £000	Closing £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. The loan is expected to be held to maturity.

Capital repayments expected within one year at 31 March 2018 were £nil.

12.3 Available-for-sale financial assets

At 31 March 2018

	Opening £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/(losses) £000	Impairment £000	Closing £000
Limited Partnership Investments											
BFP Mid Cap	587,072	–	50,746	–	(114,976)	26,989	5,727	–	–	–	555,558
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
Total	**746,465**	**(149)**	**169,705**	**-**	**(150,778)**	**40,680**	**6,900**	**-**	**755**	**(1,868)**	**811,710**
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
Total	**175,757**	**-**	**64,307**	**(32,300)**	**(47,466)**	**9,934**	**(182)**	**13,661**	**-**	**(9,628)**	**174,083**
Total available for sale assets	**922,222**	**(149)**	**234,012**	**(32,300)**	**(198,244)**	**50,614**	**6,718**	**13,661**	**755**	**(11,496)**	**985,793**

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.

Capital repayments expected within one year at 31 March 2018 were £255.7m.

12.3 Available-for-sale financial assets (continued)

At 31 March 2017

	Opening £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/(losses) £000	Impairment £000	Closing £000
Limited Partnership Investments											
BFP Mid Cap	499,641	–	124,716	–	(71,232)	26,191	7,756	–	–	–	587,072
BFP Small Business	33,363	–	8,214	–	(6,967)	1,689	598	–	986	(67)	37,816
Investment Programme	50,003	(2,996)	71,422	–	(6,607)	6,265	2,617	–	873	–	121,577
Total	**583,007**	**(2,996)**	**204,352**	**–**	**(84,806)**	**34,145**	**10,971**	**–**	**1,859**	**(67)**	**746,465**
Venture Capital Investments											
Enterprise Capital Funds	136,313	–	55,704	(19,607)	(12,230)	9,483	–	12,712	–	(11,148)	171,227
Bridges	1,311	–	17	–	–	–	–	–	–	(273)	1,055
Aspire	2,490	–	–	–	(295)	–	2	–	–	(537)	1,660
Capital for Enterprise Fund	6,614	–	–	–	(6,042)	–	1,243	–	–	–	1,815
Total	**146,728**	**–**	**55,721**	**(19,607)**	**(18,567)**	**9,483**	**1,245**	**12,712**	**–**	**(11,958)**	**175,757**
Total available for sale assets	**729,735**	**(2,996)**	**260,073**	**(19,607)**	**(103,373)**	**43,628**	**12,216**	**12,712**	**1,859**	**(12,025)**	**922,222**

12.4 Assets designated at fair value through profit or loss

At 31 March 2018

	Opening £000	Additions £000	Repayments £000	Fair value movements £000	Closing £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**

On 14 July 2017 the Group purchased the UKIIF investment assets from the Department for Business, Energy and Industrial Strategy on an arm's length basis at a market value of £134,743,000. These investment assets were funded by the issue of new shares and these two transactions were settled on a net basis. The Group has elected at inception to account for these investment assets as at fair value through profit or loss.

At 31 March 2017

	Opening £000	Additions £000	Repayments £000	Fair value movements £000	Closing £000
VC Catalyst	15,029	9,470	(59)	5,082	29,522
Total	**15,029**	**9,470**	**(59)**	**5,082**	**29,522**

12.5. Derivative financial instruments

At 31 March 2018

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

At 31 March 2017

	Opening £000	Repayments £000	Fair value movements £000	Closing £000
Enterprise Capital Funds	18,911	–	5,408	24,319
Total	**18,911**	**-**	**5,408**	**24,319**

Derivatives represent any upside returns which the Enterprise Capital Funds may generate and are accounted for separately from the underlying investment asset shown in note 12.3.

13. Property, plant and equipment

As at 31 March 2018

	Leasehold improvement £000	IT equipment £000	Fixtures & Fittings £000	Total £000
Cost or valuation				
At 31 March 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 31 March 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

13. Property, plant and equipment (continued)

As at 31 March 2017

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

14. Intangible assets

As at 31 March 2018

	Software £000	Total £000
Cost or valuation		
At 31 March 2017	242	242
On business combination	3,071	3,071
Additions	926	926
At 31 March 2018	4,239	4,239
Accumulated amortisation and impairment		
At 31 March 2017	(192)	(192)
On business combination	(1,345)	(1,345)
Charge for the year	(820)	(820)
At 31 March 2018	(2,357)	(2,357)
Carrying amount		
At 31 March 2018	**1,882**	**1,882**
At 31 March 2017	50	50

14. Intangible assets (continued)

At 31 March 2017

	Software £000	Total £000
Cost or valuation		
At 31 March 2016	235	235
Additions	7	7
At 31 March 2017	242	242
Accumulated amortisation and impairment		
At 31 March 2016	(116)	(116)
Charge for the year	(76)	(76)
At 31 March 2017	(192)	(192)
Carrying amount		
At 31 March 2017	**50**	**50**
At 31 March 2016	119	119

15. Trade and other payables

	2018 £000	2017 £000
Amounts falling due within one year		
Trade payables	554	143
VAT and social security	1,252	376
Accrued expenditure	7,420	3,472
Other payables	1,871	2,224
Deferred scheme income	2,321	–
	13,418	6,215
Amounts falling due after more than one year		
Other payables	807	818
	807	818
Total trade and other payables	**14,225**	**7,033**

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

16. Provisions

	Loan commitments £000	Dilapidation provision £000	2018 Total £000	Loan commitments £000	Dilapidation provision £000	2017 Total £000
Opening balance	146,743	120	146,863	108,212	–	108,212
Provided in year on new ECFs	71,321	–	71,321	61,014	–	61,014
Provision released in year	(34,323)	–	(34,323)	(22,483)	–	(22,483)
Dilapidation provision	–	–	–	–	120	120
	36,998	–	36,998	38,531	120	38,651
Closing balance	**183,741**	**120**	**183,861**	**146,743**	**120**	**146,863**
Of which:						
Current	40,058	120	40,178	29,258	120	29,378
Non-current	143,683	–	143,683	117,485	–	117,485
Closing balance	**183,741**	**120**	**183,861**	**146,743**	**120**	**146,863**

Non-current amounts relate to the undrawn loan commitments provision where based on historic and forecast information it is not anticipated the provision will be utilised within 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 provision 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.

17. Loans and other borrowings

The following balances were held at year end:

	2018 £000	2017 £000
Unsecured loans	14,894	–
Capital grants	101,266	–
Total loans and other borrowings	**116,160**	**-**

These balances are in respect of The Start-Up Loans Company. The amounts falling due after one year of the unsecured loans at 31 March 2018 were £7,000,000 (31 March 2017: £nil). No amounts are due after one year at 31 March 2018 in respect of the capital grants (31 March 2017: £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 £12 million provided by the Secretary of State for Business, Energy and Industrial Strategy to The Start-Up Loans Company on 24 February 2014 which is repayable on 31 December 2018. The balance of this loan facility at 31 March 2018 was £7,894,000 (31 March 2017: £nil). A further term facility of £10 million was provided on 17 December 2015 and is repayable on 17 December 2020. The balance of this term facility at 31 March 2018 was £7,000,000 (31 March 2017: £nil).

During the year repayments of £nil (31 March 2017: £nil) were made against the unsecured loans.

During the year the Group received capital grants of £25,000,000 (31 March 2017: £nil) and wrote down the value of capital grants by £16,924,000 (31 March 2017: £nil).

18. 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

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

– Guarantees all outstanding liabilities to which the subsidiary companies are subject at the end of the financial year to which the guarantee relates, and until they are satisfied in full; and

– Asserts that the guarantee is enforceable against the British Business Bank plc by any person to whom the subsidiary companies are liable in respect of those liabilities.

Under the Bank's Help to Grow financial guarantee programme, the Bank has entered in to financial guarantee agreements of £60 million. The Bank has guaranteed 75% of eligible lending to SMEs under these agreements and a counter guarantee is in place that guarantees 50% of the Bank's 75% of eligible lending. As at 31 March 2018 the amount lent under these financial guarantee agreements was £1.8 million (31 March 2017: £0.6 million). Since the balance sheet date one of the guarantee agreements totalling £30 million has expired.

19. Capital and other commitments

19.1 Capital commitments

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

	2018 £000	2017 £000
British Business Investments Limited		
BFP Small Cap	–	9,786
BFP Mid Cap	211,778	283,885
Investment Programme	242,108	282,236
VC Catalyst	183,723	58,874
UKIIF	34,346	–
Growth capital	14,925	–
Venture Capital Solutions		
Enterprise Capital Funds	368,149	304,762
Bridges Venture Fund	–	577
Other		
Northern Powerhouse Investments Ltd	50,000	50,000
Midlands Engine Investments Ltd	32,500	32,500
	1,137,529	**1,022,620**

19.2 Operating lease commitments

The Bank's occupation of its previous registered office at Foundry House, 3 Millsands, Riverside Exchange, Sheffield S3 8NH was governed by a Memorandum of Terms of Occupation (MOTO) covering the period from 17 December 2012 to 30 June 2017. The Bank had signed an extension to the MOTO covering the period from 1 July 2017 to 31 October 2017 with the occupation now ended.

The Bank's occupation of its current 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 with an option to break the agreement after five years.

The Bank's occupation of office space at 33 Kingsway, London, WC2B 6UF is governed by a MOTO which ends on 3 December 2018.

For the year ended 31 March 2018, lease payments of £1,149,000 were recognised as an expense in the Consolidated Statement of Comprehensive Net Income and the Bank incurred £378,000 in expenses in relation to occupying the offices (including service charges, rates and utilities).

The future minimum lease payments as at 31 March 2018 are as follows:

	<1yr £000	1-5yrs £000	>5 yrs £000	Total £000
Operating lease	574	1,047	1,177	2,798

The future minimum lease payments as at 31 March 2017 were:

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

The Bank has 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. The Bank has also 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.

20. Share capital

	2018 £000	2017 £000
1,371,407,935 (2017: 1,071,407,935) Issued and fully paid ordinary shares of £1 each:		
Brought forward	1,071,408	837,526
Shares issued for cash	300,000	233,882
Carried forward	**1,371,408**	**1,071,408**

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

21. 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.

On 22 March 2018 BBI & BPC Holdings Limited was incorporated with British Business Bank plc acquiring 100% of the share capital at incorporation. Also on 22 March 2018 British Patient Capital Limited was incorporated with BBI & BPC Holdings Limited acquiring 100% of the share capital at incorporation. No transactions were undertaken in these entities between incorporation and 31 March 2018.

The subsidiary undertakings of the Company are shown below. The capital of each entity depends on its nature and consists of ordinary shares. All the subsidiary undertakings have the same registered address being, 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 Company
British Business Investments Limited	UK	Makes commercial investments into providers of finance to smaller businesses plus venture capital fund investments	100%
BBI & BPC 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 2018, are provided in the segmental reporting note 9.

21. 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[2], Ireland	Ireland	Not classified	67.7%
Urica Capital Limited 2 Registered address: PO Box 1075, 9 Castle Street, St Helier, Jersey, Channel Islands, JE4 2QP	Jersey	Not classified	50.0%
VRG Ventures Limited Registered address: Cardiff House, Tilling Road, London, NW2 1LJ	UK	Ordinary shares	28.4%
Muzinich UK Private Debt Fund Registered address: 49 Avenue J.F.K, L-1855, Luxembourg	Luxembourg	Not classified	20.7%

1. Pricoa's latest financial year end was 30 June 2017. The fund does not produce separate accounts and therefore figures for the fund are not available.
2. Urica's latest financial year end was 30 June 2017. As at 30 June 2017, its aggregate amount of capital and reserves was £692,652 and during its financial year it made a profit of £105,643.

22. 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.

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 2018 and 31 March 2017 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 Limited Partnerships are structured.

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.

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

	Interest in Limited Partnerships 2018 £000	Interest in Limited Partnerships 2017 £000
Available-for-sale financial assets	925,157	886,966
Assets at fair value through profit or loss	208,229	29,522
Total assets	**1,133,386**	**916,488**

23. Financial Instruments

23.1 Categories of financial instruments

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

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	13	–	–	–	–	–	1,670	1,670
Intangible assets	14	–	–	–	–	–	1,882	1,882
Loans and receivables	12.1	–	346,068	–	–	–	–	346,068
Held to maturity investments	12.2	–	–	31,090	–	–	–	31,090
Available-for-sale financial assets	12.3	–	–	–	985,793	–	–	985,793
Designated at FVTPL	12.4	208,229	–	–	–	–	–	208,229
Derivatives	12.5	31,653	–	–	–	–	–	31,653
Trade and other receivables	11	–	5,248	–	–	–	–	5,248
Prepayments	11	–	–	–	–	–	534	534
Cash and cash equivalents	10	–	63,641	–	–	–	–	63,641
Deferred tax	8	–	–	–	–	–	3,953	3,953
Total assets		**239,882**	**414,957**	**31,090**	**985,793**	**-**	**8,039**	**1,679,761**
Liabilities								
Trade and other payables	15	–	–	–	–	(12,973)	(1,252)	(14,225)
Corporation tax	8	–	–	–	–	–	(11,353)	(11,353)
Loans and other borrowings	17	–	–	–	–	(116,160)	–	(116,160)
Provisions	16	–	–	–	–	(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**

23.1 Categories of financial instruments (continued)

At 31 March 2017

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

23.2 Fair value measurements

The information set out below provides information about how the Group determines fair values of various financial assets and financial liabilities. 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 (loans and receivables and held to maturity investments) and fair value (available for sale assets, assets designated at fair value through profit and loss and derivatives).

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

During the year ending 31 March 2018, the fair value of Available-for-sale financial assets increased by £6.7 million (31 March 2017: £12.2 million) taken to Other Comprehensive Income. During the year ending 31 March 2018, the fair value of derivative financial instruments increased by £13.0 million (31 March 2017: £5.4 million) taken to the Consolidated Statement of Comprehensive Net Income. In addition, the fair value of assets held as at fair value through profit or loss increased by £17.2m (31 March 2017: £5.0m) 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

Available-for-sale financial assets (AFS)

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

The Directors review the investment valuation reports periodically and are satisfied that they provide an appropriate measure of fair value at the reporting date.

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

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

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

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

Input	Assumptions in determining the input
Net amount drawn and fund valuation as at 31 March 2018	Reported by fund managers
Time to fund exit – ranging from 0–10 years	Assessed separately for each fund based on remaining investment period and estimated timetable for fund exits.
Volatility – ranging from 25% to 26%	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.
Dividend yield – 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.

23. Financial Instruments (continued)

VC Catalyst

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

The Directors review the investment valuation reports periodically and are satisfied that they provide an appropriate measure of fair value at the reporting date.

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

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.

Financial assets at amortised cost

	Carrying value		Fair value	
	2018 £000	**2017 £000**	**2018 £000**	**2017 £000**
Loans and receivables – BFP Small Cap	635	2,332	635	2,332
Loans and receivables – Investment Programme	209,767	136,073	209,767	136,073
Loans and receivables – Start Up Loans	135,666	–	116,515	–
Held to Maturity Investments	31,090	31,090	33,279	31,705
	377,158	**169,495**	**360,196**	**170,110**

Financial liabilities at amortised cost

	Carrying value		Fair value	
	2018 £000	**2017 £000**	**2018 £000**	**2017 £000**
Unsecured loans	14,894	–	14,894	–
Capital grants	101,266	–	101,266	–
Total	**116,160**	**-**	**116,160**	**-**

All loans and receivables are classed as Level 3 assets. Held to maturity investments are classed as Level 1 assets and 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 a similar cohort of loans. The model uses roll rates, which is the probability of a loan moving from one arrears state to another between months, and transition matrices.

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.

BFP Small Cap and Investment Programme

Loans at amortised cost provided through the BFP Small Cap programme and the Investment Programme are fixed rate assets 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 loans and receivables measured at amortised cost to be a reasonable representation of the fair value of these assets at 31 March 2018 and 31 March 2017. BFP Small Cap and Investment Programme loans and receivables 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 this liability with the Secretary of State for Business, Energy and Industrial Strategy. The carrying value and fair value of capital grants is equivalent because the grants have no maturity and are repayable on demand, in whole or in part, under certain conditions.

23.3 Financial risk management

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

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

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

- Credit and Investment risk
- Market risk
- Liquidity risk

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 loans and receivables and available for sale investments with a contractual repayment.

Credit and investment risk assessment is carried out as part of the investment approval process and is revisited on an ongoing basis as part of the Group's portfolio management process. 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 for Risk 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 Bank'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 £144m (equivalent to c.7% of the Bank's average capital deployed between 2018–2023) over the next five years. The BOE's Annual Cyclical Scenario includes a severe and synchronised UK and global macroeconomic and financial market stress.

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

23. Financial Instruments (continued)

Maximum credit risk exposure

The Group's maximum credit and investment risk exposure and the effects of collateral are presented below:

	2018			2017		
	Maximum exposure £000	Collateral £000	Net exposure £000	Maximum exposure £000	Collateral £000	Net exposure £000
Cash and cash equivalents	63,641	–	63,641	58,432	–	58,432
Trade and other receivables	5,782	–	5,782	3,783	–	3,783
Loans and receivables	346,068	121,370	224,698	138,405	81,943	56,462
Held to maturity investments	31,090	–	31,090	31,090	–	31,090
Available for sale financial assets	985,793	–	985,793	922,222	–	922,222
Assets designated at FVTPL	208,229	–	208,229	29,522	–	29,522
Derivative financial instruments	31,653	–	31,653	24,319	–	24,319
Total	**1,672,256**	**121,370**	**1,550,886**	**1,207,773**	**81,943**	**1,125,830**

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 approve 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 23.1 of this note and in note 12.

The concentration of credit risk is limited due to the investment base being large and spread across the Group's operating segments. Accordingly, the Directors believe that there is no further credit provision required in excess of the specific and collective provision for impairment losses.

An analysis of problem loans and receivables is summarised as follows:

Loans and receivables – gross values

As at 31 March 2018

	Neither past due or individually impaired £000	Collectively assessed for impairment £000	Individually assessed for impairment £000
Loans and receivables – BFP Small Cap	576	–	834
Loans and receivables – Investment Programme	203,857	–	4,937
Loans and receivables – Start Up Loans	145,599	10,921	107,111
Total	**350,032**	**10,921**	**112,882**

Loans and receivables – gross values

As at 31 March 2017

	Neither past due or individually impaired £000	Collectively assessed for impairment £000	Individually assessed for impairment £000
Loans and receivables – BFP Small Cap	2,230	–	890
Loans and receivables – Investment Programme	131,472	–	1,927
Total	**133,702**	**–**	**2,817**

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

Start Up Loans

The impairment policy for Start Up Loans states that loans are charged off and fully provided when they are more than six payments in arrears. These loans have only been charged off from an accounting perspective but attempts to recover the debt will continue through the Group's debt collection procedures. An impairment provision is also calculated on loans that are 1 to 5 payments in arrears by assessing the likelihood of a loan moving from 1 to 5 payments in arrears to 6 payments in arrears and taking account of post charge off recoveries. An incurred but not reported loss provision is taken on loans that are up to date with an emergence period of 3 months. The gross value of loans charged off and those which have impairment indicators at 31 March 2018 is £107.1m (31 March 2017: £nil) and the total impairment allowance for Start Up Loans to entrepreneurs at 31 March 2018 is £36.5m (31 March 2017: £nil). The impairment allowance is calculated on the amortised cost base of the loans to entrepreneurs after taking account of the fair value adjustment on initial recognition and the subsequent amortisation of this adjustment.

Peer to peer lending

The Group makes provision for all part-loans made to borrowers made alongside other platform lenders which are overdue by 30 days at a rate of 100%. At 31 March 2018 the gross value of such receivables was £77.5m of which £5,431,000 was overdue by 30 days and fully provided.

Invoice discounting

With respect to receivables purchased through invoice discounting the Group provides for all debts which are overdue by 30 days at a rate of 100%.

In addition, it makes 100% provision for all receivables in respect of which there is a known or expected problem in collection even if payment is not overdue by 30 days. At 31 March 2018 the gross value of receivables purchased through an invoice discounter was £3.1m of which £340,000 was overdue and fully provided.

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

Impairment

Impairment allowances have increased during the year to £42,249,000 (2017: £2,817,000).

Impairment allowances
As at 31 March 2018

	At the beginning of the year £000	On business combination £000	Charged to the income statement £000	Balance at 31 March £000
Loans and receivables – BFP Small Cap	890	–	(56)	834
Loans and receivables – Investment Programme	1,927	–	3,010	4,937
Loans and receivables – Start Up Loans	–	23,247	13,231	36,478
Total	**2,817**	**23,247**	**16,185**	**42,249**

Impairment allowances
As at 31 March 2017

	At the beginning of the year £000	Charged to the income statement £000	Balance at 31 March £000
Loans and receivables – BFP Small Cap	816	74	890
Loans and receivables – Investment Programme	607	1,320	1,927
Total	**1,423**	**1,394**	**2,817**

23. Financial Instruments (continued)

Market risk

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

Interest rate risk

The 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 is as follows:

- The impact of a 1 percentage point increase in the interest rate applicable to investments would be an approximate increase in income of £7m over a one year period.
- The impact of a 0.25 percentage point decrease in the interest rate applicable to investments would be an approximate decrease in income of £1m over a one-year period. Larger decreases would be mitigated by a significant element of LIBOR floors.

Currency risk

The Group does not have material exposure to currency risk as the Group primarily invest in its functional currency, pounds sterling. There are some investments in funds which have a international wide investment mandate and are denominated in Euros or US Dollars. A condition of these funds is that they invest into the UK at a fund level a larger amount than our financial investment. Approximately 4% of the Group's portfolio is in non-pounds sterling denominated investments. There is currently no policy to hedge this currency risk. Due to the small amount of investments currently held in non-pounds sterling no sensitivity analysis has been performed in respect of this area.

Liquidity risk

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

The Group captures its liquidity risk management 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 scheme 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.

Other than the capital grants and term facilities, liquidity risk is not deemed significantly relevant to the Group as it is 100% Government funded, with all programmes pre-approved and committed to, and it does not have a leveraged balance sheet.

Capital

The British Business Bank plc's share capital comprises 1,371,407,935 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 this 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 the Secretary of State for Business, Energy and Industrial Strategy 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 was set at 3.2% for the financial year ending 31 March 2018. The Bank monitors its performance against this indicator as part of its monthly performance management and for the financial year ending 31 March 2018 remained above the target throughout the year. Further details on the Adjusted Return on Capital Employed are given in Objective 4 to the Annual Report.

24. 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.

	2018 £000	2017 £000
Compensation		
Salaries and other short-term benefits	1,815	1,591
Long term benefits	503	443
Post-employment benefits	123	94
	2,441	**2,128**

Aggregated contributions in respect of Key Management Personnel to defined contribution pension schemes for the year ending 31 March 2018 were £123,000 (31 Mach 2017: £94,000)

Trading transactions

The Department for Business, Energy and Industrial Strategy (BEIS) is the principal shareholder and parent of the British Business Bank plc. BBB plc provides services to BEIS in relation to some financial assets held by BEIS. In return, BBB recognises income in relation to the services provided. In addition, BEIS provided temporary staff to the BBB Group for which there are recharges.

Northern Powerhouse Investments Limited (NPIL), Midlands Engine Investments Limited (MEIL) and Cornwall and Isles of Scilly Investments Limited (CIoS) are related parties by virtue of having directors who are also directors of BBB plc and because they are companies owned by the ultimate shareholder. The Group has provided services in the year to these companies.

During the year, Group companies entered into the following transactions:

	2018 £000	2017 £000
Income		
Management fee – BEIS	13,467	10,075
Management fee – NPIL	2,135	2,386
Management fee – MEIL	1,601	1,414
Management fee – CIoS	372	–
Management fee – Innovate UK	204	–
Grant income – BEIS	17,201	–
Write down of repayable grant received – BEIS	16,924	–
	51,904	13,875
Expenditure		
Staff seconded from BEIS	198	154
Rent – BEIS	531	437
Other – BEIS	15	67
	744	658
Investment transactions		
Purchase of UKIIF investment assets from BEIS	134,743	–
	134,743	–
Capital Transactions		
Shares issued – BEIS	300,000	233,882
Grants received – BEIS	25,000	–
	325,000	**233,882**

24. Related party transactions (continued)

Amounts outstanding at year end

As at the balance sheet date, the Group was owed £2.9 million from BEIS relating to the management fee (31 March 2017: £2.6m) and owed BEIS £0.7 million of which £0.1 million relates to seconded staff and £0.6 million rent.

As at the balance sheet date, the Group was owed £0.1m from NPIL (31 March 2017: £0.1m), £0.7 from MEIL (31 March 2017: £0.1m), and £0.4 million from CIoS (31 March 2017: £nil) relating to the management fee.

As at the balance sheet date the Group owed £14.9m in unsecured loans to BEIS and £101.3m in capital grants to BEIS.

As at the balance sheet date, the Group has made loan commitments to NPIL of £50m (31 March 2017: £50m) and MEIL of £32.5m (31 March 2017: £32.5m). None of these amounts had been drawn down as at the balance sheet date.

25. Impact to the Group on implementation of IFRS 9

IFRS 9 *Financial Instruments* was issued in July 2014 and replaces IAS 39 *Financial Instruments: Recognition and Measurement*. It is effective for financial periods beginning on or after 1 January 2018 and the Group will adopt the standard for the first time in the year ended 31 March 2019. IFRS 9 will be applied retrospectively on adoption on 1 April 2018. However, the Group will not restate comparatives on initial application on 1 April 2018.

Classification

IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income or amortised cost. Classification is based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception as at fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss. An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

Assessment

The Group has made an assessment of the business model for its financial assets for the purpose of classification under IFRS 9. Based on the assessment the Group has initially determined that the contractual cash flows from its loans and receivables, held to maturity investments and one investment in its available for sale portfolio represent solely payments of principal and interest and proposes to measure these assets at amortised cost. No assets are managed under a business model the objective of which is to collect contractual cash flows and sell financial assets. All other assets will be measured as at fair value through profit and loss.

The Group's financial assets that are designated as at fair value through profit and loss under IAS 39 will continue to be classified in the same way under IFRS 9. Its financial assets that are designated as available for sale under IAS 39 will be designated as at fair value through profit and loss under IFRS 9 with one exception, which is expected to be be measured at amortised cost. The remaining financial assets are classified as either loans and receivables or held to maturity investments under IAS 39 and the Group has provisionally determined that these will be measured at amortised cost under IFRS 9.

Impairment

IFRS 9 introduces a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward-looking information including reasonable and supportable forecasts of future economic conditions. The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantees not measured at fair value through profit or loss. IFRS 9 replaces the existing 'incurred loss' impairment approach with an expected credit loss ('ECL') model resulting in earlier recognition of credit losses compared with IAS 39.

The impairment requirements are complex and require management judgements, estimates and assumptions. Key judgements include determining whether a significant increase in credit risk has occurred since initial recognition. IFRS 9 requires the recognition of 12 month expected credit losses (the portion of lifetime expected credit losses from default events expected within 12 months of the reporting date) if credit risk has not increased significantly since initial recognition (stage 1) and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2) or which are credit impaired (stage 3). Stage 3 requires objective evidence of credit impairment which is similar to the guidance for incurred losses under IAS 39. The Group will assess when a significant increase in credit risk or a credit impairment has occurred based on quantitative and qualitative assessments. Forward looking information will also be used in determining expected credit losses which are calculated as the unbiased probability weighted average credit losses across a range of possible outcomes and future economic conditions.

The Group has undertaken ECL calculations in respect of its financial assets to be measured at amortised cost under IFRS 9. The approach taken in the ECL calculation is to assess the risk of defaults occurring over the expected life of the asset, taking account of the existence and quality of collateral and applying discount factors to future cash flows where appropriate. The IFRS 9 models will use three key input parameters for the computation of expected credit losses these being the probability of default, the loss given default and the exposure at default. For its Start Up Loans to entrepreneurs the Group records a fair value adjustment on initial recognition which reflects the credit impairments expected to arise on a lifetime loss basis. The Group's assessment of the adoption of IFRS 9 for its Start Up Loans to entrepreneurs is ongoing. The Group estimates that the new impairment methodology will result in higher impairment provisions of approximately £3.5m gross of tax (excluding Start Up Loans to entrepreneurs). This financial impact is predominantly for the Group's online platform lending. The re-classification and measurement of assets under IFRS 9 also results in a reduction to the carrying value of financial assets of approximately £3.5m gross of tax (excluding Start Up Loans to entrepreneurs). The total net of tax impact on shareholders' equity is a reduction of approximately £2.8m. The impact on shareholders' equity from measuring Start Up Loans to entrepreneurs in accordance with IFRS 9 is expected to be zero. The financial instruments reserve for Available-for-sale financial assets will be transferred to retained earnings with no overall impact on shareholders' equity.

The Group's financial assets are provisionally expected to be classified as follows under IFRS 9:

	IAS 39 Classification 2018 £000	IFRS 9 Classification 2018 £000
Loans and receivables	346,068	–
Held to maturity investments	31,090	–
Assets at amortised cost	–	437,794
Available-for-sale financial assets	985,793	–
Assets designated at fair value through profit or loss	208,229	1,165,039
Derivative financial instruments	31,653	–
Total	**1,602,833**	**1,602,833**

The values presented in the IFRS 9 column are the carrying values under IAS 39.

26. Events after the reporting date

Following the year end BBI & BPC Holdings Limited acquired 100% of the ordinary share capital of British Business Investments Limited on 7 June 2018.

The Bank has also entered into leases to rent the 2nd floor of Salisbury Square House, 8 Salisbury Square, London, EC4 and the 4th floor of 4 Steel City House, West Street, Sheffield, S1 2GQ (see note 19.2).

As at the date of these financial statements, there have been no other post reporting date events that require disclosure.

27. 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 2018 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 66 to 80 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 2018; 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.

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.
- 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. 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.
- 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.

Other matter

I have reported separately, on pages 82 to 88, on the Group Financial Statements of British Business Bank plc for the year ended 31 March 2018.

Hilary Lower
(Senior Statutory Auditor)

12 July 2018

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 2018

The financial statements of the Company (company number 08616013) were

	Note	2018 £000	2017 £000
ASSETS			
Cash and cash equivalents	3	37,927	45,875
Trade and other receivables	4	18,216	5,649
Investments	2	1,244,260	976,072
Property, plant and equipment		1,561	525
Intangible assets		7	50
Deferred tax		118	131
Total assets		**1,302,089**	**1,028,302**
LIABILITIES			
Trade and other payables	5	(7,400)	(5,435)
Corporation tax		–	(60)
Provisions		(120)	(120)
Total liabilities		(7,520)	(5,615)
Net assets		**1,294,569**	**1,022,687**
Equity			
Issued share capital		1,371,408	1,071,408
Retained earnings		(76,839)	(48,721)
Total equity		**1,294,569**	**1,022,687**

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 loss of the parent company for the financial period amounted to £28,118,000 (2017: loss £2,407,000).

The financial statements of the Company were approved by the Board of Directors and authorised for issue on 12 July 2018. They were signed on its behalf by:

Keith Morgan
Chief Executive Officer

The notes on pages 142 to 144 form an integral part of the financial statements.

Company Statement of Changes in Equity
as at 31 March 2018

	Issued capital £000	Retained earnings £000	Total £000
Opening balance as at 1 April 2016	**837,526**	**(46,314)**	**791,212**
Net income after tax	–	(2,407)	(2,407)
Total comprehensive income	**-**	**(2,407)**	**(2,407)**
Issue of ordinary shares	233,882	–	233,882
Balance at 31 March 2017	**1,071,408**	**(48,721)**	**1,022,687**
Opening 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 2018

	Notes	2018 £000	2017 £000
Loss before tax		(28,118)	(2,398)
Cash flows from operating activities			
Adjustments for:			
Depreciation, bad debt and impairments		375	326
Impairment of investments in subsidiary undertakings	2	52,665	42,407
Purchase of investments in subsidiary undertakings	2	(320,853)	(267,868)
Corporation tax paid		(60)	(42)
Other provision expense		–	120
Movement in trade receivables	4	(12,567)	3,136
Movement in trade payables	5	1,965	(10,104)
Net cash used in operating activities		**(306,593)**	**(234,423)**
Cash flows from investing activities			
Purchases of property, plant and equipment		(1,355)	(414)
Purchase of intangible assets		–	(7)
Net cash used in investing activities		**(1,355)**	**(421)**
Cash flows from financing activities			
Issue of new shares		300,000	233,882
Net cash from financing activities		**300,000**	**233,882**
Net decrease in cash and cash equivalents		**(7,948)**	**(962)**
Cash and cash equivalents at beginning of year		**45,875**	**46,837**
Cash and cash equivalents at end of year		**37,927**	**45,875**

The notes on pages 142 to 144 form an integral part of the financial statements.

Notes to the company financial statements

1. Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006 ('the Act').

The Company's financial accounting policies are consistent with those described in the consolidated accounts of the British Business Bank plc. Disclosures in relation to share capital (note 20) have not been repeated here as there are no differences to those provided in the consolidated accounts.

Investments in subsidiary undertakings are measured at cost less impairment in accordance with IAS 27.

These financial statements have been prepared on the going concern basis as described in the consolidated 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. Investments

The Company acts as a holding company for the Group and has the following principal subsidiary undertakings which affected the Group's results or net assets:

Subsidiary	Nature of Business
British Business Investments Limited (BBI)	Makes commercial investments into providers of finance to smaller businesses plus venture capital fund investments
British Business Finance Limited (BBFL)	Manages investment schemes on behalf of the Group. 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.

See note 21 for details of all subsidiary holdings of the Company.

2. Investments (continued)

At 31 March 2018

	Investment in BBI £000	Investment in BBFL £000	Investment in BBFSL £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**

At 31 March 2017

	Investment in BBI £000	Investment in BBFL £000	Investment in BBFSL £000	Total £000
Opening balance	687,896	62,715	–	750,611
Investment in year	232,868	35,000		267,868
Impairment	–	(42,407)	–	(42,407)
Closing balance	**920,764**	**55,308**	**-**	**976,072**

3. Cash and cash equivalents

The cash and cash equivalents balance represent cash held with the Government Banking Service.

4. Trade and other receivables

Amounts receivable within one year	2018 £000	2017 £000
Trade receivables	53	601
Prepayments	385	304
Intra-Group	15,784	4,147
Other receivables	1,994	597
Total trade and other receivables	**18,216**	**5,649**

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

5. Trade and other payables

Amounts falling due within one year	2018 £000	2017 £000
Trade payables	336	141
VAT and social security	664	353
Accrued expenditure	3,077	2,264
Intra-Group	–	44
Other payables	2,516	1,977
	6,593	**4,779**

Amounts after more than one year		
Accrued expenditure	807	656
	807	**656**

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

6. Related party transactions

During the year under review British Business Bank plc was 100% owned by the UK Government, with the shareholder being the Secretary of State for the Department for Business, Energy and Industrial Strategy. The Company has elected to take the exemption under IAS 24 regarding disclosure of transactions with related parties because UK Government has control over both the Company and other entities. Compensation paid to key management personnel is disclosed in the Directors' Remuneration Report.

The Company trades with Government bodies on an arm's length basis on commercial terms in line with contractual agreements. The main Government bodies transacted with are the Department for Business, Energy and Industrial Strategy and the Company's principal subsidiary undertakings British Business Investments Limited (BBI), 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 24 of the consolidated financial statements.

The Company provided capital to BBI and BBFL as shown in note 2. In addition, it made charges to its principal subsidiary undertakings in respect of services provided on their behalf amounting to £19.8 million (2017: £13.5 million).

7. Controlling party

In the opinion of the Directors, the Company's ultimate controlling party is the Secretary of State for the Department for Business, Energy and Industrial Strategy. The consolidated financial statements of the Department for Business, Energy and Industrial Strategy are available from the government departments' website at GOV.UK. Copies of the group financial statements of the British Business Bank plc are available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

Design: red-stone.com
Photography (excluding case studies and page 25, 39, 43 Mind charity run, 65 and 67 British Business Bank reception): Tom Donald and Oliver Goodrich

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All figures source British Business Bank 31 March 2018 unless otherwise stated.

This publication is available from british-business-bank.co.uk.

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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